

Offering Circular

The Procter & Gamble Company

£500,000,000
6.25% Notes due 2030

Issue price: 99.935%

Interest on the 6.25% Notes due 2030 (the "Notes") will be payable on 31st January of each year, commencing 31st January 2001, subject to any applicable laws and regulations. The Notes will mature on 31st January 2030 at par. Payments of principal of and interest on the Notes will be made without deduction of, or withholding for, or on account of certain United States withholding taxes except to the extent described under "Description of the Notes — Redemption" and "Payment of Additional Amounts".

The Notes may be redeemed, in whole but not in part, at any time at a price, including accrued and unpaid interest, equal to the greater of 100% of the principal amount of the Notes and that price at which the Gross Redemption Yield (as defined herein) on the Notes, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of 6% Treasury Stock 2028 or, if such stock is no longer in issue, of such other United Kingdom government stock selected as described herein. See "Description of the Notes — Redemption — Optional Redemption".

In the event of certain developments involving United States withholding taxes or certification requirements, the Notes may be redeemed in whole but not in part at any time at 100% of their principal amount, together with accrued and unpaid interest, to the date fixed for redemption. See "Description of the Notes — Redemption".

The Notes will be general, direct, unsecured and unsubordinated obligations of The Procter & Gamble Company (the "Company"), ranking equally among themselves and equally with all other present and future unsecured and unsubordinated indebtedness of the Company.

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes will be issued only in bearer form and are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. See "Underwriting".

The Notes initially will be represented by a temporary global Note in bearer form, without interest coupons, which will be deposited with a common depository for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear"), and for Cedelbank on a date on or about 31st January 2000 (the "Closing Date"). Interests in the temporary global Note will be exchangeable for interests in a permanent global Note, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership. Interests in the permanent global Note will be exchangeable for definitive Notes in bearer form, with interest coupons, upon 45 days' written notice. The definitive Notes will be in the denominations of £1,000, £10,000 and £100,000. See "Description of the Notes — Delivery, Form and Denomination" and "Underwriting".

J.P. Morgan Securities Ltd.

ABN AMRO

28th January 2000

Goldman Sachs International

The Company has taken all reasonable care to ensure that the facts and information relating to it and the Notes stated herein are true and accurate in all material respects and not misleading, that the opinions and intentions of it expressed herein are honestly held and that to the best of the knowledge and belief of the Company, there are no other facts or information relating to it and the Notes, the omission of which would make misleading any statement relating to it and the Notes herein whether of fact or opinion. The Company accepts responsibility accordingly.

No person has been authorized to give any information or to make any representation not contained or incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Managers. Neither the delivery of this document nor any sale or purchase of any of the Notes shall, in any circumstances, create any implication that there has been no change in the affairs of the Company and its consolidated subsidiaries since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or by or on behalf of the Managers or any of them to subscribe for or purchase, any of the Notes. The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions. This Offering Circular may not be used for or in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. For a further description of certain restrictions on the offering, sale and delivery of the Notes and on the distribution of this Offering Circular, see "Underwriting".

The Company has not authorized any offer of the Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "U.K. Regulations"). The Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the U.K. Regulations or otherwise in compliance with all applicable provisions of the U.K. Regulations. The Offering Circular does not constitute an offer or invitation by or on behalf of the Company or the Managers to any person to subscribe for or to purchase any of the Notes.

All references herein to "British Pounds Sterling", "sterling" or "£" are to the currency of the United Kingdom. All references herein to "United States dollars," "US\$" or "\$" are to the currency of the United States of America.

Cedelbank is changing its name to Clearstream Banking, société anonyme.

In connection with this issue, J.P. Morgan Securities Ltd. may over-allot or effect transactions which stabilize or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilizing, if commenced, may be discontinued at any time. Such transactions shall be carried out in accordance with all applicable laws and regulations.

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Incorporation of Documents by Reference

The following documents are attached to, incorporated by reference in, and made a part of, this Offering Circular: (1) the Company's 1999 Annual Report on Form 10-K for the fiscal year ended 30th June 1999; (2) excerpts from the Company's Annual Report to Shareholders for the fiscal year ended 30th June 1999; (3) the Company's Quarterly Report on Form 10-Q for the quarter ended 30th September 1999; (4) the Company's Current Report on Form 8-K dated 11th August 1999; and (5) the Company's press release dated 25th January 2000.

In addition, the Company's Quarterly Report on Form 10-Q for the quarter ended 31st December 1999, which is not attached, is hereby incorporated by reference in, and made a part of, this Offering Circular. Copies of the documents incorporated by reference will be available free of charge at the office of the listing agent in Luxembourg listed at the end of this Offering Circular.

Any statement contained in a document all or a portion of which is incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained or incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Description of the Notes

The following statements are summaries of, and are qualified in their entirety by, the detailed provisions of the Fiscal Agency Agreement (as defined below) and the Notes (as defined below). The Notes will be issued under the Fiscal Agency Agreement and holders of the Notes (the "Noteholders") and the coupons attached to definitive Notes (the "Couponholders") will have the benefit thereof. Certain statements under this heading are brief summaries of certain provisions of the Fiscal Agency Agreement and the terms and conditions of the Notes, copies of which will be available for inspection after 31st January 2000 at the offices of the Fiscal Agent (as defined below) and each of the paying agents for the Notes (the "paying agents") listed at the end of this Offering Circular. Such statements do not purport to be complete and are qualified in their entirety by reference to the Fiscal Agency Agreement and the Notes. The Noteholders and the Couponholders will be deemed to have notice of and be bound by all the provisions contained in the Fiscal Agency Agreement.

The £500,000,000 6.25% Notes due 31st January 2030 (the "Notes", which expression shall include any additional Notes issued under agreements supplemental to the Fiscal Agency Agreement (as described under "Further Issues" below)) will be issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") to be dated as of 31st January 2000 between the Company and Bank One, NA, acting through its London Branch as fiscal agent and principal paying agent (the "Fiscal Agent") and certain paying agents. The Notes initially will be limited to £500,000,000 aggregate principal amount (subject to the issue of any additional Notes issued under agreements supplemental to the Fiscal Agency Agreement), and will bear interest from 31st January 2000 at the rate of 6.25% per annum payable annually in arrears on 31st January (an "Interest Payment Date"), commencing 31st January 2001. If any Interest Payment Date would otherwise be a day which is not a Business Day (as defined below), the Interest Payment Date shall be postponed to the next day which is a Business Day and no additional interest shall be payable on account of such delayed payment. "Business Day" means any day, other than a Saturday or Sunday, on which banks in New York City and the relevant place of payment are open for business. In the event that interest is to be calculated for a period of less than one year, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and in the case of an incomplete month, the actual number of days elapsed.

The Notes will be general, direct, unsecured and unsubordinated obligations of the Company, ranking equally among themselves and equally with all other present and future unsecured and unsubordinated indebtedness of the Company. Neither the Fiscal Agency Agreement nor the Notes will limit other indebtedness or securities which may be incurred or issued by the Company or its subsidiaries and will contain no financial or similar restrictions on the Company or its subsidiaries except as described below under "Certain Covenants of the Company".

Delivery, Form and Denomination

The Notes initially will be represented by a single temporary global Note in bearer form, without interest coupons (the "Temporary Global Note"), which will be deposited with and held by Bank One, NA, acting through its London Branch as common depository for Morgan Guaranty Trust Company of New York, Brussels office, as the operator of the Euroclear System ("Euroclear") and for Cedelbank, and the Notes will be credited to the respective accounts of the Managers (or to such other accounts as they may have directed) on or about 31st January 2000. Not earlier than the date which is 40 days (subject to extension as described under "Further Issues") after the later of (i) the commencement of the offering of the Notes and (ii) the closing date of the Notes (the "Exchange Date"), beneficial interests in the Temporary Global Note will be exchangeable (only outside the United States and its possessions) for an equal aggregate principal amount of beneficial interests in a single permanent global Note in bearer form, without coupons (the "Permanent Global Note" and together with the Temporary Global Note, the "Global Notes"), upon and to the extent of certification that the beneficial owners of such interests are not United States persons (as defined in the United States Internal Revenue Code of 1986, as amended (the "Code"), and the U.S. Treasury regulations thereunder (the "Regulations")), subject to certain exceptions (including, without limitation, with respect to any United States person that is, or is holding through, a foreign branch of a United States financial institution and which has agreed to comply with certain restrictions). A beneficial owner of Notes represented by interests in the Temporary Global Note must provide such certification and must exchange such interests for beneficial interests in the Permanent Global Note before any payments with respect to such Notes can be collected. In addition, beneficial interests in the Permanent Global Note will be exchangeable in whole after the Exchange Date (only outside the United States and its possessions), upon 45 days' written notice (which may be given at any time after the Closing Date) to the Fiscal Agent by Euroclear or Cedelbank, as the case may be, acting at the request or on behalf of any owner or owners of beneficial interests in the Permanent Global Note, for an equal aggregate principal amount of definitive Notes in bearer form, with coupons attached

("Definitive Notes"). Exchanges of beneficial interests in the Permanent Global Note for Definitive Notes will be made at no expense to Noteholders. Interests in the Temporary Global Note and the Permanent Global Note will be transferable in accordance with the rules and procedures for the time being of Euroclear and Cedelbank.

Definitive Notes will be issued in denominations of £1,000, £10,000 and £100,000 with interest coupons (the "coupons") attached.

Each Note and coupon will carry the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code". The sections referred to in such legend provide that, for United States Federal income tax purposes, United States persons (as defined in the Code), with certain exceptions, will not be entitled to deduct any loss on the Notes, and will not be entitled to capital gains treatment which might otherwise be applicable to any gain on any sale, exchange, redemption, retirement or other disposition of the Notes.

Subject as set out below, title to the Notes and coupons will pass by delivery. The Company and any paying agent may deem and treat the bearer of any Note or coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Cedelbank, each person who is for the time being shown in the records of Euroclear or Cedelbank as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Cedelbank as to the principal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Company and the Fiscal Agent as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal and of interest (including any Additional Amounts, as defined below) on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Company and the Fiscal Agent as the holder of such Notes in accordance with and subject to the terms and conditions of the relevant Global Note (and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly).

Any reference herein to Euroclear and/or Cedelbank shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Company and the Fiscal Agent.

Payments and Paying Agents

Principal of and interest (including any Additional Amounts, as defined below) on the Definitive Notes, if any, will be payable against presentation and surrender of such Notes, in the case of principal, or the coupons appertaining thereto as they severally mature, in the case of interest, at the designated offices of such paying agents outside the United States and its possessions as the Company may appoint from time to time pursuant to the Fiscal Agency Agreement. Except as set forth below under "Redenomination", payments with respect to the Definitive Notes and the coupons will be made only in British Pounds Sterling, at the direction of the Noteholder or Couponholder, and subject to applicable laws and regulations, by a British Pounds Sterling check drawn on, or by transfer to a British Pounds Sterling account maintained by such Noteholder or Couponholder with, a bank outside the United States and its possessions. No payment with respect to any such Definitive Note or coupon will be made at the office of the Company or the Fiscal Agent or at the offices of any other paying agent appointed by the Company in the United States or its possessions nor will any payment be made by transfer to an account, or by mail to an address, in the United States or its possessions.

The beneficial owner of an interest in the Temporary Global Note will not be entitled to collect any payments in respect thereof until such interest has been exchanged for an interest in the Permanent Global Note. Amounts payable with respect to any unexchanged portion of the Temporary Global Note will be paid by the Company to the Fiscal Agent and held by the Fiscal Agent for delivery when such interest in the Temporary Global Note is exchanged for an interest in the Permanent Global Note.

Payments of principal and interest (including any Additional Amounts as defined below) in respect of Notes represented by the Permanent Global Note will (except as provided below) be made in the manner specified above in relation to Definitive Notes and otherwise in the manner specified in the Permanent Global Note against presentation or surrender, as the case may be, of the Permanent Global Note at the specified office of the Fiscal Agent. A record of each payment made against presentation or surrender of the Permanent Global

Note, distinguishing between any payment of principal and any payment of interest, will be made on the Permanent Global Note by the Fiscal Agent, and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of the Permanent Global Note shall be the only person entitled to receive payments in respect of Notes represented by the Permanent Global Note and the Company will be discharged by payment to, or to the order of, the holder of the Permanent Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Cedelbank as the holder of a particular principal amount of Notes represented by the Permanent Global Note must look solely to Euroclear or Cedelbank, as the case may be, for his share of each payment so made by the Company to, or to the order of, the holder of the Permanent Global Note. No person other than the holder of the Permanent Global Note shall have any claim against the Company in respect of any payments due on the Permanent Global Note.

The Company has initially appointed the paying agents (which term, as used herein, shall where the context permits include the Fiscal Agent acting in the capacity of paying agent) listed at the end of this Offering Circular. The Company agrees that, so long as any of the Notes are outstanding, it will maintain a paying agent outside the United States and its possessions, and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, it will maintain a paying agent in Luxembourg, for payments with respect to Definitive Notes and the coupons appertaining thereto and where the Definitive Notes may be presented or surrendered for exchange and where notices and demands to or upon the Company in respect of the Notes, the coupons and the Fiscal Agency Agreement may be served. The Company shall have the right at any time and from time to time to vary or terminate any appointment as paying agent or other agent and to appoint any other paying agents or other agencies in such other places outside the United States and its possessions as it may deem appropriate. In the event of any appointment, termination, resignation or change of the Fiscal Agent or any of the paying agents, the Fiscal Agent will notify the Noteholders of such change in the manner described under "Notices" below.

The Company will also maintain at all times an office or agency solely for the purpose of receiving notices and demands (other than demands for payment) from the holders of the Notes and the coupons but not for the purpose of making payments in respect of the Notes or the coupons. The Company has initially appointed the office of the Fiscal Agent for the purpose of receiving notices and demands from the holders of the Notes and coupons.

Any monies paid by the Company to the paying agents for the payment of the principal of or interest (including any Additional Amounts as defined below, if any) on any Notes and remaining unclaimed at the end of two years after such principal or interest (including Additional Amounts, if any) shall have become due and payable (whether at maturity or otherwise) shall then be repaid to the Company upon its written request, and upon such repayment all liability of the Fiscal Agent with respect thereto shall thereupon cease, without, however, limiting in any way any obligation the Company may have to pay the principal of and interest (including Additional Amounts, if any) on any Note or coupon as the same shall become due.

Redemption

The Notes may be redeemed, in whole but not in part, prior to maturity as set out below. Unless previously redeemed or repurchased and canceled, the Notes will be payable at par including Additional Amounts, if any, on 31st January 2030 or such earlier date on which the same shall be due and payable in accordance with the terms and conditions of the Notes; provided that if the maturity date of the Notes is not a Business Day, the Notes will be payable on the next succeeding Business Day (and no interest shall accrue for the period from 31st January 2030 to such payment date).

Optional Redemption

The Notes may be redeemed, in whole but not in part, at any time at the option of the Company, on giving not less than 30 nor more than 60 days' notice in accordance with "Notices" below, at a price equal to the greater of the following, together with interest accrued and unpaid up to, but excluding, the date of redemption:

- (a) 100% of the principal amount of the Notes; and
- (b) that price (the "Redemption Price"), expressed as a percentage (rounded to three decimal places, 0.0005 being rounded down), at which the Gross Redemption Yield (as defined below) on the Notes, if they were to be purchased at such price on the third dealing day prior to the date of the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of 6% Treasury Stock 2028 or, if such stock is no longer in issue, of such other United Kingdom government

stock as the Company, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers selected by the Company, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing at 11:00 a.m. on such dealing day as determined by J.P. Morgan Securities Ltd.

Upon the expiry of such notice, the Company shall be bound to redeem the Notes at the price set forth above (including interest accrued and unpaid up to, but excluding, the date of redemption).

References in the Fiscal Agency Agreement and in this Offering Circular to principal shall, unless the context otherwise requires, be deemed to include a reference to the Redemption Price.

The "Gross Redemption Yield" on the Notes and on the Reference Stock will be expressed as a percentage and will be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part I, 1978, page 18 or its successor publication.

Redemption for Tax Reasons

The Notes also may be redeemed at the option of the Company, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, together with interest accrued and unpaid to the date fixed for redemption, at any time, on giving not less than 30 nor more than 60 days' notice in accordance with "Notices" below (which notice shall be irrevocable), if (a) the Company has or will become obligated to pay Additional Amounts as a result of any change in or amendment to the laws, regulations or rulings of the United States or any political subdivision or any taxing authority thereof or therein affecting taxation, or any change in or amendment to an official application, interpretation, administration or enforcement of such laws, regulations or rulings (including a holding by a court of competent jurisdiction in the United States), which change or amendment becomes effective on or after the date hereof or (b) any action shall have been taken by any taxing authority, or any action has been brought in a court of competent jurisdiction, in the United States or any political subdivision or taxing authority thereof or therein, including any of those actions specified in (a) above (whether or not such action was taken or brought with respect to the Company) or any change, clarification, amendment, application or interpretation of such laws, regulations or rulings shall be officially proposed, in any case on or after the date hereof, which results in a substantial likelihood that the Company will be required to pay Additional Amounts on the next Interest Payment Date; *provided, however*, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be, in the case of a redemption for the reasons specified in (a) above, or there would be a substantial likelihood that the Company would be, in the case of a redemption for the reasons specified in (b) above, obligated to pay such Additional Amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Fiscal Agent (i) a certificate signed by a duly authorized officer of the Company stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent of the right of the Company so to redeem have occurred and (ii) in the case of a redemption for the reasons specified in (a) or (b) above, a written opinion of independent legal counsel of recognized standing to the effect that the Company has or will become obligated to pay such Additional Amounts as a result of such change or amendment or that there is a substantial likelihood that the Company will be required to pay such Additional Amounts as a result of such action or proposed change, clarification, amendment, application or interpretation, as the case may be. Such notice, once delivered by the Company to the Fiscal Agent, will be irrevocable.

Special Tax Redemption

In addition, if the Company determines, based upon a written opinion of independent legal counsel of recognized standing, that any payment made outside the United States by the Company or any paying agent (acting as agent for the Company and not as agent for the beneficial owner of a Note or coupon) of the full amount of principal or interest due with respect to any Note or coupon would, under any present or future laws or regulations of the United States, be subject to any certification, identification, documentation, information or other reporting requirement of any kind, the effect of which is the disclosure to the Company, any paying agent or any governmental authority of the nationality, residence or identity of a beneficial owner of such Note or coupon who is a United States Alien (as defined under "Payment of Additional Amounts") (other than such a requirement (a) which would not be applicable to payment made by the Company or any one of its paying agents (i) directly to the beneficial owner or (ii) to any custodian, nominee or other agent of the beneficial owner, (b) which can be satisfied by the holder who is not the beneficial owner thereof or the custodian, nominee or other agent certifying that the beneficial owner is a United States Alien, (c) which would be applicable only to a payment by a custodian, nominee or other agent of the beneficial owner to the

beneficial owner, or (d) which would be applicable to a payment to any custodian, nominee, or other agent of the beneficial owner who is a United States person or a U.S. Controlled Person (as defined below under "United States Taxation"); provided that in each case referred to in clauses (a)(ii) and (b), payment by such custodian, nominee or other agent of such beneficial owner is not otherwise subject to any such requirement other than any such requirement which is imposed on a custodian, nominee, or other agent described in clause (d)) the Company at its election will either (x) redeem all of the Notes, upon not less than 30 nor more than 60 days' prior notice as described under "Notices" below, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest to the redemption date, or (y) if and so long as the certification, identification, documentation, information or other reporting requirements referred to in this paragraph would be fully satisfied with respect to the Notes by payment of United States withholding, backup withholding or similar tax, pay such Additional Amounts as are necessary in order that, following the effective date of such requirements, every net payment made outside the United States by the Company or any paying agent of the principal of and interest on a Note or a coupon appertaining thereto to a beneficial owner who is a United States Alien (but without any requirement that the nationality, residence or identity (as distinguished from status as a United States Alien) of the beneficial owner be disclosed to the Company, any paying agent or any United States governmental authority), after deduction or withholding for or on account of such United States withholding, backup withholding or similar tax (other than a withholding, backup withholding or similar tax which would not be applicable in the circumstances referred to in the second parenthetical clause of the first sentence of this paragraph) but before deduction or withholding on account of any tax, duty, assessment or other governmental charge described in (a) through (h) of the first paragraph under "Payment of Additional Amounts", will not be less than the amount provided in the Note or the coupon to be then due and payable. The Company will make such determination and election and notify the Fiscal Agent as soon as practicable, and the Fiscal Agent will promptly give notice of such determination in the manner provided under "Notices" below (the "Determination Notice") stating the effective date of such certification, identification, documentation, information or other reporting requirement, whether the Company will redeem the Notes or will pay the Additional Amounts specified in this paragraph and (if applicable) the last date by which the redemption of the Notes must take place. If the Company elects to redeem the Notes, such redemption shall take place on such date, not later than one year after publication of the Determination Notice, as the Company elects by notice in writing to the Fiscal Agent at least 60 days before such date, unless shorter notice is acceptable to the Fiscal Agent. Notwithstanding the foregoing, the Company will not so redeem the Notes if the Company, based upon a written opinion of independent legal counsel of recognized standing, subsequently determines, not less than 30 days prior to the redemption date, that subsequent payments would not be subject to any such requirement, in which case the Company will notify the Fiscal Agent in writing, and the Fiscal Agent will promptly give notice to the holders of the Notes of that determination and any earlier redemption notice will thereupon be revoked and of no further effect. If the Company elects as provided in clause (y) above to pay Additional Amounts, (A) the Company may, as long as the Company is obligated to pay such Additional Amounts, redeem all of the Notes, at any time, upon not less than 30 nor more than 60 days' prior notice as described under "Notices" below, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest to the redemption date but without deduction for applicable United States withholding taxes with respect to which the Company is obligated to pay Additional Amounts and (B) if the condition specified in clause (y) above is no longer satisfied, the Company shall redeem all of the Notes in accordance with the provisions of this paragraph.

Purchases of Notes by the Company

The Company may, directly or through one or more of its subsidiaries, at any time purchase Notes in the open market or otherwise at any price. Notes so acquired may be delivered to the Fiscal Agent for cancellation or otherwise.

Payment of Additional Amounts

All payments of principal and interest in respect of the Notes or coupons will be made free and clear of, and without deduction or withholding for or on account of any present or future taxes, duties, assessments or other governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the United States or any political subdivision or taxing authority thereof or therein, unless such withholding or deduction is required by law (see "United States Taxation" below). In the event such withholding or deduction is required by law, subject to the limitations set forth below, the Company will pay as additional interest on the Notes or coupons to the holder or beneficial owner of any Note or coupon who is a United States Alien such additional amounts ("Additional Amounts") as may be necessary in order that every net payment by the Company or any paying agent of principal of or interest on the Notes or coupons (including upon redemption), after deduction or withholding for or on account of any present or future tax, duty, assessment or other

governmental charge imposed upon or as a result of such payment by the United States or any political subdivision or taxing authority thereof or therein, will not be less than the amount provided for in such Note or coupon to be then due and payable before any such tax, duty, assessment or other governmental charge; *provided, however*, that the foregoing obligation to pay Additional Amounts shall not apply to:

- (a) any tax, duty, assessment or other governmental charge which would not have been so imposed but for (i) the existence of any present or former connection between such holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder or other equity owner of, or a person having a power over, such holder or beneficial owner, if such holder or beneficial owner is an estate, a trust, a limited liability company, a partnership, a corporation or other entity) and the United States, including, without limitation, such holder or beneficial owner (or such fiduciary, settlor, beneficiary, member, shareholder or other equity owner or person having such a power) being or having been a citizen or resident or treated as a resident thereof or being or having been engaged in a trade or business therein or being or having been present therein or having or having had a permanent establishment therein, (ii) the failure of such holder or beneficial owner to comply with any requirement under United States income tax laws and regulations to establish entitlement to a partial or complete exemption from such tax, duty, assessment or other governmental charge (other than any such exemption which is conditioned upon the disclosure to the Company, any paying agent or governmental authority of the nationality, residence or identity of the beneficial owner of the Note or coupon), or (iii) such holder's or beneficial owner's present or former status as a personal holding company or a foreign personal holding company with respect to the United States, as a controlled foreign corporation with respect to the United States, as a passive foreign investment company with respect to the United States, as a foreign tax exempt organization with respect to the United States or as a corporation which accumulates earnings to avoid United States federal income tax;
- (b) any tax, duty, assessment or other governmental charge imposed by reason of the holder or beneficial owner (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of the Company, (ii) being a bank receiving interest described in section 881(c)(3)(A) of the Code or (iii) being a controlled foreign corporation with respect to the United States that is related to the Company by stock ownership;
- (c) any tax, duty, assessment or other governmental charge which would not have been so imposed but for the presentation by the holder or beneficial owner of such Note or coupon for payment on a date more than 10 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for and notice is given to holders, whichever occurs later, except to the extent that the holder or beneficial owner would have been entitled to such Additional Amounts on presenting such Note or coupon on any date during such 10-day period;
- (d) any estate, inheritance, gift, sales, transfer, personal property, wealth, interest equalization or any similar tax, assessment or governmental charge;
- (e) any tax, duty, assessment or other governmental charge which is payable otherwise than by withholding from payment of principal of or interest on such Note or coupon;
- (f) any tax, duty, assessment or other governmental charge which is payable by a holder that is not the beneficial owner of the Note or the coupon, or a portion of either, or that is a fiduciary, partnership, limited liability company or other similar entity, but only to the extent that a beneficial owner, a beneficiary or settlor with respect to such fiduciary or member of such partnership, limited liability company or similar entity would not have been entitled to the payment of an Additional Amount had such beneficial owner, settlor, beneficiary or member received directly its beneficial or distributive share of the payment;
- (g) any tax, duty, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal of or interest on any Note or coupon, if such payment can be made without such withholding by any other paying agent; or
- (h) any combination of items (a), (b), (c), (d), (e), (f) and (g).

For purposes of the foregoing, the holding of or the receipt of any payment with respect to a Note or a coupon shall not constitute a connection between the holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder or other equity owner of, or a person having a power over, such holder or beneficial owner if such holder or beneficial owner is an estate, a trust, a limited liability company, a partnership, a corporation or other entity) and the United States.

Any reference herein, in the Fiscal Agency Agreement or in the Notes to principal or interest shall be deemed to refer to Additional Amounts which may be payable under the provisions of this section.

The Company shall pay all stamp and other duties, if any, which may be imposed by the United States or any political subdivision thereof or taxing authority therein with respect to the execution and delivery of the Fiscal Agency Agreement or issuance of the Notes.

Except as specifically provided in the Notes, the Company shall not be required to make any payment with respect to any tax, duty, assessment or other governmental charge imposed by any government or any political subdivision or taxing authority thereof or therein.

“United States Alien”, as used in this Offering Circular, means any corporation, partnership, individual or fiduciary that, as to the United States, is (i) a foreign corporation, (ii) a nonresident alien individual, (iii) a nonresident alien fiduciary of a foreign estate or trust, or (iv) a foreign partnership one or more of the members of which is, as to the United States, a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

Redenomination

The Company may, without the consent of the Noteholders or Couponholders, on giving not less than 30 nor more than 60 days' notice in accordance with “Notices” below, to Euroclear, Cedelbank and the paying agents, designate a date (the “Redenomination Date”), being an Interest Payment Date falling on or after the date on which the United Kingdom becomes one of the countries participating in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union (as so amended, the “Treaty”) or otherwise participates in European economic and monetary union in a manner and with similar effect to such third stage.

The term “euro” means the currency introduced at the start of the third stage of economic and monetary union pursuant to the Treaty.

With effect from the Redenomination Date, notwithstanding the other provisions of this Offering Circular:

- (a) the Notes shall (unless already so provided by mandatory provisions of applicable law) be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in British Pounds Sterling, converted into euro at the rate for conversion of British Pounds Sterling into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations), provided that, if the Company determines, after consultation with the Fiscal Agent, that the then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Company shall promptly notify the Noteholders in accordance with “Notices” below, the Luxembourg Stock Exchange and the paying agents of such deemed amendments;
- (b) if Definitive Notes have been issued, all unmatured coupons (whether or not attached to the Notes) will become void and no payments or exchange will be made in respect of them. New euro-denominated Notes (in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Fiscal Agent may approve) euro 0.01 and such other denominations as the Fiscal Agent shall determine and as shall be notified to the Noteholders in accordance with “Notices” below) and coupons will be issued at the expense of the Company in exchange for British Pounds Sterling Notes and coupons in such manner as the Fiscal Agent may specify and notify to Noteholders in accordance with “Notices” below;
- (c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as British Pounds Sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro. Such payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro check;
- (d) a Note or coupon may only be presented for payment on a day on which commercial banks and foreign exchange markets are open in New York City and the place of presentation and which is a day on which the Trans-European Automated Real-time Cross Settlement Express Transfer (TARGET) System is open;

- (e) the amount of interest in respect of Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (f) if interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and in the case of an incomplete month, the actual number of days elapsed; and
- (g) such other changes shall be made to the provisions herein or otherwise in connection with the Notes as the Company may decide, after consultation with the Fiscal Agent, and as may be specified in the notice in which the Redenomination Date is designated, in order to conform them to conventions then applicable to instruments denominated in euro or to enable the Notes to be consolidated with one or more issues of other notes, whether or not originally denominated in British Pounds Sterling or euro. Any such other changes will not take effect until after they have been notified to the Noteholders in accordance with “Notices” below.

The circumstances and consequences described in “Redenomination” entitle neither the Company nor any Noteholder to early redemption, rescission, repudiation, adjustment or renegotiation of the terms and conditions of the Fiscal Agency Agreement or the Notes, as applicable, or to raise other defenses or to request any compensation claim, nor will they affect any other obligations of the Company under the Fiscal Agency Agreement or the Notes.

Certain Covenants of the Company

Restrictions on Secured Debt

If the Company or any Domestic Subsidiary shall incur, assume or guarantee any Debt secured by a Mortgage of any Principal Domestic Manufacturing Property or on any shares of stock or debt of any Domestic Subsidiary, the Company will secure, or cause such Domestic Subsidiary to secure, the Notes then outstanding equally and ratably with (or prior to) such Debt, unless after giving effect thereto the aggregate amount of all such Debt so secured, together with all Attributable Debt of the Company and its Domestic Subsidiaries in respect of sale and leaseback transactions involving Principal Domestic Manufacturing Properties, would not exceed 5% of the Consolidated Net Tangible Assets of the Company and its consolidated subsidiaries. The restriction will not apply to, and there shall be excluded in computing secured Debt for the purpose of such restriction, Debt secured by (a) Mortgages on property of, or on any shares of stock or Debt of, any corporation existing at the time such corporation becomes a Domestic Subsidiary, (b) Mortgages in favor of the Company or a Domestic Subsidiary, (c) Mortgages in favor of U.S. governmental bodies to secure progress or advance payments, (d) Mortgages on property, shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation), purchase money Mortgages and construction cost Mortgages and (e) any extension, renewal or refunding of any Mortgage referred to in the foregoing clauses (a) through (d), inclusive. The Fiscal Agency Agreement does not restrict the occurrence of unsecured debt by the Company or its subsidiaries.

Restrictions on Sales and Leasebacks

Neither the Company nor any Domestic Subsidiary may enter into any sale and leaseback transaction involving any Principal Domestic Manufacturing Property, the completion of construction and commencement of full operation of which has occurred more than 120 days prior thereto, unless (a) the Company or such Domestic Subsidiary could incur a lien on such property under the restrictions described above under “Restrictions on Secured Debt” in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the Notes then outstanding or (b) the Company, within 120 days, applies to the retirement of its Funded Debt an amount not less than the greater of (i) the net proceeds of the sale of the Principal Domestic Manufacturing Property leased pursuant to such arrangement or (ii) the fair value of the Principal Domestic Manufacturing Property so leased (subject to credits for certain voluntary retirements of Funded Debt). This restriction will not apply to any sale and leaseback transaction (a) between the Company and a Domestic Subsidiary or between Domestic Subsidiaries or (b) involving the taking back of a lease for a period of less than three years.

Certain Definitions

The term “Attributable Debt” means the total net amount of rent (discounted at 10% per annum compounded annually) required to be paid during the remaining term of any lease.

The term "Consolidated Net Tangible Assets" means the aggregate amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (a) all current liabilities (excluding any amount thereof constituting Funded Debt by reason of being renewable or extendible) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as set forth on the most recent balance sheet of the Company and its consolidated subsidiaries and computed in accordance with generally accepted accounting principles.

The term "Debt" means notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

The term "Domestic Subsidiary" means a subsidiary of the Company except a subsidiary which neither transacts any substantial portion of its business nor regularly maintains any substantial portion of its fixed assets within the United States or which is engaged primarily in financing the operations of the Company and its subsidiaries outside the United States.

The term "Funded Debt" means Debt having a maturity of, or by its terms extendible or renewable at the option of the borrower for, a period of more than 12 months after the date of determination of the amount thereof.

The term "Mortgage" means pledges, mortgages and other liens.

The term "Principal Domestic Manufacturing Property" means any facility (together with the land on which it is erected and fixtures comprising a part thereof) used primarily for manufacturing or processing, located in the United States, owned or leased by the Company or a subsidiary of the Company and having a gross book value in excess of $\frac{3}{4}$ of 1% of Consolidated Net Tangible Assets, other than any such facility or portion thereof (i) which is a pollution control or other facility financed by obligations issued by a State or local governmental unit pursuant to Section 103(b)(4)(E), 103(b)(4)(F) or 103(b)(6) of the Internal Revenue Code of 1954, or any successor provision thereof, or (ii) which, in the opinion of the Board of Directors of the Company, is not of material importance to the total business conducted by the Company and its subsidiaries as an entirety.

The term "subsidiary of the Company" means a corporation a majority of the outstanding voting stock of which is owned, directly or indirectly, by the Company and/or one or more subsidiaries of the Company.

Meeting of Holders and Waivers of Covenants

The Fiscal Agency Agreement will provide that the Company may, upon the notice specified in the Fiscal Agency Agreement, call a meeting of holders of Notes for the purpose of obtaining a waiver of any covenant or condition set forth above under "Certain Covenants of the Company" or to modify or amend the Fiscal Agency Agreement or the Notes. Persons entitled to vote a majority in principal amount of the Notes outstanding shall constitute a quorum at a meeting of holders of Notes except as hereinafter provided. In the absence of a quorum, a meeting called by the Company shall be adjourned for a period of not less than 10 days, and in the absence of a quorum at any such adjourned meeting, the meeting shall be further adjourned for another period of not less than 10 days, at which further adjourned meeting persons entitled to vote 25% of the principal amount of the Notes at the time outstanding shall constitute a quorum. Any action which may be taken by the meeting of holders of Notes requires a favorable vote of the holders of the lesser of (i) a majority in principal amount of the outstanding Notes and (ii) 75% in principal amount of the Notes represented and voting at the meeting; provided that without the consent of the holder of each Note affected thereby, no modification, amendment or waiver of the Fiscal Agency Agreement or the Notes may (a) waive a default in the payment of the principal of or interest on any such Note, or change the stated maturity of the principal of or any installment of interest on any such Note; (b) reduce the principal amount of or the rate of interest on any such Note or change the obligation of the Company to pay Additional Amounts with respect to such Note; (c) change the currency of payment of principal of or interest on any such Note (including any Additional Amount in respect thereof); (d) impair the right to institute suit for the enforcement of any such payment on or with respect to any such Note; (e) reduce the percentage of the aggregate amount of Notes outstanding necessary to modify or amend the Fiscal Agency Agreement or the Notes or reduce the percentage of votes required for the adoption of any action at a meeting of holders of Notes; or (f) modify the obligation of the Company to maintain an office or agency outside the United States for the purposes specified in the Fiscal Agency Agreement.

Events of Default

The Notes will define an Event of Default with respect to the Notes as being any one of the following events: (a) failure to pay principal of any Note when due; (b) failure to pay any interest on any Note or any Additional Amount in respect of any Note when due, continued for 30 days; (c) failure to perform any other

covenant of the Company in the Fiscal Agency Agreement, continued for 90 days after written notice as provided in the Fiscal Agency Agreement; and (d) certain events in bankruptcy, insolvency or reorganization.

If an Event of Default (other than an Event of Default specified in clause (c) of the preceding paragraph) shall occur and be continuing, then a holder of any Note may declare the principal amount of such Note and interest thereon to be immediately due and payable. If an Event of Default shall occur and be continuing, the Holders of at least 25% in principal amount of the outstanding Notes may declare the principal amount of all the Notes and interest thereon to be due and payable immediately. At any time after a declaration of acceleration with respect to the Notes has been made, but before a judgment or decree based on acceleration has been obtained, the Holders of a majority in principal amount of the outstanding Notes may, under certain circumstances, rescind and annul such acceleration. For information as to waiver of defaults, see "Meetings of Holders and Waivers of Covenants".

Consolidation, Merger and Sale of Assets

The Company, without the consent of any Holders of Notes, may consolidate or merge with or into, or transfer or lease its assets as an entirety to, any Person, *provided* that (i) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or which acquires or leases the assets of the Company substantially as an entirety is organized and existing under the law of any United States jurisdiction and assumes the Company's obligations on the Notes and under the Fiscal Agency Agreement, (ii) after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing, and (iii) certain other conditions are met.

Replacement of Notes and Coupons

If any Note (including any coupon) is mutilated, defaced or apparently destroyed, lost or stolen, the Company in its discretion may execute and, upon the written request of the Company, the Fiscal Agent will replace such Note (in such capacity, the "Replacement Agent") by issuing a new Note upon the surrender of such mutilated or defaced Note or delivery of satisfactory evidence of the destruction, loss or theft thereof to the Replacement Agent. In any such case, indemnity satisfactory to the Fiscal Agent and the Company may be required of the holder of such Note before a replacement Note will be issued. All expenses associated with obtaining such indemnity and in issuing the new Note shall be borne by the owner of the mutilated, defaced or apparently destroyed, lost or stolen Note.

Prescription

Under New York's statute of limitations, any legal action to enforce the Company's payment obligations evidenced by the Notes or the coupons must be commenced within six years after the payment thereof is due; thereafter the Company's payment obligations will generally become unenforceable.

Further Issues

The Company may, without the consent of the holders of the Notes and coupons, issue from time to time additional Notes pursuant to an agreement supplemental to the Fiscal Agency Agreement which will be treated as a single series with the Notes offered hereby. Upon each such issue of additional Notes (if any) prior to the Exchange Date, such Exchange Date may, at the sole discretion of the Company, be extended, without the consent of the holders of the Notes, until the date which is 40 days after the later of (i) the commencement of the offering of the additional Notes and (ii) the closing date of the additional Notes, provided that such Exchange Date will not under any circumstances be extended to a date that is later than the date which is 90 days after the closing date of the first issue of the Notes.

Applicable Law

The Fiscal Agency Agreement and the Notes will be governed by and construed in accordance with the laws of the State of New York.

Notices

All notices to the holders of an interest in the Notes will be given by publication at least once in a newspaper in the English language of general circulation in London (which is expected to be the *Financial Times*) and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if publication in London or Luxembourg is not practicable, publication may be made in another principal city in Europe in a newspaper of general circulation. Such notices will be deemed to have been given on the date of such publication, or if published on different dates, on the first date on which

publication is made in any publication in which it is required. Couponholders will be deemed for all purposes to have notice of the contents of any notices given to the Noteholders in accordance with this paragraph.

Until such time as any Definitive Notes are issued, there may, so long as a Global Note is held in its entirety on behalf of Euroclear and Cedelbank, be substituted for such publication in London, the delivery of the relevant notice to Euroclear and Cedelbank for communication by them to the persons shown in their records as having interests in such Global Note credited to them and any such notices will be deemed to have been given on the seventh day after delivery to Euroclear and Cedelbank; provided that the foregoing shall not relieve the Company of its obligation to publish any notices in a newspaper of general circulation in Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require such publication.

Use of Proceeds

The net proceeds to be received by the Company from the sale of the Notes (estimated to be approximately £496,550,000 after deducting the Manager's selling concession and combined underwriting and management fee but before deducting other expenses relating to the offering) will be used for general corporate purposes.

The Company

The Procter & Gamble Company (the "Company") was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, the Company manufactures and markets a broad range of consumer products in many countries throughout the world. Unless the context otherwise requires, all references to the Company are to The Procter & Gamble Company and its consolidated subsidiaries.

As of 1st July 1999, the Company has reorganized its business into product-based Global Business Units ("GBUs") in order to streamline management decision-making, strategic planning and manufacturing. The realignment, called "Organization 2005", consists of the following product-based, reportable segments: Fabric and Home Care, Paper, Food and Beverage, Beauty Care and Health Care.

- Fabric and Home Care includes laundry, fabric enhancers and household cleaning products. Representative brands include Ariel, Tide, Cascade, Dawn, Fairy and Downy.
- Paper includes tissue and towel, feminine care and baby care. Representative brands include Bounty, Charmin, Always, Whisper, Pampers and Pampers Wipes.
- Food and Beverage includes snacks, beverage, and commercial services. Representative brands include Fologers, Jif, Sunny Delight, Pringles, Olean and Crisco.
- Beauty Care includes hair care, personal beauty care, color cosmetics and fine fragrances. Representative brands include Pantene, Vidal Sassoon, Secret, Safeguard, Oil of Olay, Cover Girl and Old Spice.
- Health Care includes oral care, personal health care, pharmaceuticals, and pet health and nutrition. Representative brands include Crest, Scope, Metamucil, Vicks, Asacol, Didronel, Macrobid and Iams.

The GBU structure is complemented by eight Market Development Organizations intended to maximize the business potential for the entire product portfolio in each local market. In addition, Organization 2005 is intended to streamline and standardize the Company's global essential business services, such as accounting, employee benefits management, order management and information technology services, to a common global business services organization.

Organization 2005 will cost \$1.9 billion after-tax over the six year period and will affect 15,000 positions worldwide.

In the United States, the Company owned and operated manufacturing facilities at 37 locations in 21 states as of 30th June 1999. In addition, it owned and operated 93 manufacturing facilities in 44 other countries as of such date. Fabric and Home Care products were produced at 45 of these locations; Paper products at 49; Health Care products at 21; Beauty Care products at 38; and Food and Beverage products at 15.

The Company's principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and its telephone number is (513) 983-1100. The Procter & Gamble Company is incorporated under the laws of the State of Ohio.

Recent Developments

The Company reported another quarter of strong sales and profit growth on record second quarter unit volume for the quarter ended December 31, 1999. Crediting faster speed-to-market with initiatives and a greater strategic focus from its Organization 2005 program, the Company achieved its largest quarterly sales increase since 1997. Unit volume grew six percent, reflecting continued initiative activity around the world, base business growth and acquisitions. Net sales increased seven percent to a record \$10.59 billion. Exchange rates, primarily in Western Europe, negatively impacted sales by two percentage points.

The Company reported net earnings of \$1.13 billion, or \$0.78 per diluted share, for the quarter ended December 31, 1999, including charges of \$137 million related to its Organization 2005 program. Core net earnings per diluted share, which exclude the Organization 2005 costs, were \$0.88, a 13 percent increase over the second quarter of last year. Organization 2005 is the Company's multi-year program designed to accelerate growth by increasing innovation and speed-to-market. The objective of the program is to increase long-term sales growth to six-to-eight percent annually and increase growth in core net earnings per share to 13-15 percent over a five year period.

For the first six months, reported net earnings were \$2.27 billion, or \$1.58 per diluted share. Worldwide sales grew five percent to \$20.51 billion, or seven percent excluding the effects of unfavorable exchange rates, on

four percent unit volume growth. Core net earnings were \$2.53 billion, while core diluted net earnings per share grew 11 percent to \$1.76.

Following are highlights by business segment:

Fabric and Home Care: Fabric and home care continued to deliver strong results, with unit volume growth of eight percent, double the growth rate posted in the September quarter this year. Sales increased 10 percent to \$3.17 billion, while net earnings grew seven percent to \$405 million. Excluding negative currency impacts, sales grew 12 percent. Base business strength and initiatives combined to ignite top-line growth. Volume growth was broad-based across major markets in North America and Western Europe. Importantly, both volume and share growth were particularly strong in Northeast Asia and the Southern Cone (Brazil, Argentina, Chile). Febréze®, Swiffer® and Dryel® sales continued to grow strongly from global expansion and the introduction of new line extensions. The Company also announced plans to introduce Ariel® liquid in Japan and to launch another innovative new product, Fit Fruit and Vegetable Wash®, in the United States this spring.

For the first six months of the fiscal year, a six percent unit volume increase and higher value initiatives drove sales up nine percent. Net earnings increased eight percent.

Paper: Paper results improved during the second quarter, with three percent volume growth behind strong increases on Charmin® and Bounty® and improved performance in diapers. The divestiture of the Attends adult incontinence business weakened comparisons, negatively impacting volume and sales by two percent versus the same quarter last year. Net sales increased one percent to \$3.18 billion. Excluding negative exchange rate impacts, net sales grew three percent. Continued investment in new initiatives and geographic expansion impacted earnings, which declined 15 percent to \$293 million. Earnings also were affected by rising pulp prices, although pricing actions in baby care last year helped mitigate the effects in most geographies.

On a year-to-date basis, sales were down one percent on flat unit volume. Net earnings fell eight percent.

Beauty Care: Beauty care was impacted by a difficult competitive environment and declining consumption in China, where the hair care market has been especially hard hit by the weakened economy. Sales fell three percent to \$1.90 billion on a five percent volume decline. Net earnings were equal to year-ago at \$273 million, due largely to progress on cost control. The Company continues to emphasize long-term value creation by investing in premium initiatives, such as Secret Platinum® and Oil of Olay Cosmetics®. Several new product upgrades and launches, including the U.S. launch of the Physique® styling-led hair care brand, are planned for the back half of the year.

For the first six months of the year, unit volume fell four percent. Sales and net earnings fell two percent.

Health Care: The health care segment delivered strong results this quarter, behind the acquisitions of Iams, and Recovery Engineering with its water filtration brand, PuR®. Net sales increased 35 percent to \$1.07 billion on 33 percent unit volume growth. Net earnings were up 57 percent to \$125 million, driven by outstanding progress by Iams that supplemented solid base business earnings. The Company recently announced that Iams pet food products will be expanded to new retail channels in the coming quarter, only a few months after the integration of the acquisition. Health care also introduced ThermaCare® portable heat wraps, which are intended to change the way consumers think about pain relief.

On a year-to-date basis, unit volume increased 21 percent with net sales up 26 percent. Net earnings increased 44 percent. Improvements were driven by the newly acquired businesses, as well as strong growth in leading respiratory brands.

Food and Beverage: Continued expansion of snacks across geographies, mainly in Western Europe, drove strong quarterly results, with sales increasing four percent to \$1.32 billion on comparable unit volume growth. Recent launches of Pringles® in Spain and Italy, and the introduction of Pizzalicious flavor in Japan are yielding great results. Excluding the effects of the Hawaiian Punch divestiture, volume grew nine percent, boosted by recent initiative launches of Folgers Whole Bean®, Pringles Twin Pack®, Sunny Delight Eclipse®, and Jif Smooth Sensations®. Significant improvements in gross margin, behind a sharpened focus on cost control, boosted earnings 23 percent to \$137 million, despite investments in new initiatives.

For the first half of the year, sales increased five percent on four percent unit volume growth. Net earnings climbed 28 percent, reflecting cost improvements.

Capitalization

The following table sets forth the unaudited consolidated capitalization of the Company and its subsidiaries at 30th September 1999.

	30th September 1999 ⁽¹⁾ (Unaudited)
	(in millions of dollars except per share amounts)
Debt:	
Commercial paper and other borrowing due within one year ⁽²⁾	\$ 4,916
Long-Term Borrowings:	
Due from one to two years	550
Due after two and through five years	2,580
Due after five years	4,082
Total debt	12,128
Shareholders' Equity:	
Convertible Class A preferred stock, stated value \$1 per share; 600,000,000 shares authorized, 95,405,000 outstanding	1,768
Non-Voting Class B preferred stock, stated value \$1 per share; 200,000,000 shares authorized, none outstanding	—
Common Stock, stated value \$1 per share; 5,000,000,000 shares authorized, 1,315,700,000 outstanding	1,316
Additional Paid-In Capital	1,432
Reserve for Employee Stock Ownership Plan debt retirement	(1,531)
Accumulated other comprehensive income	(1,513)
Retained earnings	10,880
Total Shareholders' Equity	12,352
Total capitalization	\$24,480

(1) As of 28th January 2000, there had been no material changes since 30th September 1999 in the Company's common stock, material increases in the Company's consolidated long-term debt or any material decreases in the Company's consolidated net current assets or consolidated shareholders' equity, other than what may have occurred in the ordinary course of business or in connection with acquisitions of common stock under the Company's previously announced discretionary stock repurchase plan, except for the acquisition of Recovery Engineering, Inc. on 30th September 1999, and the completion of a 19th October 1999 offering of \$81 million principal amount of floating rate notes due 26th October 2049, a 10th November 1999 offering of \$70 million principal amount of floating rate notes due 15th November 2039, a 30th November 1999 offering of ¥40 billion (approximately \$393 million at 30th November 1999) principal amount of 1.5% notes due 7th December 2005 and an 8th December 1999 offering of \$1 billion principal amount 6.60% notes due 15th December 2004.

(2) Includes \$265 million equivalent to current portion of long-term debt due within one year. The Company maintains credit facilities in support of its short-term commercial paper borrowings. At 30th September 1999 the Company's short-term bank lines with banks amounted to \$3.5 billion (none of which had been utilized at 28th January 2000).

Selected Financial Information

The following selected financial information for the quarters ended 30th September 1999 and 1998 has been derived from the Company's unaudited consolidated financial statements contained in its Quarterly Reports to Shareholders on Form 10-Q for the quarters ended 30th September 1999 and 1998, respectively. The selected financial information for the year ended 30th June 1999 was derived from the Company's consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended 30th June 1999. The selected financial information for the years ended 30th June 1998, 1997 and 1996 has been derived from the Company's consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended 30th June 1998. The selected financial information for the year ended 30th June 1995 has been derived from the Company's consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended 30th June 1995.

Operating Results:

	Year Ended 30th June					Three Months Ended 30th September	
	1995	1996	1997	1998	1999	1998	1999
	(dollars in millions, except per share data)						
Net sales.....	\$33,482	\$35,284	\$35,764	\$37,154	\$38,125	\$9,510	\$9,919
Cost of products sold.....	19,561	20,938	20,510	21,064	21,206	5,142	5,206
Earnings before income taxes.....	4,000	4,669	5,249	5,708	5,838	1,767	1,745
Income taxes.....	1,355	1,623	1,834	1,928	2,075	600	598
Net earnings.....	2,645	3,046	3,415	3,780	3,763	1,167	1,147
Basic net earnings per common share.....	\$1.85	\$2.14	\$2.43	\$2.74	\$2.75	\$0.86	\$0.85
Diluted net earnings per common share.....	\$1.74	\$2.01	\$2.28	\$2.56	\$2.59	\$0.80	\$0.80
Basic average shares outstanding (in millions) ⁽¹⁾	1,372.0	1,372.6	1,360.3	1,343.4	1,328.1	1,454.5	1,435.2
Ratio of earnings to fixed charges ⁽²⁾	7.7	9.0	10.9	9.9	8.8	10.3	11.4

Financial Position (at period end):

	30th June					30th September	
	1995	1996	1997	1998	1999	1998	1999
	(in millions)						
Working capital.....	\$ 2,194	\$ 2,982	\$ 2,988	\$ 1,327	\$ 597	\$1,845	\$ (849)
Total assets.....	28,125	27,730	27,544	30,966	32,113	32,869	35,324
Long-term debt.....	5,161	4,670	4,143	5,765	6,231	6,354	7,212
Shareholders' equity.....	10,589	11,722	12,046	12,236	12,058	12,074	12,352

(1) Restated for two-for-one stock split effective 22nd August 1997.

(2) Earnings used to compute this ratio are earnings before income taxes and before fixed charges (excluding interest capitalized during the period) and after deducting undistributed earnings of equity method investees. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and expense, and one-third of all rent expense (considered representative of the interest factor).

Directors and Management

Directors

<u>Name</u>	<u>Principal Occupation</u>
Norman R. Augustine	Chairman of the Executive Committee, Lockheed Martin Corporation (aerospace, electronics, telecommunications, information management and energy systems). Director of Lockheed Martin Corporation, The Black and Decker Corporation and Phillips Petroleum Company; Director of Procter & Gamble since 1989; Chairman of the Compensation Committee and member of the Executive and Finance Committees; age 64.
Donald R. Beall	Retired Chairman and Chief Executive Officer, Rockwell International Corporation (industrial, automation, avionics and communications and electronic commerce) and Chairman of the Executive Committee, Director of Rockwell International Corporation, Conexant Systems, Inc., Meritor Automotive, Inc. and Times-Mirror Company; Director of Procter & Gamble since 1992; Chairman of the Audit Committee and member of the Executive and Public Policy Committees; age 61.
Gordon F. Brunner	Chief Technology Officer, Director of Procter & Gamble since 1991; age 61.
Richard B. Cheney	Chief Executive Officer, Halliburton Company (energy services, engineering and construction). Director of Halliburton Company, Electronic Data Systems Corporation, and Union Pacific Corporation; Director of Procter & Gamble since 1993; member of the Audit, Compensation and Public Policy Committees; age 58.
Richard J. Ferris	Retired Co-Chairman, Doubletree Corporation. Director of BP Amoco Corporation and Candlewood Hotel Company, Inc.; Director of Procter & Gamble since 1979; Chairman of the Finance Committee and member of the Executive and Public Policy Committees; age 63.
Joseph T. Gorman	Chairman and Chief Executive Officer, TRW Inc. (electronic, automotive, industrial and aerospace equipment). Director of TRW Inc. and Aluminum Company of America; Director of Procter & Gamble since 1993; member of the Compensation, Executive and Finance Committees; age 62.
Durk I. Jager	Chairman of the Board, President and Chief Executive. Director of Eastman Kodak Company; Director of Procter & Gamble since 1989; member of the Executive Committee; age 56.
Charles R. Lee	Chairman and Chief Executive Officer, GTE Corporation (telecommunication services). Director of GTE Corporation, United Technologies Corporation and USX Corporation; Director of Procter & Gamble since 1994; member of the Audit, Board Organization and Nominating and Compensation Committees; age 59.
Lynn M. Martin	Professor, J. L. Kellogg Graduate School of Management, Northwestern University. Director of SBC Communications, Ryder System, Inc., TRW Inc., Dreyfus Funds and Harcourt General Inc.; Director of Procter & Gamble since 1994; member of the Finance, Board Organization and Nominating and Public Policy Committees; age 60.
John E. Pepper	Retired Chairman of the Board and Chief Executive. Director of Motorola, Inc. and Xerox Corporation; Director of Procter & Gamble since 1984; Chairman of the Executive Committee and member of the Finance and Public Policy Committees; age 61.

Name

Principal Occupation

John C. Sawhill, Ph.D.

President and Chief Executive Officer, The Nature Conservancy (an international conservation organization). Director of Pacific Gas & Electric Company, NAACO Industries, Newfield Exploration Company and Vanguard Group of Mutual Funds; Director of Procter & Gamble since 1996; member of the Audit, Board Organization and Nominating and Public Policy Committees; age 63.

John F. Smith, Jr.

Chairman and Chief Executive Officer, General Motors Corporation (automobile and related businesses). Director of General Motors Corporation; Director of Procter & Gamble since 1995; member of the Audit, Board Organization and Nominating and Public Policy Committees; age 61.

Ralph Snyderman M.D.

Chancellor for Health Affairs, Executive Dean, School of Medicine at Duke University, and President/CEO of Duke University Health System. Director of Ariad, Inc.; Director of Procter & Gamble since 1995; member of the Audit, Board Organization and Nominating and Public Policy Committees; age 59.

Robert D. Storey

Partner in the law firm of Thompson, Hine & Flory, L.L.P., Cleveland, Ohio. Director of GTE Corporation and The May Department Stores Company; Director of Procter & Gamble since 1988; Chairman of the Public Policy Committee and member of the Audit and Board Organization and Nominating Committees; age 63.

Marina v.N. Whitman Ph.D.

Professor of Business Administration and Public Policy, University of Michigan. Director of Aluminum Company of America, Browning-Ferris Industries, Inc., Chase Manhattan Corporation and its subsidiary Chase Manhattan Bank, and Unocal Corporation; Director of Procter & Gamble since 1976; Chairman of the Board Organization and Nominating Committee, and member of the Compensation and Finance Committees; age 64.

Executive Officers

<u>Name</u>	<u>Office Held</u>
Durk I. Jager	Chairman of the Board, President and Chief Executive. Director since 12th December 1989.
Wolfgang C. Berndt	President – Global Fabric & Home Care and Europe
Alan G. Lafley	President – Global Beauty Care and North America
Jorge P. Montoya	President – Global Food & Beverage and Latin America
Richard L. Antoine	Global Human Resources & Product Supply Officer
Gordon F. Brunner	Chief Technology Officer. Director since 1st March 1991.
Bruce L. Byrnes	President – Global Health Care and Corporate New Ventures
R. Kerry Clark	President – Global Feminine Care and Asia
Clayton C. Daley, Jr.	Chief Financial Officer
Stephen N. David	Global Customer Business Development Officer
James J. Johnson	Chief Legal Officer
Mark D. Ketchum	President – Global Baby Care
Gary T. Martin	President – Global Tissues & Towel
David R. Walker	Vice President and Comptroller

All of the above Executive Officers, except James J. Johnson and David R. Walker, are members of the Global Leadership Council of The Procter & Gamble Company and have been employed by Procter & Gamble for over five years.

United States Taxation

The following discussion summarises certain of the anticipated United States federal income and estate tax consequences applicable to the ownership of the Notes by United States Aliens (as defined above under "Payments of Additional Amounts"). The following discussion does not address all aspects of United States federal income and estate taxation that may be relevant to particular investors, including the United States federal income tax consequences arising from the fact that a United States Alien is or was present in the United States or has or previously had a connection with the United States or the Company other than holding a Note (including, without limitation, holding the Note in connection with the actual conduct of a U.S. trade or business) or has or has had any special status with respect to the United States.

Persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisers concerning the United States federal tax consequences thereof in light of their particular situations as well as any consequences arising under the laws of any state, locality or non-U.S. taxing jurisdiction.

The discussion set forth below is based upon currently existing provisions of the Code, the Regulations, and current administrative rulings and court decisions all of which may be repealed, revoked or modified, possibly with retroactive effect, so as to make the ensuing analysis inapplicable.

In the opinion of Fried, Frank, Harris, Shriver & Jacobson, special tax counsel to the Company, under present United States federal income and estate tax law, and subject to the discussion below concerning information reporting and backup withholding:

- (a) payments of principal, premium, if any, and interest outside the United States on a Note or coupon by the Company or any of its paying agents to any United States Alien will not be subject to withholding of United States federal income tax; provided however, that in the case of interest (i) the United States Alien does not directly or indirectly, actually or constructively, own 10% or more of the total combined voting power of all classes of stock of the Company within the meaning of Code Section 871(h)(3), (ii) the United States Alien is not a controlled foreign corporation for United States federal income tax purposes that is related to the Company through sufficient stock ownership (as defined in the Code), (iii) the United States Alien is not a bank receiving interest on certain extensions of credit as described in Code Section 881(c)(3)(A), and (iv) the United States Alien is not a foreign tax-exempt organization for United States federal income tax purposes;
- (b) a United States Alien will not be subject to United States federal income tax on any gain or income realized on the sale, exchange, redemption, retirement or other disposition of a Note or coupon (provided that in the case of proceeds representing accrued interest, the conditions described in item (a) are met) unless (i) such gain is effectively connected with the conduct by such United States Alien of a trade or business in the United States (or, if an income tax treaty applies, is generally attributable to a United States "permanent establishment" maintained by such United States Alien), or (ii) such United States Alien is an individual present in the United States for 183 days or more in the taxable year of sale, exchange, redemption, retirement or other disposition, and certain other conditions are met; and
- (c) a Note held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to United States federal estate tax as a result of such individual's death, if at the time of death such individual did not, directly or indirectly, actually or constructively, own 10% or more of the combined voting power of all classes of stock of the Company entitled to vote within the meaning of Code Section 871(h)(3), and interest on such Note would not be subject to tax if received by the decedent (without regard to whether a statement meeting the requirements of Code Section 871(h)(5) has been satisfied).

Certain payments to non-corporate persons of interest and principal on obligations are subject to United States information reporting and may be subject to a United States backup withholding tax at a rate of 31%. Under current United States federal income tax law and regulations, payment of interest on and principal of any Note by the Company or any of its paying agents made outside the United States (and not paid to a United States address, either by mail or electronic transfer) will not be subject to information reporting or backup withholding tax unless the Company or the paying agent, as the case may be, has actual knowledge that the beneficial owner of such Note is a United States person (as defined below). However, if payments of interest on or principal of such Note are collected outside the United States by a person acting as a custodian, nominee or other agent on behalf of the beneficial owner of such Note, and, if such custodian, nominee or other agent is a (i) United States person (as defined below), (ii) a controlled foreign corporation within the meaning of Section 957(a) of the Code, (iii) a foreign person 50% or more of whose gross income from certain specified

periods is effectively connected with its conduct of a United States trade or business, or (iv) under new Regulations which are generally applicable to payments made beginning on 1st January 2001 (the "New Regulations"), a foreign partnership if, at any time during the taxable year, at least 50% of the capital or income interest in the partnership is owned by United States persons, or the partnership is engaged in a U.S. trade or business (a person described in (ii), (iii) or (iv)), hereinafter a "U.S. Controlled Person"), payments of interest and principal in respect of the Note made by such custodian, nominee or agent to the beneficial owner may be subject to information reporting (but currently not backup withholding tax) unless such custodian, nominee or agent has sufficient documentary evidence in its records that the beneficial owner is not a United States person or the beneficial owner otherwise establishes an exemption. In addition, under the New Regulations, such payments made to the beneficial owner by such custodian, nominee or agent will be subject to backup withholding if such custodian, nominee or agent has actual knowledge that the payee is a United States person.

Payments of principal or interest on a Note paid to the beneficial owner thereof by a United States office of a custodian, nominee or agent, or the payment by the United States office of a broker of the proceeds of a sale of a Note, will be subject to both backup withholding tax and information reporting unless the beneficial owner certifies under penalties of perjury as to its name, address, non-United States status, and, in certain cases, provides a taxpayer identification number in accordance with the applicable requirements (and the payor does not have actual knowledge that the beneficial owner is a United States person) or the beneficial owner otherwise establishes an exemption.

Information reporting requirements and backup withholding tax requirements will not apply to any payment of the proceeds of the sale of a Note effected outside the United States by a foreign office of a foreign "broker" (as defined in applicable Regulations) that is not a U.S. Controlled Person. Payment of the proceeds of the sale of a Note effected outside the United States by a foreign office of any other broker is not currently subject to backup withholding tax, but is subject to information reporting unless such broker has documentary evidence in its records that the beneficial owner is not a United States person and certain other conditions are met, or the beneficial owner otherwise establishes an exemption. However, under the New Regulations, such payments made by a foreign office of any other broker will be subject to backup withholding if the broker has actual knowledge that the payee is a United States person.

Any amount withheld under the backup withholding tax rules from a payment to a United States Alien will generally be allowed as a refund or a credit against such United States person's United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service. In general, the New Regulations do not significantly alter the substantive requirements of the backup withholding and information reporting rules discussed above, but unify current certification procedures and forms and clarify reliance standards. Prospective investors are urged to consult their advisers regarding the New Regulations.

As used in this section, "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdictions; "United States person" means any citizen or resident of the United States, a corporation, partnership or other entity organized in or under the laws of the United States or any political subdivision thereof (other than any partnership treated as foreign under Regulations that may be promulgated), an estate that is subject to United States federal income taxation without regard to the source of its income, and a trust that is subject to the primary supervision of a court within the United States and the control of a United States person; and "restricted period" has the meaning given such term in the Regulations promulgated under Section 163(f) of the Code.

The above opinion of counsel and the foregoing discussion are based upon certain of the facts set forth in this Offering Circular and other documents related to the issuance of Notes and upon compliance with the provisions thereof and the representations and agreements therein. In rendering its opinion, counsel has, in particular, relied on representations to the Company by the Managers that they have in effect procedures reasonably designed to ensure that their employees or agents who are directly engaged in selling Notes are aware that the Notes cannot be offered or sold during the restricted period to a person who is within the United States or who is a United States person, except as permitted by Regulations. The Code, Regulations, rulings and decisions in effect on the date hereof, upon which this opinion is also based, are all subject to change.

THE OPINION AND TAX DISCUSSIONS SET FORTH ABOVE ARE INCLUDED FOR GENERAL INFORMATION ONLY. DO NOT PURPORT TO BE A COMPLETE ANALYSIS OR LISTING OF ALL POTENTIAL TAX EFFECTS RELEVANT TO A DECISION TO PURCHASE THE NOTES, AND MAY NOT BE APPLICABLE DEPENDING UPON AN INVESTOR'S PARTICULAR SITUATION. SUCH OPINION AND

DISCUSSION DO NOT ADDRESS TAX CONSEQUENCES THAT MAY BE RELEVANT TO INVESTORS THAT ARE NOT UNITED STATES ALIENS OR ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCALITY OR NON-U.S. JURISDICTION. INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE PARTICULAR CONSEQUENCES TO THEM OF HOLDING AND DISPOSING OF NOTES IN LIGHT OF THEIR OWN PARTICULAR CIRCUMSTANCES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL INCOME OR OTHER TAX LAWS.

Underwriting

Subject to the terms and conditions set forth in the Underwriting Agreement, dated 28th January 2000, the Company has agreed to sell to each of the Managers named below (the "Managers") and each of the Managers has severally agreed to purchase, at a price of 99.935% of the principal amount thereof less a selling commission of 0.375% of the principal amount thereof and less a combined underwriting and management fee of 0.25% of the principal amount thereof, plus accrued interest, if any, from 31st January 2000, the principal amount of Notes set forth opposite its name below:

Manager	Principal Amount of Notes to be Purchased
J.P. Morgan Securities Ltd.	£450,000,000
ABN AMRO Bank N.V.	25,000,000
Goldman Sachs International	25,000,000
	£500,000,000

Under the terms and conditions of the Underwriting Agreement, the Managers are committed to take and pay for all of the Notes, if any are taken. The Underwriting Agreement entitles the Managers to cancel the issue of the Notes in certain circumstances prior to payment to the Company. The Company has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

The Managers propose to offer the Notes at the initial public offering price set forth on the cover page of this Offering Circular. After the Notes are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Managers.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration regulations of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to United States tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person (as defined in the Code and the Regulations), except in certain transactions permitted by the Regulations.

Each Manager has represented and agreed that: (i) except to the extent permitted under Regulation § 1.163-5(c)(2)(i)(D) (the "D Rules"), (a) it has not offered or sold, and during the restricted period will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person, and (b) it has not delivered and will not deliver within the United States or its possessions Notes that are sold during the restricted period; (ii) it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules; and (iii) if it is a United States person, it is acquiring the Notes for purposes of resale in connection with their original issuance and if it retains Notes for its own account, it will do so only in accordance with the requirements of Regulation § 1.163-5(c)(2)(i)(D)(6). Whether or not an offer, sale or delivery is treated as made within the United States or its possessions or to a United States person will depend upon application of the D Rules.

With respect to each affiliate that acquires Notes from a Manager for the purpose of offering or selling such Notes during the restricted period, such Manager has repeated and confirmed the representations and agreements in the preceding paragraph on such affiliate's behalf. Terms used in this paragraph and the immediately preceding paragraph have the meanings given to them by the Code and the Regulations (including the D rules).

Each Manager has agreed that, except as permitted by the Underwriting Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the Exchange Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will send to each Manager to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account

or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the Exchange Date, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented and agreed that (i) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, it will not offer or sell in the United Kingdom or elsewhere by means of any document, any Notes, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom, and (iii) it has only issued or passed on and will only issue or pass on to any person any document received by it in connection with the issuance of the Notes to a person who is of a kind described in Article 11 (3) of the Financial Services Act 1986, (Investment Advertisements) (Exemptions) Order 1996, as amended, or who is a person to whom the document may otherwise lawfully be issued or passed on.

No action has been taken by the Company or the Managers that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, and neither this document nor any offering circular, prospectus, form of application, advertisement or other offering material may be distributed or published in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and the Managers have represented that all offers, sales and deliveries by them will be made on these terms.

Reference should be made to the Underwriting Agreement for a complete description of the restrictions on offers, sales and deliveries of Notes and distribution of this document.

Legal Matters

The validity of the Notes offered hereby is being passed upon for the Company by Elizabeth M. Rutherford, Senior Counsel, The Procter & Gamble Company, and certain matters relating to taxation are being passed upon for the Company by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), London, England. Certain matters will be passed upon for the Managers by Fried, Frank, Harris, Shriver & Jacobson. Ms. Rutherford may rely as to matters of New York law upon the opinion of Fried, Frank, Harris, Shriver & Jacobson and Fried, Frank, Harris, Shriver & Jacobson may rely as to matters of Ohio law upon the opinion of Ms. Rutherford. Fried, Frank, Harris, Shriver & Jacobson from time to time performs legal services for the Company.

Independent Accountants

The consolidated financial statements incorporated in this Offering Circular by reference from the Company's Annual Report on Form 10-K for the year ended 30th June 1999 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing on page ii-23.

Listing and General Information

1. Application has been made to list the Notes on the Luxembourg Stock Exchange. Prior to the listing, a legal notice relating to the issue of the Notes and the Amended Articles of Incorporation and Regulations of the Company will be deposited with the *Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*, where such documents may be examined or copies obtained.
2. Copies of the Company's Amended Articles of Incorporation, Regulations and By-laws, the Fiscal Agency Agreement and each of the documents listed under "Incorporation of Documents by Reference", as well as all present and future published annual and quarterly consolidated financial statements of the Company will be available free of charge at the office of Paribas Luxembourg during the term of the Notes. Paribas Luxembourg, as listing agent, will act as intermediary between the Luxembourg Stock Exchange and the Company. The Company does not make publicly available non-consolidated financial statements.

3. The creation and issuance of the Notes was authorized on behalf of the Company by resolutions adopted by the Board of Directors of the Company on 12th September 1995, 8th July 1997 and 22nd July 1999.
4. There has been no material adverse change in the consolidated financial position of the Company and its consolidated subsidiaries taken as a whole since 30th September 1999, except as disclosed or contemplated in this Offering Circular or in the documents incorporated by reference.
5. The Notes have been accepted for clearance through Euroclear and Cedelbank under the following common code: 10665523. The Notes have been assigned the following ISIN number: XS0106655235.
6. The Luxembourg Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.
7. The Company has represented and warranted to the Managers that this Offering Circular does not contain any untrue statement of a material fact or omit any material fact necessary to make the statements in this Offering Circular not misleading in light of the circumstances under which these statements were made. The Company has taken all reasonable care to ascertain the facts and to verify the accuracy of these statements. The Company accepts responsibility accordingly.
8. This Offering Circular may be used only for the purposes for which it was published. This Offering Circular represents an offer to sell the notes but only under circumstances and in jurisdictions where it is lawful to do so.
9. You should rely only on information contained or incorporated by reference in this Offering Circular. No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular in connection with the issue or sale of the Notes, and if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Managers. Neither the delivery of these listing particulars or the accompanying Offering Circular shall, under any circumstances, create any implication that there has been no change in affairs of the Company since the date on the cover of this Offering Circular.

APPENDIX I
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

ANNUAL REPORT ON FORM 10-K PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1999

Commission File No. 1-434

THE PROCTER & GAMBLE COMPANY
One Procter & Gamble Plaza, Cincinnati, Ohio 45202
Telephone (513) 983-1100
IRS Employer Identification No. 31-0411980
State of Incorporation: Ohio

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

<u>Title of each class</u>	<u>Name of each Exchange on which registered</u>
Common Stock, without Par Value	New York, Cincinnati, Amsterdam, Paris, Basle, Geneva, Lausanne, Zurich, Frankfurt, Brussels, Tokyo

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

There were 1,315,149,346 shares of Common Stock outstanding as of July 30, 1999. The aggregate market value of the voting stock held by non-affiliates amounted to \$119 billion on July 30, 1999.

Documents Incorporated By Reference

Portions of the Annual Report to Shareholders for the fiscal year ended June 30, 1999 are incorporated by reference into Part I, Part II and Part IV of this report.

Portions of the Proxy Statement for the 1999 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

PART I

Item 1. Business

General Development of Business

The Procter & Gamble Company was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, the Company manufactures and markets a broad range of consumer products in many countries throughout the world.

Unless the context indicates otherwise, the term the "Company" as used herein refers to The Procter & Gamble Company (the registrant) and its subsidiaries.

Additional information required by this item is incorporated herein by reference to the Letters to Shareholders, which appear on the inside cover, pages 1-8, and 10-11 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Financial Information About Industry Segments

The Company's products fall into five business segments: Laundry and Cleaning, Paper, Beauty Care, Food and Beverage, and Health Care.

Additional information required by this item is incorporated herein by reference to Note 12 Segment Information of the Notes to the Consolidated Financial Statements, which appears on page 41, and Financial Review, which appears on pages 14-23 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Narrative Description of Business

The Company's business, represented by the aggregate of its Laundry and Cleaning, Paper, Beauty Care, Food and Beverage, and Health Care segments, is essentially homogeneous. For the most part, the factors necessary for an understanding of these five segments are essentially identical. The markets in which the Company's products are sold are highly competitive. The products of the Company's business segments compete with many large and small companies, and there is no dominant competitor or competitors. Advertising is used in conjunction with an extensive sales force because the Company believes this combination provides the most efficient method of marketing these types of products. Product quality, performance, value and packaging are also important competitive factors. Most of the Company's products in each of its segments are distributed through grocery stores and other retail outlets.

The Laundry category and Diaper category constitute approximately 21% and 14% of consolidated fiscal 1999 sales, respectively. These categories grew slightly as percentages of consolidated sales versus the preceding two fiscal years. The creation of new products and the development of new performance benefits for consumers on the Company's existing products are vital ingredients in its continuing progress in the highly competitive markets in which it does business. Basic research and product development activities continued to carry a high priority during the past fiscal year. While many of the benefits from these efforts will not be realized until future years, the Company believes these activities demonstrate its commitment to future growth.

The Company has registered trademarks and owns or has licenses under patents which are used in connection with its business in all segments. Some of these patents or licenses cover significant product formulation and processing of the Company's products. The trademarks of all major products in each segment are registered. In part, the Company's success can be attributed to the existence of these trademarks, patents and licenses.

Most of the raw materials used by the Company are purchased from others. Additionally, some raw materials, primarily chemicals, are produced by the Company for further use in the manufacturing process. The Company purchases and produces a substantial variety of raw materials, no one of which is material to the Company's business taken as a whole.

Expenditures in fiscal year 1999 for compliance with Federal, State and local environmental laws and regulations were not materially different from such expenditures in the prior year, and no material increase is expected in fiscal year 2000.

Operations outside the United States are generally characterized by the same conditions discussed in the description of the business above and may also be affected by additional elements including changing currency values and different rates of inflation and economic growth. The effect of these additional elements is less significant in the Food and Beverage segment than in the Company's other business segments.

The Company has approximately 110,000 employees.

The Company provides an Employee Stock Ownership Plan ("ESOP") which is part of The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan. Convertible preferred stock of the Company and other assets owned by the ESOP are held through a trust (the "ESOP Trust"). The ESOP Trust has issued certain debt securities to the public. The Company has guaranteed payment of principal and interest on these debt securities. Holders of these debt securities have no recourse against the assets of the ESOP Trust except with respect to cash contributions made by the Company to the ESOP Trust, and earnings attributable to such contributions. Such cash contributions are made by the Company only to the extent that dividends on the convertible preferred stock are inadequate to fund repayment of the debt securities. Any such contributions and subsequent payments to holders are made on a same-day basis and such contributions would therefore not be held by the ESOP Trust unless there was a default in payment on the debt securities by the ESOP Trust after having received such contributions from the Company. Such a default is not likely to occur and therefore there is little likelihood that there would not be assets available to satisfy the claims of any holders of the debt securities. A summary description of the liabilities of the ESOP Trust and of the dividends paid by the Company on the convertible preferred stock and cash payments from the Company to the ESOP Trust for the three years ended June 30, 1999 are incorporated by reference to Note 8 Employee Stock Ownership Plan and Note 9 Postretirement Benefits, which appear on pages 38-40 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Additional information required by this item is incorporated herein by reference to Note 12 Segment Information, which appears on page 41, Financial Highlights, which appears on page 42, and Financial Review, which appears on pages 14-23 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Financial Information About Foreign and Domestic Operations

The information required by this item is incorporated herein by reference to Note 12 Segment Information, which appears on page 41, and Financial Review, which appears on pages 14-23 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Item 2. Properties.

In the United States, the Company owns and operates manufacturing facilities at 37 locations in 21 states. In addition, it owns and operates 93 manufacturing facilities in 44 other countries. Laundry and Cleaning products are produced at 45 of these locations; Paper products at 49; Health Care products at 21; Beauty Care products at 38; and Food and Beverage products at 15. Management believes that the Company's production facilities are adequate to support the business efficiently and that the properties and equipment have been well maintained.

Item 3. Legal Proceedings.

The Company is involved in clean-up efforts at off-site Superfund locations, many of which are in the preliminary stages of investigation. The amount of the liability accrued at the end of June 30, 1999 representing the Company's probable future costs that can be reasonably estimated was \$7 million.

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

Not applicable.

Executive Officers of the Registrant

The names, ages and positions held by the executive officers of the Company on July 31, 1999 are:

Name	Position	Age	Elected to Officer Position
John E. Pepper*	Chairman of the Board. Director since June 12, 1984.	60	1978
Durk I. Jager*	President and Chief Executive. Director since December 12, 1989.	56	1987
Richard L. Antoine	Global Human Resources & Product Supply Officer.	53	1998
Wolfgang C. Berndt	President — Global Fabric & Home Care and Europe.	56	1984
Gordon F. Brunner	Chief Technology Officer. Director since March 1, 1991.	60	1985
Bruce L. Byrnes	President — Global Health Care and Corporate New Ventures.	51	1991
R. Kerry Clark	President — Global Feminine Protection and Asia	47	1995
Clayton C. Daley, Jr.	Chief Financial Officer.	47	1998
Stephen N. David	Global Customer Business Development Officer.	50	1998
James J. Johnson	Chief Legal Officer.	52	1991
Mark D. Ketchum	President — Global Baby Care.	49	1996
Alan G. Lafley	President — Global Beauty Care and North America.	52	1992
Gary T. Martin	President — Global Tissues & Towel.	54	1990
Jorge P. Montoya	President — Global Food & Beverage and Latin America.	53	1991
David R. Walker	Vice President and Comptroller.	44	1997

All of the above named Executive Officers, except James J. Johnson and David R. Walker, are members of the Global Leadership Council of The Procter & Gamble Company. All of the Executive Officers named above have been employed by the Company for more than five years.

*Effective September 1, 1999, John E. Pepper retired as an employee, as a member of the Global Leadership Council of the Company and as Chairman of the Board of Directors of the Company. Effective September 1, 1999, Durk I. Jager, President and Chief Executive, succeeded Mr. Pepper as Chairman of the Board.

PART II

Item 5. Market for the Common Stock and Related Stockholder Matters

The information required by this item is incorporated by reference to Shareholder Information, which appears on page 48 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Item 6. Selected Financial Data

The information required by this item is incorporated by reference to Financial Highlights, which appears on page 42 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item is incorporated by reference to Financial Review, which appears on pages 14-23, Note 2 Organization 2005, which appears on pages 34-35, Note 11 Commitments and Contingencies, which appears on page 40, and Note 12 Segment Information, which appears on page 41 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Organization 2005

As more fully described in Note 2 to the consolidated financial statements, under the heading Organization 2005, the Company has begun a major reorganization of its operations, moving from a geographical structure to product-based Global Business Units (GBUs) that will streamline

management decision-making, strategic planning and manufacturing. Consistent with this change, segment reporting will be restated starting with the first quarter of fiscal 2000 to reflect the following product-based segments: Fabric and Home Care, Paper, Beauty Care, Food and Beverage and Health Care. The GBU structure will be complemented by eight Market Development Organizations (MDOs) intended to maximize the business potential for the entire product portfolio in each local market. The new organization structure was effective July 1, 1999, although certain strategic planning activities were effective January 1, 1999. Organization 2005 will also streamline and standardize the Company's global essential business services, such as accounting, employee benefits management, order management and information technology services, to a common Global Business Services organization. Additional information pursuant to the Company's Organization 2005 reorganization is incorporated by reference to Note 2 Organization 2005, which appears on pages 34-35 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Year 2000 Update

As outlined in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, the Company has developed plans to address the possible exposures related to the impact on its computer systems of the Year 2000. These plans have not changed materially in terms of scope or estimated costs to complete.

Testing and certification of critical systems, which includes review of documented remediation work and test results by technical experts, key users and a central project team, is expected to be successfully completed by September 30, 1999. Critical systems compliance has progressed as follows:

Critical Systems Description

	Year 2000 % of Applications Complete		
	Actual June 1998	Actual June 1999	Planned Sept. 1999
Critical manufacturing, operating and control systems	44.0%	99.0%	100.0%
All other critical systems	56.0%	99.6%	100.0%

The Company's risk management program includes emergency backup and recovery procedures to be followed in the event of the failure of a business-critical system. These procedures have been expanded to include the Year 2000 Business Continuity Plan (BCP). The objectives of the BCP are to ensure business-critical processes are protected from disruption and will continue to function during and after the year 2000, and to ensure the Company's ability to produce an acceptable level of products and services is safeguarded in the event of failures of external systems and services. The BCP will be complete by October 31, 1999 and will include, for example, identification of alternate suppliers or customers, possible increases in safety inventory levels and other backup procedures.

Incremental costs, which include contractor costs to modify existing systems and costs of internal resources dedicated to achieving Year 2000 compliance, are charged to expense as incurred. Total Year 2000 costs, including BCP costs, are expected to total approximately \$90 million, of which 86% has been spent to date. Additional information pursuant to the Company's preparation for Year 2000 is incorporated by reference to Financial Review, Year 2000, which appears on pages 22-23 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

The Company has made certain forward-looking statements in the Annual Report to Shareholders for the fiscal year ended June 30, 1999, and has done or will do so in other contexts, relating to volume growth, increases in market shares, Year 2000 compliance, financial goals and cost reduction, among others.

These forward-looking statements represent challenging goals for the Company and are based on certain assumptions and estimates regarding the worldwide economy, technological innovation, competitive activity, pricing, currency movements, product introductions, governmental action and the development of certain markets. Among the key factors necessary to achieve the Company's goals are: (1) the achievement of lower costs and increases in reliability and capacity utilization, resulting from simplification and standardization and Organization 2005; (2) the ability to improve revenue and profitability despite high levels of competitive activity around the world, and economic volatility in

emerging markets; (3) the ability to maintain key customer relationships in important developed markets; (4) the continuation of substantial growth in significant developing markets such as China, Mexico, Brazil and the countries of Central and Eastern Europe; (5) the ability to successfully manage regulatory, tax and legal matters, (6) the ability to continue technological innovation; (7) the timely resolution of the Year 2000 issue by the Company and its customers and suppliers; and (8) the ability to react to the introduction of the euro currency in Europe, including the ability to successfully compete in Europe. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of these key factors, then the Company's actual performance could vary materially from the forward-looking statements made herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is incorporated by reference to Financial Review, which appears on pages 14-23, and Note 6 Risk Management Activities, which appears on pages 36-37 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Item 8. Financial Statements and Supplemental Data

The financial statements and supplemental data are incorporated by reference to pages 27-42 of the Annual Report to Shareholders for the fiscal year ended June 30, 1999.

Item 9. Disagreements on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers

The information required by this item is incorporated by reference to pages 2-8 and 22 of the proxy statement filed since the close of the fiscal year ended June 30, 1999, pursuant to Regulation 14A which involved the election of directors. Pursuant to Item 401(b) of Regulation S-K, Executive Officers of the Registrant are reported in Part I of this report.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to pages 8-18 of the proxy statement filed since the close of the fiscal year ended June 30, 1999, pursuant to Regulation 14A which involved the election of directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference to pages 19-21 of the proxy statement filed since the close of the fiscal year ended June 30, 1999, pursuant to Regulation 14A which involved the election of directors.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to page 22 of the proxy statement filed since the close of the fiscal year ended June 30, 1999, pursuant to Regulation 14A which involved the election of directors.

PART IV

Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

A. 1. Financial Statements:

The following consolidated financial statements of The Procter & Gamble Company and subsidiaries and the report of independent accountants are incorporated by reference in Part II, Item 8.

- Report of independent accountants
- Consolidated statements of earnings - for years ended June 30, 1999, 1998 and 1997
- Consolidated balance sheets - as of June 30, 1999 and 1998
- Consolidated statements of shareholders' equity - for years ended June 30, 1999, 1998 and 1997
- Consolidated statements of cash flows - for years ended June 30, 1999, 1998 and 1997
- Notes to consolidated financial statements

2. Financial Statement Schedules:

These schedules are omitted because of the absence of the conditions under which they are required or because the information is set forth in the financial statements or notes thereto.

3. Exhibits:

- (3-1) – Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (3-2) – Regulations (Incorporated by reference to Exhibit (3-2) of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
- Exhibit (4) – Registrant agrees to file a copy of documents defining the rights of holders of long-term debt upon request of the Commission.
- Exhibit (10-1) – The Procter & Gamble 1992 Stock Plan (as amended May 12, 1998) which was adopted by the shareholders at the annual meeting on October 13, 1992 (Incorporated by reference to Exhibit (10-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-2) – The Procter & Gamble 1983 Stock Plan (as amended May 11, 1993) which was adopted by the shareholders at the annual meeting on October 11, 1983 (Incorporated by reference to Exhibit (10-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-3) – The Procter & Gamble Executive Group Life Insurance Policy (each executive officer is covered for an amount equal to annual salary plus bonus) (Incorporated by reference to Exhibit (10-3) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-4) – Additional Remuneration Plan (as amended June 12, 1990) which was adopted by the Board of Directors on April 12, 1949 (Incorporated by reference to Exhibit (10-4) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-5) – The Procter & Gamble Deferred Compensation Plan for Directors which was adopted by the Board of Directors on September 9, 1980 (Incorporated by reference to Exhibit (10-5) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-6) – The Procter & Gamble Board of Directors Charitable Gifts Program which was adopted by the Board of Directors on November 12, 1991 (Incorporated by reference to Exhibit (10-6) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-7) – The Procter & Gamble 1993 Non-Employee Directors' Stock Plan which was adopted by the shareholders at the annual meeting on October 11, 1994 and which was amended on January 10, 1995, by the Board of Directors, and ratified by the shareholders at the annual meeting on October 10, 1995, and which was further amended by the Board of Directors on June 11, 1996 to be effective on January 1, 1997, and which was also amended on August 22, 1997 for the 2-for-1 stock split (Incorporated by reference to Exhibit (10-7) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (10-8) – Richardson-Vicks Inc. Special Stock Equivalent Incentive Plan which was authorized by the Board of Directors of The Procter & Gamble Company and adopted by the Board of Directors of Richardson-Vicks Inc. on December 31, 1985.
- (10-9) – The Procter & Gamble Executive Group Life Insurance Policy (Additional Policy) (Incorporated by reference to Exhibit (10-9) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- Exhibit (11) – Computation of earnings per share.

- Exhibit (12) – Computation of ratio of earnings to fixed charges.
- Exhibit (13) – Annual Report to Shareholders (inside front cover, pages 1-8, 10-11, 14-23, 27-42, and 48).
- Exhibit (21) – Subsidiaries of the registrant.
- Exhibit (23) – Consent of Deloitte & Touche LLP.
- Exhibit (27) – Financial Data Schedule.
- Exhibit (99-1) – Directors and Officers Liability Policy (Incorporated by reference to Exhibit (99-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998) (the "Policy Period" has been extended to 6/30/02).
- (99-2) – Directors and Officers (First) Excess Liability Policy (Incorporated by reference to Exhibit (99-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998) (the "Policy Period" has been extended to 6/30/00).
- (99-3) – Directors and Officers (Second) Excess Liability Policy (Incorporated by reference to Exhibit (99-3) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998) (the "Policy Period" has been extended to 6/30/00).
- (99-4) – Directors and Officers (Third) Excess Liability Policy (Incorporated by reference to Exhibit (99-4) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998) (the "Policy Period" has been extended to 6/30/00).
- (99-5) – Directors and Officers (Fourth) Excess Liability Policy (Incorporated by reference to Exhibit (99-5) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998) (the "Policy Period" has been extended to 6/30/00).
- (99-6) – Fiduciary Responsibility Insurance (Incorporated by reference to Exhibit (99-6) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998) (the "Policy Period" has been extended to 6/30/00).

The exhibits listed are filed with the Securities and Exchange Commission but are not included in this booklet. Copies of these exhibits may be obtained by sending a request to: Linda D. Rohrer, Assistant Secretary, The Procter & Gamble Company, P. O. Box 599, Cincinnati, Ohio 45201.

B. Reports on Form 8-K:

The Company filed Current Reports on Form 8-K containing information pursuant to Item 5 entitled "Joint Press Release by The Procter & Gamble Company and the Iams Company regarding the purchase of Iams by P&G" dated August 11, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 in the city of Cincinnati, State of Ohio.

THE PROCTER & GAMBLE COMPANY

By DURK I. JAGER

.....
Durk I. Jager
Chairman of the Board, President and Chief Executive

September 14, 1999

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

Signature	Title	Date
DURK I. JAGER (Durk I. Jager)	Chairman of the Board, President, and Chief Executive (Principal Executive Officer)	September 14, 1999
CLAYTON C. DALEY JR. (Clayton C. Daley, Jr.)	Chief Financial Officer (Principal Financial Officer)	September 14, 1999
DAVID R. WALKER (David R. Walker)	Vice President and Comptroller (Principal Accounting Officer)	September 14, 1999
EDWIN L. ARTZT (Edwin L. Artzt)	Director	September 14, 1999
NORMAN R. AUGUSTINE (Norman R. Augustine)	Director	September 14, 1999
DONALD R. BEALL (Donald R. Beall)	Director	September 14, 1999
GORDON F. BRUNNER (Gordon F. Brunner)	Director	September 14, 1999
..... (Richard B. Cheney)	Director	September 14, 1999

Signature	Title	Date
RICHARD J. FERRIS	Director	September 14, 1999
.....		
(Richard J. Ferris)		
JOSEPH T. GORMAN	Director	September 14, 1999
.....		
(Joseph T. Gorman)		
CHARLES R. LEE	Director	September 14, 1999
.....		
(Charles R. Lee)		
LYNN M. MARTIN	Director	September 14, 1999
.....		
(Lynn M. Martin)		
JOHN E. PEPPER	Director	September 14, 1999
.....		
(John E. Pepper)		
JOHN C. SAWHILL	Director	September 14, 1999
.....		
(John C. Sawhill)		
JOHN F. SMITH, JR.	Director	September 14, 1999
.....		
(John F. Smith, Jr.)		
RALPH SNYDERMAN	Director	September 14, 1999
.....		
(Ralph Snyderman)		
ROBERT D. STOREY	Director	September 14, 1999
.....		
(Robert D. Storey)		
MARINA v.N. WHITMAN	Director	September 14, 1999
.....		
(Marina v.N. Whitman)		

EXHIBIT (11)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

Computation of Earnings Per Share

Years Ended June 30

	1995	1996	1997	1998	1999
(Dollars and Share Amounts in Millions)					
BASIC NET EARNINGS PER SHARE					
Net Earnings/(Loss)	\$2,645	\$3,046	\$3,415	\$3,780	\$3,763
Deduct preferred stock dividends	102	103	104	104	109
Net Earnings/(Loss) Applicable to Common Stock	2,543	2,943	3,311	3,676	3,654
Average number of common shares outstanding	1,372.0	1,372.6	1,360.3	1,343.4	1,328.1
Per Share					
Net earnings before prior years' effect of accounting changes					
Prior year effect of accounting changes ..					
Basic Net Earnings/(Loss) per Share ..	\$1.85	\$2.14	\$2.43	\$2.74	\$2.75
DILUTED NET EARNINGS PER SHARE					
Net Earnings/(Loss)	\$2,645	\$3,046	\$3,415	\$3,780	\$3,763
Deduct differential – preferred vs. common dividends	45	39	32	25	22
Net Earnings/(Loss) Applicable to Common Stock	2,600	3,007	3,383	3,755	3,741
Average number of common shares outstanding	1,372.0	1,372.6	1,360.3	1,343.4	1,328.1
Add potential effect of:					
Exercise of options	17.0	19.8	24.8	22.3	21.5
Conversion of preferred stock	105.6	103.8	101.9	99.8	97.2
Average number of common shares outstanding	1,494.6	1,496.2	1,487.0	1,465.5	1,446.8
Per Share					
Net earnings before prior years' effect of accounting changes					
Prior year effect of accounting changes ..					
Diluted Net Earnings/(Loss) per Share ..	\$1.74	\$2.01	\$2.28	\$2.56	\$2.59

EXHIBIT (12)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges

Years Ended June 30

	1995	1996	1997	1998	1999
	(Millions of Dollars)				
EARNINGS AS DEFINED					
Earnings from operations before income taxes after eliminating undistributed earnings of equity method investees	\$4,022	\$4,695	\$5,274	\$5,704	\$5,866
Fixed charges, excluding capitalized interest	571	576	534	639	751
TOTAL EARNINGS, AS DEFINED	\$4,593	\$5,271	\$5,808	\$6,343	\$6,617
FIXED CHARGES, AS DEFINED					
Interest expense (including capitalized interest)	\$ 511	\$ 493	\$ 457	\$ 548	\$ 650
1/3 of rental expense	83	92	77	91	101
TOTAL FIXED CHARGES, AS DEFINED.. .. .	\$ 594	\$ 585	\$ 534	\$ 639	\$ 751
RATIO OF EARNINGS TO FIXED CHARGES	7.7	9.0	10.9	9.9	8.8

EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

Subsidiaries of the Registrant

The Procter & Gamble Company [Ohio]
Abora Capital, S.A. [Spain]
 Arbora Holding, S.A. [Spain]
 Arbora & Ausonia, S.L. [Spain]
 Richvest B.V. [Netherlands]
The Dover Wipes Company [Ohio]
The Folger Coffee Company [Ohio]
P&G Consultoria E Servicos Ltda. [Brazil]
FPG Oleochemicals Sdn. Bhd. [Malaysia]
Giorgio Beverly Hills, Inc. [Delaware]
Industria de Concentrados Crush Limitada [Uruguay]
Inversiones Procter & Gamble de Venezuela, C.A. [Venezuela]
Inversiones Industrias Mammi, C.A. [Venezuela]
Midway Holdings Ltd. [Cayman Islands]
Marcvenca Inversiones, C.A. [Venezuela]
Procter & Gamble de Venezuela, C.A. [Venezuela]
Inmobiliaria Procter & Gamble de Venezuela, S.C.S. [Venezuela]
Inmobiliaria Procter & Gamble de Venezuela, S.R.L. [Venezuela]
Inversiones 1667, S.A. [Venezuela]
 Inversiones PGV, S.R.L. [Venezuela]
 Inversiones PGV-1, S.C.S. [Venezuela]
PGV-1 Investment, Ltd. [Cayman Islands]
PGV Chile S.A. [Chile]
PGV-2 Investment, Ltd. [Cayman Islands]
Karm, S.A. [Liechtenstein]
Millstone Coffee, Inc. [Washington]
Noxell Corporation [Maryland]
 Max Factor & Co. [Delaware]
 Noxell (Barbados) Limited [Barbados]
 Noxell (Panama) S.A. [Panama]
 Noxell (Thailand) Limited [Thailand]
 Noxell de Venezuela, C.A. [Venezuela]
Procter & Gamble do Brasil S.A. [Brazil]
 Phebo do Nordeste S/A [Brazil]
Procter & Gamble Quimica S.A. [Brazil]
 Procter & Gamble A.G. [Switzerland]
 Betrix (Schweiz) AG [Switzerland]
 Detergent Products A.G. [Switzerland]
 Modern Industries Company — Dammam [Saudi Arabia]
 Modern Industries Company — Jeddah [Saudi Arabia]

Modern Products Company — Jeddah [Saudi Arabia]
Deurocos Cosmetic AG [Switzerland]
Moroccan Modern Industries [Morocco]
 Comunivers sa [Morocco]
Procter & Gamble Austria GmbH [Austria]
 Eurocos Cosmetic Warenvertrieb GmbH [Austria]
The Procter & Gamble Company of South Africa (Proprietary) Limited [S. Africa]
 Procter & Gamble South Africa Proprietary Limited [South Africa]
Procter & Gamble Development Company A.G. Glarus [Switzerland]
Procter & Gamble (East Africa) Limited [Kenya]
Procter & Gamble Egypt [Egypt]
 Procter & Gamble (Egypt) Industrial and Commercial Company [Egypt]
 Procter & Gamble (Egypt) Manufacturing Company [Egypt]
 Procter & Gamble Hellas A.E. (Chemical Industries) [Greece]
 Procter & Gamble-Hutchison Ltd. [Hong Kong]
 Procter & Gamble (China) Ltd. [PRC]
Procter & Gamble (Chengdu) Ltd. [PRC]
Procter & Gamble (Guangzhou) Ltd. [PRC]
Procter & Gamble Lonkey (Guangzhou) Ltd. [PRC]
 Procter & Gamble Lonkey (Shaoguan) Ltd. [PRC]
 Procter & Gamble Manufacturing (Tianjin) Co. Ltd. [PRC]
 Procter & Gamble Manufacturing Detergent (Tianjin) Co. Ltd. [PRC]
Procter & Gamble Manufacturing Paper (Tianjin) Co. Ltd. [PRC]
 Procter & Gamble Oral Care (Guangzhou) [China]
 Procter & Gamble Panda Detergent Co. Ltd. Beijing [PRC]
 Procter & Gamble Paper (Guangzhou) Ltd. [PRC]
 Procter & Gamble Personal Cleansing (Tianjin) Ltd. [PRC]
Procter & Gamble Detergent (Guangzhou) Ltd. [PRC]
Procter & Gamble Jamaica Ltd. [Jamaica]
The Procter & Gamble Manufacturing Company of Lebanon, S.A.L.[Lebanon]
Procter & Gamble Marketing A.G. [Switzerland]
Procter & Gamble Maroc [Morocco]
Procter & Gamble Nigeria Limited [Nigeria]
Procter & Gamble Pakistan (Private) Limited [Pakistan]
Procter & Gamble de Panama, S.A. [Panama]
Procter & Gamble Pharmaceuticals S.A.R.L. [Switzerland]
Procter & Gamble Tissues AG [Switzerland]
Procter & Gamble (Yemen) Ltd [Yemen]
 Societe Immobiliere Les Colombettes, S.A. [Switzerland]
Procter & Gamble Asia Pacific Ltd. [Hong Kong]
 Procter & Gamble Asia Pacific Ltd. Manila Regional Headquarters [Philippines]
Procter & Gamble do Brazil, Inc. [Delaware]
 Procter & Gamble do Brasil & Cia [Brazil]
 Procter & Gamble Chile, Inc. [Ohio]
 Procter & Gamble Colombia S.A. [Colombia]

The Procter & Gamble Commercial Company [Ohio]
 PROGAM Leasing, Inc. [Puerto Rico]
 Procter & Gamble del Peru S.A. [Peru]
 Procter & Gamble Commercial de Cuba, S.A. [Cuba]
 The Procter & Gamble Distributing Company [Ohio]
 Procter & Gamble FSC (Barbados) Inc. [Barbados]
 Procter & Gamble Eastern Europe, Inc. [Ohio]
 Detergenti SA Timisoara [Romania]
 Hyginett KFT [Hungary]
 Novomoskovskbytkhim [Russia]
 P&G Balkans, Inc. [Ohio]
 P&G C&CA, Inc. [Ohio]
 Procter & Gamble Bulgaria Ltd. [Bulgaria]
 Procter & Gamble C&EE Investment, Inc. [Ohio]
 Procter & Gamble Central & Eastern Europe GmbH [Germany]
 Procter & Gamble Hungary Wholesale Trading Partnership (KKT) [Hungary]
 Alvorada BT [Hungary]
 Beta BT [Hungary]
 Beauty-Care Beauty-Treatment Product Distribution Foreign Trade Ltd. [Hungary]
 Carlos BT [Hungary]
 Cleveland Export-Import Trading Ltd. [Hungary]
 Diego BT [Hungary]
 Elysee BT [Hungary]
 Ferraris BT [Hungary]
 Frank BT [Hungary]
 Helga BT [Hungary]
 Olga BT [Hungary]
 Pal BT [Hungary]
 Pannonia Trading Ltd. [Hungary]
 Shampoo-Trade Export Import Trading Ltd. [Hungary]
 Stan BT [Hungary]
 Transylvania Trading Ltd. [Hungary]
 Varadi BT [Hungary]
 Procter & Gamble Kazakhstan [Kazakhstan]
 Procter & Gamble Kereskedelmi BT [Hungary]
 Procter & Gamble Limited Liability Company [Uzbekistan]
 Procter & Gamble Marketing & Commercial Activities d.o.o. [Slovenia]
 Procter & Gamble Marketing and Services d.o.o. [Yugoslavia]
 Procter & Gamble Marketing Latvia Ltd. [Latvia]
 Procter & Gamble Marketing Romania SRL [Romania]
 Procter & Gamble Manufacturing Romania SRL [Romania]
 Procter & Gamble Operations Polska — Spolka Akcyjna [Poland]
 Procter & Gamble Polska Sp. zo.o [Poland]
 Procter & Gamble O.O.O. [Russia]
 Procter & Gamble Spol. s.r.o. (Ltd) [Slovak Republic]

Procter & Gamble Ukraine (Ukraine)
Procter & Gamble Rakona Ltd. [Czech Republic]
Procter & Gamble European Technical Center N.V. [Belgium]
P&G Holding B.V. [Netherlands]
P&G Tissues B.V. [Netherlands]
Procter & Gamble Nederland B.V. [Netherlands]
Richardson-Vicks B.V. [Netherlands]
Richardson-Vicks Overseas Finance N.V. [Netherlands Antilles]
Procter & Gamble European Supply Company N.V. [Belgium]
Procter & Gamble Belgium BVBA [Belgium]
Procter & Gamble Eurocor N.V. [Belgium]
Procter & Gamble Europe BVBA [Belgium]
Procter & Gamble Manufacturing Belgium BVBA [Belgium]
Procter & Gamble Services Company S.A. [Belgium]
Procter & Gamble Far East, Inc. [Ohio]
Max Factor K.K. [Japan]
American Cosmetics K.K. [Japan]
Betrix Japan K.K. [Japan]
Max Factor Hanbai K.K. [Japan]
P&G Indochina [Vietnam]
Procter & Gamble Asia Pte. Ltd. [Singapore]
Procter & Gamble Distribution Company Limited [India]
Procter & Gamble Holdings Singapore Pte. Ltd. [Singapore]
Procter & Gamble India Holdings, Inc. [Ohio]
Procter & Gamble Bangladesh Private Ltd. [Bangladesh]
Procter & Gamble Home Products Limited [India]
Procter & Gamble Sri Lanka Private Ltd. [Sri Lanka]
Procter & Gamble Korea Inc. [Korea]
Procter & Gamble NPD, Inc. [Ohio]
Procter & Gamble Taiwan Limited [Taiwan]
Procter & Gamble Technology (Beijing) Co., Ltd. [PRC]
Procter & Gamble (Vietnam) Ltd. [Vietnam]
Procter & Gamble FED, Inc. [Delaware]
Procter & Gamble Finance Corporation [Canada]
The Procter & Gamble Global Finance Company [Ohio]
Procter & Gamble Holding S.A. [Argentina]
Productos Sanitarios S.A. [Argentina]
Topsy S.A. [Argentina]
Procter & Gamble Inc. [Ontario, Canada]
Crest Toothpaste Inc. [Canada]
Procter & Gamble Financial Services [Ireland]
Procter & Gamble Industrial e Comercial Ltda. [Brazil]
Procter & Gamble Mississauga Real Estate Company [Canada]
Shulton de Venezuela, C.A. [Venezuela]
Procter & Gamble Investment Corporation [Canada]

Procter & Gamble Italia, S.p.A. [Italy]
Rapik S.p.A. [Italy]
Procter & Gamble Limited [U.K.]
European Beauty Products (U.K.) Limited [U.K.]
Max Factor & Co. (U.K.) Ltd. [Bermuda]
Max Factor Limited [U.K.]
Eurocos Ltd [U.K.]
Gala Cosmetics International Limited [U.K.]
Komal Manufacturing Chemists Ltd. [India]
Gala of London Limited [U.K.]
Girl Cosmetics Ltd. (U.K.)
Max Factor Manufacturing Ltd. [U.K.]
Procter & Gamble (Enterprise Fund) Limited [U.K.]
Procter & Gamble (Health & Beauty Care) Limited [U.K.]
Giorgio Beverly Hills (Europe) Ltd. [U.K.]
Noxell Limited [U.K.] [453]
Procter & Gamble (Cosmetics and Fragrances) Limited [U.K.]
Procter & Gamble Product Supply (U.K.) Limited [U.K.]
Procter & Gamble Technical Centers Limited [U.K.]
Procter & Gamble U.K. [U.K.]
Shulton (Great Britain) Ltd. [U.K.]
Colfax Laboratories (India) Ltd. [India]
Tambrands Limited [U.K.]
Tambrands (Continental) Ltd. [U.K.]
Tambrands Investments Ltd. (U.K.) [U.K.]
Tambrands Ireland Limited [Ireland]
Procter & Gamble Distributing Limited [U.K.]
Procter & Gamble Health and Beauty Care-Europe Limited [U.K.]
Procter & Gamble Laundry & Cleaning Products Limited [U.K.]
Procter & Gamble (NTC) Limited [U.K.]
Procter & Gamble Pharmaceuticals U.K., Limited [U.K.]
Procter & Gamble (Properties) Ltd. [U.K.]
Vidal Sassoon Holdings Ltd. [U.K.]
The Procter & Gamble Manufacturing Company [Ohio]
Procter & Gamble Manufacturing (Thailand) Limited [Thailand]
The Procter & Gamble Paper Products Company [Ohio]
Procter & Gamble Philippines, Inc. [Philippines]
Progam Realty & Development Corporation [Philippines]
Procter & Gamble Productions, Inc. [Ohio]
Fountain Square Music Publishing Co., Inc. [Ohio]
Liberty Street Music Publishing Company, Inc. [Ohio]
Riverfront Music Publishing Co., Inc. [Ohio]
Sycamore Productions, Inc. [Ohio]
Procter & Gamble S.A. [Chile]
Procter & Gamble S.A. [France]

Fonciere des 96 et 104 Avenue Charles de Gaulle [France]
Laboratoire Lachartre SNC [France]
S. H. Equateur S.A.S. [France]
Procter & Gamble Amiens SNC [France]
Procter & Gamble Brionne S.N.C. [France]
Laboratoires Sofabel S.A.R.L. [France]
Procter & Gamble France S.N.C.[France]
Procter & Gamble MSV SAS [France]
Procter & Gamble Neuilly S.A.R.L. [France]
Procter & Gamble Orleans SAS [France]
Procter & Gamble Pharmaceuticals France S.A. [France]
Procter & Gamble Scandinavia, Inc. [Ohio]
Procter & Gamble Hygien AB [Sweden]
Procter & Gamble Hygien A/S [Norway]
Procter & Gamble Hygien OY [Finland]
Procter & Gamble S.p.A. [Italy]
Eczacibasi Yatirim Holding Ortakligi A.S. [Turkey]
Fater S.p.A. [Italy]
Fameccanica Data S.p.A. [Italy]
Procter & Gamble Distribution Company (Europe) N.V. [Belgium]
Procter & Gamble Tissues Italia S.p.A. [Italy]
Procter & Gamble Tuketim Mallari Sanayii Ltd. [Turkey]
Progasud S.p.A. [Italy]
Sanipak Saglik Urunleri Sanayi Ve Ticaret A.S. [Turkey]
Eczacibasi Procter & Gamble Dagitim Ve Satis AS [Turkey]
Promotora de Bienes y Valores, S.A. de C.V. [Mexico]
Procter & Gamble de Mexico, S.A. de C.V. [Mexico]
Max Factor Mexicana, S.A. de C.V. [Mexico]
P.T. Procter & Gamble Home Products Indonesia [Indonesia]
REVAC 2 Corp. [Delaware]
Richardson-Vicks Inc. [Delaware]
Celtic Insurance Company Limited [Bermuda]
Industrias Modernas, S.A. [Guatemala]
Olay Company, Inc. [Delaware]
P&G do Brasil Comercial Ltda. [Brazil]
Procter & Gamble Australia Proprietary Limited [Australia]
Procter & Gamble (NBD) Pty. Ltd. [Australia]
Procter & Gamble Espana S.A. [Spain]
Procter & Gamble Portugal S.A. [Portugal]
Neoblanc-Productos de Higiene e Limpeza Lda. [Portugal]
Procter & Gamble GmbH [Germany]
Betrix Cosmetic GmbH [Germany]
Blendax Dental Vertriebs-GmbH [Germany]
Blendax GmbH [Germany]
Blendax Unterstützungskasse GmbH [Germany]

Büschler GmbH [Germany]
Cover Girl Cosmetic GmbH [Germany]
Eurocos Cosmetic GmbH [Germany]
EURO-Juice G.m.b.H. Import und Vertrieb [Germany]
Euro-Juice y Compania, S. en C. [Spain]
Herve Leger Parfums GmbH [Germany]
Procter & Gamble European Service GmbH [Germany]
Procter & Gamble GmbH & Co. Manufacturing OHG [Germany]
Noris Transport GmbH [Germany]
Papierhygiene GmbH [Germany]
Tempo AG [Switzerland]
Bess Hygiene AG [Switzerland]
Unterstützungskasse der Vereinigte Papierwerke AG Nürnberg e.V. [Germany]
Procter & Gamble Pharmaceuticals-Germany GmbH [Germany]
Rohm Pharma GmbH [Germany]
Egnaro Arzneimittel GmbH [Germany]
Röhm Pharma GmbH Wien [Austria]
Rolf H. Dittmeyer GmbH [Germany]
SCS Sales + Cosmetic Service GmbH [Germany]
Shulton GmbH [Germany]
Ssangyong Paper [Korea]
TRAPOFA Leonhard-Speditions GmbH I.L. [Germany]
Procter & Gamble Health Products, Inc. [Delaware]
Procter & Gamble Hong Kong Limited [Hong Kong]
Procter & Gamble India Limited [India]
Procter & Gamble Interamericas Inc. [Delaware]
Alejandro Llauro E Hijos S.A.I.C. [Argentina]
Compañía Química S.A. [Argentina]
Loreto y Pena Pobre, S.A. de C.V. [Mexico]
Procter & Gamble Interamericas de Costa Rica, S.A. [Costa Rica]
Procter & Gamble Interamericas de El Salvador, S.A. de C.V. [El Salvador]
Procter & Gamble Interamericas de Guatemala, S.A. [Guatemala]
Procter & Gamble Interamericas de Nicaragua, S.A. [Nicaragua]
Surfac S.A. [Peru]
Procter & Gamble (Malaysia) Sdn. Berhad [Malaysia]
Procter & Gamble Pharmaceuticals, Inc. [Ohio]
Norwich Overseas, Inc. [Delaware]
Procter & Gamble Pharmaceuticals Australia Pty. Limited [Australia]
Procter & Gamble Pharmaceuticals Canada, Inc. [Canada]
S.A. Procter & Gamble Pharmaceuticals N.V. [Belgium]
Procter & Gamble Pharmaceuticals Puerto Rico, Inc. [Delaware]
Procter & Gamble (Singapore) Pte. Ltd. [Singapore]
P. T. Procter & Gamble Indonesia [Indonesia]
Richardson-Vicks do Brasil Química e Farmaceutica S.A. [Brazil]
Richardson-Vicks Limited [Thailand]

Richardson-Vicks Real Estate Inc. [Ohio]
R-V Chemicals Holdings Ltd. [Ireland]
Procter & Gamble (Ireland) Limited [Ireland]
Procter & Gamble (Manufacturing) Ireland Limited [Ireland]
Vick Nigeria Limited [Nigeria]
Rosemount Corporation [Delaware]
Anjali Corporation [Delaware]
Kangra Valley Enterprises Ltd. [Delaware]
The Mandwa Company, Inc. [Delaware]
Ramalayam Investments Company [Delaware]
Yamuna Investments Company [Delaware]
The Malabar Company [Delaware]
Temple Trees [India]
Procter & Gamble Ecuador Compania Anonima [Ecuador]
Sacoma, S.A. [Argentina]
Shulton, Inc. [New Jersey]
Shulton S.A. [Guatemala]
Shulton (New Zealand) Limited [New Zealand]
Shulton (Thailand) Ltd. [Thailand]
Sundor Brands Inc. [Florida]
Sundor Canada Inc. [Delaware]
Sundor Brands Limited [U.K.]
Sycamore Investment Company [Ohio]
Thomas Hedley & Co. Limited [U.K.]
Vick International Corporation [Delaware]
Tambrands Inc. [Delaware]
Shenyang Tambrands Company Limited [PRC]
Tambrands Industria e Comercia Ltda. [Brazil]
Tambrands de Venezuela, C.A. [Venezuela]
Tambrands Polska Sp.z.o.o. [Poland]
Tambrands Ukraine Ltd. [Ukraine]
Tambrands S.A. [Brazil]
Industrial Calentation Services (Pty.) Ltd. [S. Africa]
Tambrands South Africa (Pty.) Ltd. [S. Africa]
Tambrands Properties (Pty.) Ltd. [S. Africa]
Tambrands AG [Switzerland]
Tambrands Canada Inc. [Canada]
Tambrands France S.A. [France]
Tambrands GmbH [Germany]
ZAO Tambrands [Russia]
Adminser S.A. [Mexico]
Tambrands Dosmil, S.A. de C.V. [Mexico]

[] Brackets indicate state or country of incorporation and do not form part of corporate name.

APPENDIX II
EXCERPTS FROM THE ANNUAL REPORT TO SHAREHOLDERS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
AS ATTACHED TO THE
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

* * * *

Fiscal year 1998-99 was a good year for our shareholders, but not a great year. We know we can do better, and we must.

We must increase P&G's pace of growth — what we call our business vitality. This comes from increased innovation vitality, the contribution that new and improved products make to our growth. It also comes from increased organization vitality, the degree to which people perform above their expectations, outside their comfort zone, to produce continually better results.

GOOD RESULTS DESPITE REGIONAL ECONOMIC CRISES

We are already beginning to see an increase in P&G's business vitality. Our 1999 results were good, particularly given economic crises in many regions of the world, including Russia, Brazil and many parts of Asia.

- Net earnings for the fiscal year were \$3.76 billion, including charges of \$385 million after tax for the Fiscal 1999 costs of Organization 2005, our major initiative to accelerate growth through far-reaching changes in structure, work processes and culture.
- Core net earnings, which exclude Organization 2005 costs, were \$4.15 billion or \$3.04 basic net earnings per share — an 11% increase over the prior year.
- Every region achieved double-digit earnings growth. This was driven by introduction of more value-added initiatives, effective cost containment and improved pricing. In fact, our margin on core net earnings was the highest in 58 years.
- Net sales grew to a record \$38.1 billion, up 3% versus last year. While this growth rate was below our expectations, we are encouraged by the increased percentage of sales in products that leverage our technology advantages.
- The Company continued to generate strong operating cash flow of \$5.5 billion, up more than 12% over the previous year.

We know that if we are to continue strong financial performance, we must grow faster. This is what Organization 2005 is all about. We have changed our structure, work processes and reward systems to drive bigger innovations to market faster.

* * * *

ACCELERATING GROWTH IS OUR TOP PRIORITY

In June of this year, as part of Organization 2005, we announced a multiyear program that will result in charges of approximately \$1.9 billion after tax over a six-year period and affect about 15,000 positions worldwide.

Overall, we expect the Organization 2005 program to increase long-term sales growth to 6-8% and accelerate core net earnings per share growth to 13-15% in each of the next five years. We also expect to generate annual after-tax savings of approximately \$900 million by Fiscal 2004.

I am confident these changes will deliver the results we expect.

Financial Highlights

	Years Ended June 30		
	1999	1998	% Change
	(Amounts in Millions Except Per Share Amounts)		
Net Sales	\$38,125	\$37,154	3%
Operating Income	6,253	6,055	3%
Core Operating Income*	6,734	6,055	11%
Net Earnings	3,763	3,780	—
Core Net Earnings*	4,148	3,780	10%
Per Common Share			
Basic Net Earnings	2.75	2.74	—
Core Basic Net Earnings*	3.04	2.74	11%
Diluted Net Earnings	2.59	2.56	1%
Core Diluted Net Earnings*	2.85	2.56	11%
Dividends	1.14	1.01	13%

*Excludes Organization 2005 Program Costs

* * * *

BUILDING RELATIONSHIPS THAT BUILD RESULTS

Noxzema's new line of facial cleansers, moisturizers and a body wash is building relationships with active women online. The marketing focus for Noxzema Skin Fitness brings consumers to the Noxzema Skin Fitness Web site for skin fitness tips and product samples. Using the Internet as a significant part of the brand's introduction helped get this product to market in less than 12 months. This new approach is reinvigorating the 85-year-old Noxzema brand.

www.fitskin.com

The most important reason we must change is because the world around us has changed.

It used to take years to start up a company. Now, it takes weeks. A consumer recommendation that used to reach a handful of friends in days now reaches thousands — worldwide — in minutes. The space between buyer and seller that was measured in distance is now measured in seconds.

Markets totaling more than two billion people have opened as trade and regulatory barriers have collapsed. The Internet has created a global community of more than 179 million people online.

THE PACE OF BUSINESS HAS CHANGED

Information moves faster. Products are redefined. The marketplace is global. The pace of business has changed.

These changes have created tremendous new opportunities and contradictions. Globalization creates advantage in scale and the demand for greater speed. Yet, large companies can create advantage with personalized products and service, one consumer at a time. These opportunities enable a company like P&G to be big and small at the same time, capitalizing on both.

We've anticipated this new marketplace. We're ready for it.

IT ALL STARTED WITH CANDLES

P&G's focus on connecting sciences started when candles provided the technology base for making soap. That brought us fundamental expertise in fats and oils, and that led to the creation of vegetable oil products like Crisco and Crisco Oil. Crushing seeds to produce oil gave us expertise in plant fibers, which led to insights into paper and absorbent products like diapers, feminine protection and paper towels.

The science of fat and oils is also a fundamental base for surfactants, the technology used to produce detergents. Making detergents gave us experience with hard water and calcium. Expertise in calcium

gave us an understanding of how to strengthen teeth, which led to strengthening bone. And that brought us to effective drugs for osteoporosis.

It all started with candles — and connecting technologies to create innovative brands that connect with consumer needs.

Gordon Brunner
Chief Technology Officer

BREADTH OF BUSINESSES PROVIDES ADVANTAGE

The first key to faster growth, greater business vitality, is increasing the pace of innovation at P&G. This has been true for us in the past and is just as true today.

P&G is unique when it comes to innovation. We compete in nearly 50 product categories — laundry products, toothpaste, paper towels, personal cleansing, cough and cold, bone disease therapies, snacks, diapers, cosmetics — and many others.

Some people argue that such a diversity of categories leads to a lack of focus. We see it differently. The breadth of our business enables us to connect technologies from seemingly unrelated businesses in unexpected ways.

We don't leave these connections to chance. Our Technology Council brings together R&D leaders from our existing product categories to more quickly transfer technologies from one business to another. Even as the Company grows bigger and bigger, the Technology Council accelerates the exchange of ideas much like the discussions that happened over the lunch table when we were much, much smaller.

Our Innovation Leadership Team, which I chair, is fueling our growth in new product categories. It funds promising ideas that fall outside our businesses, from seed-level investment all the way through test market. Previously, these kinds of ideas would often go undeveloped.

CONNECTING SCIENCE TO CREATE INNOVATIONS

Actonel — Actonel is an advanced pharmaceutical therapy for the prevention and treatment of osteoporosis. The science behind Actonel comes from our work in laundry detergents with hard water minerals. Through more than a decade of advanced pharmaceutical research, P&G scientists took what they learned about removing calcium from water and used that expertise to put calcium back into bone, creating a powerful bone-building osteoporosis therapy.

Actonel is currently under review by the U.S. FDA for the treatment and prevention of post-menopausal osteoporosis and other indications.

Dryel — Dryel helps clean and freshen “dry clean only” clothes in your home dryer by connecting technology from four different P&G areas of expertise. The absorbent pads borrowed from our work in paper, the stain removal formula built on cleaning agents from laundry and dish care, our work with Bounce brought understanding of heat-activated systems in dryers, and our expertise in packaging created the dryer bag.

www.dryel.com

INVESTING IN R&D

With an investment of \$1.7 billion this year, P&G is the 21st largest U.S.-based and 52nd largest global investor in research and development. We invest to drive clear product superiority in our core businesses and to acquire new technologies and fund entrepreneurial programs that create big, discontinuous product innovation. Ten years ago, our investment in R&D was 2.9% of net sales. Today it represents 4.5% of net sales.

www.pg.com/about/rnd

* * * *

Connections create breakthroughs. Last year, for example, we were granted more U.S. patents than any of our competitors. We hold over 25,000 patents worldwide, and this technology base is paying off.

We are launching more new-to-the-world products than at any other time in our history — products like Febreze, our fabric refresher; Swiffer, our disposable mop; and Dryel, our home care product for dry-cleanables.

We are also introducing an unprecedented number of major improvements on established brands such as Pampers Rash Guard, the first diaper specifically designed to protect against diaper rash, and a new Tide with Bleach that kills 99.9% of bacteria.

CONNECTIONS CREATE BREAKTHROUGHS

Today, we have tapped only a portion of our innovation capacity. With Organization 2005, we are making changes to unleash this capability and to capitalize on the new marketplace in which we compete.

UNLEASHING INNOVATION

- New Global Business Units (GBUs) leverage our scale. We will develop products and plans globally, to better utilize our technology and get products to the world faster.
- Focus on new business will increase our innovative output. Each GBU has a dedicated New Business Development unit to create new brands in related categories. In addition, our Corporate New Ventures group focuses on big ideas that don't fit neatly within existing businesses — and helps commercialize ideas funded by the Innovation Leadership Team.

NEW PAMPERS RASH GUARD — P&G scientists connected skin care and regulatory expertise from our Beauty Care and Health Care GBUs with unique, patented diaper technologies in new Pampers Rash Guard. These premium diapers are clinically proven to help protect against diaper rash. Diaper rash is a miserable experience for babies and parents — and Pampers has received hundreds of testimonials from satisfied consumers who tell us Rash Guard makes a real difference.

P&G introduced Pampers Rash Guard in North America in March and in Puerto Rico in August.

www.pampers.com

A LOT OF SCIENCE IN A PIECE OF CLOTH — Swiffer is a revolutionary new sweeper with disposable cleaning cloths. P&G scientists used sophisticated technologies from our paper business to create a webbed cloth of microfibers. As you dust, these fibers develop an electrostatic charge that picks up dust, dirt and allergens like a magnet. Swiffer expanded on record timing — from start of test market to global expansion in just 18 months. Try Swiffer and get rid of household soil instead of just stirring it up.

www.swiffer.com

ORGANIZING FOR SPEED

- Market Development Organizations will bring deep knowledge of individual markets to ensure that innovations developed globally win locally.
- Streamlining and standardizing our manufacturing systems will move innovations to market faster and better align capacity with the new Global Business Units.
- Global Business Services will turn the administration of our business into competitive advantage, with fewer transactions, faster service and lower costs.
- Leaner Corporate Functions will focus single-mindedly on cutting-edge new knowledge in every area of our business.
- New reward systems put more of senior management's pay at risk, and better align compensation with our expectations for growth and increased shareholder return.

The net result will be bigger innovations, faster speed to market, greater growth — innovation vitality.

The second measure of our business vitality is the vitality of our organization — the degree to which people are breaking barriers, challenging conventional wisdom, stretching to achieve the unachievable, redefining the marketplace. It is the degree to which people have freedom to perform at their peak, all the time.

This is the kind of organization vitality we strive for. It is the vitality that Organization 2005 will help us deliver — consistently.

ORGANIZATION VITALITY IS OUR STRENGTH

We are simplifying our structure to make decisions faster, encouraging impatience and a greater sense of urgency, and redefining expectations.

In short, we're stripping out barriers that can hold people back. We are making the most of what has always been P&G's greatest strength, our people: their expertise, integrity, drive and hunger to continually serve the world's consumers better.

CHALLENGING THE STATUS QUO — From the start, Febreze — the fabric spray that permanently removes odors from clothes and household fabrics — was a product with something to prove. Consumers who tried it said Febreze was a big idea. But conventional wisdom said it was a niche product. Febreze had trouble meeting early sales goals, but the Febreze group refused to give up. Driven by their passion, they went back to consumers and listened to their feedback about the variety of uses they were finding. As a result, the Febreze advertising began to reflect how consumers felt about Febreze and how it fits into their lives. Sales quadrupled. Today, Febreze is sold in Japan, Korea, Australia, New Zealand, the U.S. and more than 15 European countries. In the U.S. alone, over 35 million households depend on Febreze.

www.febreze.com

MANAGEMENT CHANGE — After almost 36 years of service, John Pepper retires September 1, 1999, as Chairman of the Board of Procter & Gamble to become Chairman of the Executive Committee. He led P&G's expansion into emerging markets, was instrumental in the introduction of dozens of innovative new products and, with Durk Jager, was a principal architect of Organization 2005. He personifies the creativity, passion and dedication to serving consumers that are the best of Procter & Gamble.

There is an easy way to gauge the vitality of a business: Is it fundamentally reinventing itself time and time again?

P&G is. We always have. We reinvented our approach to marketing when radio was born, then again with television. We're doing it now with the Internet. We reinvented our organization with the creation of brand management, then category management a few decades later. We're redesigning our Company today with Organization 2005.

In every area of our business, you can see this pattern.

CONFIDENT IN OUR FUTURE

Even in the midst of dramatic change, some things remain the same: our core values of integrity, leadership, respect for our people; our commitment to serving consumers by improving their everyday lives through our products. As we preserve these important values, we remain committed to changing everything else, especially when we can create new opportunities by changing first.

This is an observation John Pepper and I have discussed on many occasions. And as I look toward our future, I am grateful — as I think we all are — for the personal leadership John has provided. He has been instrumental in making sure that this organization is ready for the future. As he retires as P&G's Chairman of the Board, he leaves P&G — and the individuals and communities he's touched — stronger than ever.

As I said at the beginning, the pace of business has changed. And Procter & Gamble has picked up its own pace, as well. We are better prepared today than at any other time to compete, to balance the paradoxical demands of the future marketplace, to earn the loyalty of consumers worldwide.

I'm confident in our future.

Durk I. Jager
President and Chief Executive
July 29, 1999

* * * *

EMBRACING THE FUTURE

This letter marks my last as an active employee of Procter & Gamble, and I want to use this opportunity to tell you, my fellow shareholders, why I'm so very confident in the future of this Company.

When I joined P&G in 1963, we were operating in 17 countries. Today, that number has grown to over 140 countries, serving almost five billion people. Sales have grown from just over \$1 billion to over \$38 billion. Profits have grown from \$116 million to just under \$4 billion (after tax). Our stock price has grown from \$2.45 (adjusted for splits) to about \$90 as I write this letter. But, as productive as our past has been, it is the opportunities ahead that excite me.

We stand at a moment in history unlike any other. This period of globalization and explosion of technology offers us the opportunity to grow our business and unleash the capacity of P&G people as never before. However, it is also clear that seizing this opportunity requires substantial changes in the way we operate.

As the cover of this report says, we are "Embracing the Future" today at Procter & Gamble — more aggressively than ever in our history.

We are changing the way we're structured to create many more new brands and categories, and to expand our best ideas globally far faster. We've decentralized decision-making for greater speed. We've instilled goal-setting that asks people to go for stretch targets, knowing this will yield better results than just playing it safe. We've introduced new reward systems that recognize superior contributions at every level of the organization. This is all part of Organization 2005 — the boldest change effort in Procter & Gamble's history.

I expect great things from this Company in the years ahead. And you should, too.

- I see us creating and launching new brands at a record pace.
- I see us establishing leadership positions in the most important developing markets of the world.
- I see us growing our global brands with a far more rapid flow of innovation.
- I see us benefiting from "win-win" relationships with our retail customers.
- I see us capitalizing on the revolutionary power of information technology to share knowledge, design products, provide service to consumers and create whole new businesses.

POSITIONED FOR SUCCESS

I have great confidence in our ability to accomplish this and much more. That confidence rests on our new organizational design and on our new processes, which will continually evolve. And, it rests on the fact that these changes, as big as they are, are rooted in our fundamental purpose of serving consumers and achieving leadership results and that they grow out of our long-established Values and Principles.

Above all, my confidence rests on the women and men of this Company. I know them well. They are extraordinary. They are the heart of this place. You can be assured their capability, their commitment and their tenacity will renew this Company and ensure it continues to grow as one of the great corporations in the world. They will take us into the new century with the greatest vitality in our history. Of this, I am very sure.

I am confident that, with this organization under the leadership of Durk Jager, our best years lie just ahead. I want to express my thanks and appreciation for your confidence in, and support of, our Company.

John E. Pepper
Chairman of the Board
July 29, 1999

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RESULTS OF OPERATIONS

The Company achieved strong core earnings performance for the year ended June 30, 1999. Basic net earnings were \$3.76 billion or \$2.75 per share compared to \$3.78 billion or \$2.74 per share in the prior year. Results include charges of \$385 million after tax for the current year costs of the Organization 2005 initiative approved in June 1999. Organization 2005 is the Company's multi-year program designed to accelerate sales and earnings growth over the coming years.

Core net earnings were \$4.15 billion for the fiscal year, up 10% from the prior year. Core net earnings exclude the Organization 2005 costs. Core basic net earnings per share were \$3.04, an increase of 11% from the prior year. Fiscal year profit results were driven by higher value initiatives, effective cost containment and improved pricing.

Worldwide net sales for the current year were \$38.13 billion, an increase of 3% on flat unit volume. The increase in sales was attributable to improved pricing in all regions and favorable volume and product mix in North America, partially offset by exchange impacts. Unfavorable exchange rates, primarily in Asia and Latin America, depressed sales by 1% for the year.

Worldwide gross margin was 44.4%, compared to 43.3% in the prior year. Gross margin includes \$443 million in before-tax charges related to the Organization 2005 program. These charges consisted primarily of accelerated depreciation and asset write-downs. Excluding these charges, gross margin increased to 45.5%, reflecting effective cost containment, primarily in North America.

Worldwide marketing, research and administrative expenses were \$10.67 billion, versus \$10.04 billion in the prior year, or 28.0% and 27.0% of sales for 1999 and 1998, respectively. The 6% increase in total spending was primarily due to increased research spending, primarily in the paper and health care businesses, and increased spending for new initiatives. Organization 2005 costs increased marketing, research and administrative expenses by \$38 million, related primarily to employee separation expenses.

Operating income grew 3%. Excluding the charges for Organization 2005, operating income grew 11%. These trends reflect sales growth and cost control efforts.

Interest expense increased 19% to \$650 million on increased debt, primarily due to share repurchases. Other income, net, which consists primarily of interest and investment income, contributed \$235 million in the current year compared to \$201 million in the prior year.

The Company's effective tax rate for the year was 35.5%, compared to 33.8% in the prior year. The increase reflects a reduction in benefits for research and development tax credits in North America, which were included in prior year results, as well as the impact of various country tax rates on Organization 2005 program costs. Excluding Organization 2005 program costs and related tax effects, the tax rate was 34.4%.

Net earnings margin was 9.9% versus 10.2% in the prior year. Excluding the Organization 2005 charges, core net earnings margin was 10.9%, the highest in fifty-eight years.

Over the last several years, the Company maintained an ongoing program of simplification and standardization, which included projects to consolidate selected manufacturing facilities, re-engineer manufacturing and distribution processes, redesign organizations, simplify product line-ups and divest non-strategic brands and assets. This program did not have a significant impact on 1999 or 1998 net earnings. Beginning with the fourth quarter of 1999, this program was superseded by Organization 2005.

The following provides perspective on the year ended June 30, 1998 versus the prior year:

Worldwide net earnings increased 11% to \$3.78 billion in 1998. Net earnings for 1997 were \$3.42 billion.

Worldwide net sales in 1998 were \$37.15 billion, up 4% from the prior year on unit volume growth of 6%. The difference between sales and volume growth rates was primarily due to weaker currencies in Europe and Asia. Excluding this impact, sales for 1998 increased 8% over the prior year.

Worldwide gross margin increased to 43.3% from 42.7% in 1997, reflecting cost savings, including the Company's simplification and standardization efforts.

Worldwide marketing, research and administrative expenses were 27.0% of sales compared with 27.3% in 1997. The increase in absolute spending was primarily due to increased marketing support behind new initiatives, such as Tampax and Fat Free Pringles, and the expansion of existing brands into new markets.

Operating income grew 10% in 1998, primarily reflecting sales growth and cost control efforts. The Company's net earnings margin increased from 9.5% in 1997 to 10.2% in 1998.

Interest expense increased 20% to \$548 million in 1998, on increased debt, due mainly to acquisitions. In 1997, interest expense was \$457 million. Other income, net, was \$201 million in 1998, versus \$218 million in 1997.

The Company's effective tax rate for the year was 33.8%, compared to 34.9% in 1997. The decline reflected the benefits of lower effective tax rates in Europe, increased research and development tax credits in North America, and continued focus on tax planning.

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FINANCIAL CONDITION

Cash flow from operations was \$5.54 billion, \$4.89 billion and \$5.88 billion in 1999, 1998 and 1997, respectively. Operating cash flow provided the primary source of funds to finance operating needs, capital expenditures and acquisitions. Operating cash flow, supplemented by additional borrowings, provided the primary source of funds to finance the share repurchase program.

Cash and cash equivalents increased \$745 million in the current year to \$2.29 billion. The increase was primarily concentrated in Europe and was due to improved profitability. In the prior year, cash and cash equivalents decreased by \$801 million to \$1.55 billion, reflecting acquisitions and increased capital spending.

Capital expenditures were \$2.83 billion in 1999, \$2.56 billion in 1998 and \$2.13 billion in 1997. Current year expenditures included standardization projects in the paper business and capacity expansions in tissue and towel and in snacks. Capital expenditures are expected to increase in the upcoming year, reflecting Organization 2005 projects and capacity increases in laundry and cleaning and in paper. In 1998, capital expenditures related primarily to capacity expansion in the paper and food businesses.

Net cash used for acquisitions completed during 1999 totaled \$137 million, compared to \$3.27 billion in 1998 and \$150 million in 1997. Transactions in fiscal 1998 were largely concentrated in paper businesses and included Tambrands, Inc., the Loreto y Pena paper company in Mexico and the Ssangyong Paper Company in Korea. The Company also increased ownership of various joint ventures in Asia and Latin America in 1998.

The Company continued to divest certain non-strategic brands in 1999 in order to focus resources on the Company's core businesses. The proceeds from these and other asset sales generated \$434 million in cash flow in the current year, compared to \$555 million and \$520 million in 1998 and 1997, respectively.

The Company maintains a share repurchase program, which authorizes the Company to purchase shares annually on the open market to mitigate the dilutive impact of employee compensation programs. The Company also has a discretionary buy-back program under which it currently intends to repurchase additional outstanding shares of up to \$1 billion per year. Current year purchases under the repurchase programs were above normal at \$2.53 billion, compared to \$1.93 billion in 1998 and \$1.65 billion in 1997.

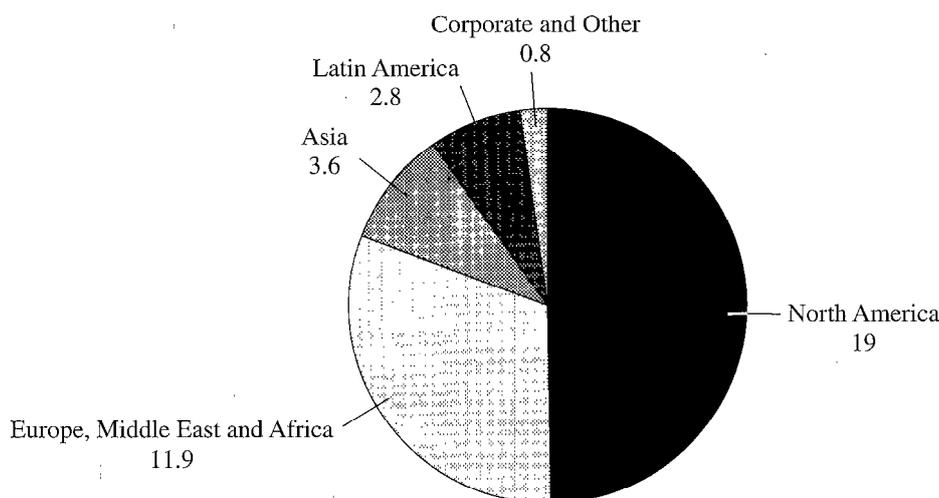
Common share dividends grew 13% to \$1.14 per share in 1999, compared to \$1.01 and \$.90 in 1998 and 1997, respectively. For the coming year, the annual dividend rate will increase to \$1.28 per common share, marking the forty-fourth consecutive year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were \$1.63 billion, \$1.46 billion and \$1.33 billion in 1999, 1998 and 1997, respectively.

Total debt was up \$1.33 billion to \$9.38 billion, due to the issuance of commercial paper and long-term debt to fund share repurchases.

Long-term borrowing available under the Company's shelf registration statement filed in 1995, as amended in July 1997, was \$1.18 billion at June 30, 1999. Additionally, the Company has the ability to issue commercial paper at favorable rates, and to access general bank financing.

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1999 NET SALES BY GEOGRAPHIC REGION
(Billions of Dollars)



The following pages provide perspective on the Company's geographic operating segments. Geographic segments exclude items that are not included in measuring business performance, most notably certain financing and employee benefit costs, goodwill amortization, corporate eliminations, certain asset write-downs and costs related to the Company's Organization 2005 and simplification and standardization programs.

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NORTH AMERICA REGION

The North America region delivered record results for the fiscal year, spurred by initiative activity and share growth.

Net sales for the year were \$18.98 billion, an increase of 3% from the prior year level of \$18.46 billion, on broad-based unit volume growth of 2%. Net sales in 1998 increased 5% over 1997, on 4% unit volume growth.

Net earnings for the region were up 10% to \$2.71 billion. The region achieved earnings growth through volume gains, continued focus on cost control, pricing and value-added initiatives, particularly in laundry and cleaning products and in paper. Prior year net earnings were \$2.47 billion, which represented a 10% increase over 1997. Net earnings margin for the region was 14.3%, compared to 13.4% and 12.8% in 1998 and 1997, respectively.

The laundry and cleaning sector led the region's current year volume progress, generating 5% unit volume growth versus the prior year. The reformulation of Tide for sanitization and clean rinse benefits, the launch of Febreze fabric refresher and strong base business performance drove volume gains and increased share. Febreze, introduced late in fiscal 1998, exceeded expectations, becoming one of the Company's most successful brands in terms of introductory year sales. Laundry and cleaning also performed well on earnings, delivering half the region's earnings improvement behind the introduction of premium products, pricing and cost savings. In the prior year, the sector was also a strong contributor, driving volume and earnings gains.

The paper sector also provided solid volume and earnings growth, achieving a 2% increase in unit volume compared to a strong base year. Tissue and towel posted gains on strength in the base business, as did feminine protection, behind the integration of the Tambrands acquisition, and diapers, behind initiatives. The paper sector improved sales and earnings ahead of volume, on the strength of its pricing program and cost savings, while still investing in initiatives. In 1998, paper led the region in volume and earnings progress. Prior year operating results were driven by the feminine protection business, behind the acquisition of Tambrands; initiative programs in diapers; and tissue and towel capacity increases and pricing strategies.

The health care sector posted a 3% increase in unit volume versus the prior year. While all categories delivered positive volume results, pharmaceuticals made the strongest contribution by increasing share on all major brands. The sector attained excellent earnings progress behind the shift toward higher-margin pharmaceutical sales and pricing, mitigated by increased support for upcoming initiative launches. In 1998, the sector's unit volume fell slightly, as improved volume in pharmaceuticals only partially offset oral care declines related to heavy competition. Prior year earnings declined over 1997 due to a continued investment in research and development, primarily in pharmaceuticals, and in marketing support to combat competition in oral care. The sector's high level of investment in research and development has resulted in a strong pipeline of new pharmaceutical products, while setting the stage for innovations in other health care products in the years to come.

Unit volume in the beauty care sector grew 1% during the year, led by cosmetics and fragrances, on the basis of the launch of Oil of Olay Cosmetics; and deodorants, behind a strong performance by Old Spice and the introduction of Secret Platinum. The introduction of Oil of Olay Cosmetics exceeded expectations and resulted in strong share performance. Net earnings for the sector increased versus the prior year, behind the success of a strategic pricing and initiative platform, partially offset by higher marketing costs for new product introductions as well as competitive defense in the hair care category. In 1998, unit volume gains were driven by hair care and deodorants. Earnings progress in 1998 was driven by the skin care and personal cleansing and cosmetics and fragrances categories, partially offset by spending against intense competition and for product initiatives.

The food and beverage sector experienced a 5% unit volume decline in the current year, due to competition in the snacks market and divestitures. In addition, the June 1998 launch of Fat Free Pringles created pipeline volume in the last fiscal year, depressing the current year comparison. Coffee performed well as a result of commodity-based price decreases, which were passed on to the consumer. Excluding the impact of acquisitions and divestitures, volume was up 1%. Current year sector earnings were negatively impacted by the loss of profit contribution from divested brands and lower volumes. In 1998, unit volume growth was led by the snacks category, behind the launch of Fat Free Pringles. In the prior year, sector earnings were negatively affected by the Duncan Hines divestiture and by investments in new initiatives.

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EUROPE, MIDDLE EAST AND AFRICA REGION

Results in the Europe, Middle East and Africa region were mixed, as progress on cost control, premium products and improved pricing were partially offset by impacts from the financial crisis in Russia and neighboring countries.

The region was able to hold sales flat at \$11.88 billion, despite a 3% decline in unit volume. Volume declines were driven by the Russian economic crisis and competitive activity, primarily in laundry and hair care. Sales outpaced volume due primarily to improved pricing. During the prior year, sales increased 2% to \$11.84 billion, which trailed the 8% unit volume growth rate due to unfavorable exchange rate impacts.

The region's net earnings progress continued in the current year, growing 11% to \$1.21 billion. Net earnings in 1998 were \$1.09 billion, a 14% increase over 1997. Current year earnings growth was driven by contributions from premium product introductions, pricing strategies and cost reductions, which more than offset the negative impacts in Russia. Progress in the net earnings margin also continued, increasing to 10.2% in the current year, up from 9.2% and 8.3%, in 1998 and 1997, respectively. Importantly, margins in Western Europe reached their highest levels, as the region continued to focus on developing even more productive relationships with customers.

Middle East, Africa and General Export, which includes the region's snack business, increased unit volume 9% over the prior year base period, which generated a double-digit increase over 1997. Increased snack sales across the region and expansion of core categories into developing markets drove volume gains. Although volume fell off the high rate of growth achieved in prior years, unit volume improvements were notable in the midst of weak oil markets and political uncertainty in the area. Prior year results were also fueled by snack sales. Earnings in 1999 improved ahead of volume, behind cost reductions and economies of scale.

Western Europe unit volume decreased 2%, reflecting divestitures of non-strategic local beauty care and juice brands, and strong competitive activity in laundry and hair care. Sunny Delight continued

performing well in its first full year after launch, achieving a tie for the number two position in the United Kingdom soft drinks market during the last half of the year. Net earnings increased in the double digits due to cost savings, efficiencies in promotional spending and pricing. In the prior year, volume also grew behind the acquisition of Tambrands. Prior year earnings were boosted by volume increases, cost savings and lower tax rates, partially offset by increased promotional spending.

Central and Eastern Europe's unit volume slid 16%, reflecting the 75% devaluation of the Russian ruble and the resulting disruptions in neighboring economies. Despite the contraction in consumption, Russia and Central and Eastern Europe either maintained or further improved leading market share positions. Current year earnings fell substantially as a result of the crisis. In the prior year, volume grew by double digits, and earnings improved versus 1997. The strong volume and earnings performance in the prior year reflected leverage in cost management and efficiency gained from expansion into emerging markets.

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ASIA REGION

The Asia region showed some signs of emergence from the currency crisis, as the Asian economy began to stabilize and consumer markets began to recover.

Net sales for the region were \$3.65 billion, 6% above the prior year on 2% unit volume growth. Current year volume growth was driven by prior year acquisitions, including Ssangyong, a paper business in Korea, and increased ownership of a joint venture in China. Japan also demonstrated growth, behind innovative products and increased share. Both Japan and China increased share in core categories. Price recovery strategies; especially in Korea and the ASEAN countries grew sales ahead of volume. Excluding exchange effects, sales grew 11%, primarily due to pricing aimed at recovering prior currency devaluation effects. In the prior year, net sales declined 3% to \$3.45 billion on 4% unit volume growth. Prior year sales were negatively affected by the impact of unfavorable exchange rate movements, partially offset by improved pricing and product mix. Excluding exchange effects in 1998, sales grew 10%.

The region's net earnings were a record \$279 million, a 60% increase from the prior year. Earnings growth was driven by recovery pricing, volume gains and a focus on premium brands, partially offset by increased costs related to new initiatives and product upgrades. The prior year net earnings of \$174 million represented a 37% decrease from 1997, reflecting lower sales, increased investment in product initiatives and the negative effects of the currency crisis. Net earnings margin for the current year was 7.6%, compared to 5.0% in 1998 and 7.7% in 1997. The 1999 margin improvement reflects the pricing and volume gains, and represents the region's return to pre-crisis margin levels.

Japan demonstrated strong results this year, despite continuing economic recession. Unit volume was up 9% versus the prior year, behind an aggressive slate of new product innovations on core brands, such as Ariel and Pampers, and new brands, such as Febreze. Net earnings increased substantially ahead of sales and volume due to cost efficiencies and the favorable settlement of a patent litigation dispute. Prior year results reflected relatively flat volume as a result of the difficult Japanese economy. Earnings were lower in 1998 due to unfavorable sales mix, investment in new products and a weak yen.

Greater China's unit volume grew 5% versus the prior year despite a deceleration in overall market growth in the geography, given the difficult economic climate there. Volume gains were driven by Taiwan and increased ownership of joint ventures in China. Net earnings declined under competitive pressure, a consumption tax on hair care products and continued investment in product upgrades. In the prior year, increased ownership of a joint venture contributed to volume as well as earnings. The higher earnings were partially offset by unfavorable sales mix and investment in product initiatives.

Volumes declined in the balance of Asia as a result of market contraction caused by economic volatility, particularly in India and Thailand. These effects were partially offset by Korea, where volumes were positively impacted by the prior year acquisition of the Ssangyong Paper Company. Earnings also benefited from improved pricing platforms. In 1998, acquisitions drove the net volume increase despite base business volume declines. Net earnings for 1998 were also down due to the currency crisis.

The Asian markets continue to experience some difficulties. While early signs of recovery are evident, these are limited at present, and the potential for economic complications remains. However, because the Asia region accounts for less than 10% of total Company sales and total earnings, any impact from economic dislocation is not expected to disproportionately impact results.

LATIN AMERICA REGION

Latin America continued to deliver solid results, despite a challenging economic environment, with record sales, unit volume and net earnings.

Net sales in the region grew 7% to \$2.83 billion on 3% unit volume growth, as inflation-targeted pricing outpaced the negative impact of currency devaluation, primarily in Mexico and Venezuela. Strong volume progress in laundry and snacks supplemented the prior year acquisition of Loreto y Pena, a paper company in Mexico, and the buyout of a paper joint venture in the Southern Cone. Laundry results reflect the strengthening of the base business in Mexico and the launch of Ariel in the Southern Cone. In the prior year, sales for the region grew 14% to \$2.64 billion on 12% unit volume growth, reflecting acquisitions, strength in the base business and pricing.

For the current year, net earnings for the region were \$318 million, a 16% increase. Mexico, Venezuela and Central America achieved double-digit earnings growth, and more than offset the heavy investment in the laundry expansion in the Southern Cone. Earnings surpassed sales as a result of cost reductions and tax benefits generated from inflationary markets. Prior year net earnings were \$274 million, a 7% increase over 1997, despite increased initiative spending. Net earnings margin for the current year was 11.3% compared to 10.4% and 11.1% in 1998 and 1997, respectively.

In Mexico, the Company's largest operation in the region, business results were strong. Unit volume increased 7%, behind a strong base business, prior year acquisitions and a general upturn in the consumer market. Prior year results were also strong, behind acquisitions and favorable economic conditions.

The balance of the region's volume fell 1%, driven by the economic situation in Brazil. However, Chile and Argentina achieved double-digit volume increases over 1998, behind the prior year acquisition and the expansion of Ariel into the Southern Cone.

Prior to January 1, 1998, both Brazil and Peru were highly inflationary economies, and accordingly, the results of the Company's subsidiaries in Brazil and Peru were measured using the United States dollar as their functional currency. Effective January 1, 1998, neither Brazil nor Peru qualified as a highly inflationary economy. The impact of this change was not material to the Company's earnings.

HEDGING AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to market risk, including changes in interest rates, currency exchange rates and commodity prices. To manage the volatility relating to these exposures, the Company nets the exposures on a consolidated basis to take advantage of natural offsets and enters into various derivative transactions for the residual portion pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. The financial impacts of these hedging instruments are offset in part or in whole by corresponding changes in the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes. Note 6 to the consolidated financial statements includes a discussion of the Company's accounting policies for financial instruments.

Derivative positions are monitored using techniques including market value, sensitivity analysis and value at risk modeling. The tests for interest rate and currency rate exposures discussed below are based on a variance/co-variance value at risk model using a one year horizon and a 95% confidence level. The model incorporates the impact of correlation and diversification from holding multiple currency and interest rate instruments, and assumes that financial returns are normally distributed, and approximates the financial return for options and other non-linear instruments. Estimates of volatility and correlations of market factors are drawn from the RiskMetrics(tm) dataset as of June 30, 1999. In cases where data is unavailable in RiskMetrics(tm) a reasonable proxy is included.

The Company's market risk exposures relative to interest and currency rates, as discussed below, have not changed materially versus the previous reporting period. In addition, the Company is not aware of any facts or circumstances that would significantly impact such exposures in the near-term.

INTEREST RATE EXPOSURE

Interest rate swaps are used to hedge underlying debt obligations. Certain currency interest rate swaps are designated as hedges to the Company's related foreign net investments.

Based on the Company's overall interest rate exposure as of and during the year ended June 30, 1999, including derivative and other interest rate sensitive instruments, a near-term change in interest rates, at a 95% confidence level based on historical interest rate movements, would not materially affect the Company's financial statements.

CURRENCY RATE EXPOSURE

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The major foreign currency exposures involve the markets in Western and Eastern Europe, Asia and Mexico. The primary purpose of the Company's foreign currency hedging activities is to protect against the volatility associated with foreign currency purchases of materials and other assets and liabilities created in the normal course of business. Corporate policy prescribes the range of allowable hedging activity. The Company primarily utilizes forward exchange contracts and purchased options with maturities of less than eighteen months.

In addition, the Company enters into certain foreign currency swaps to hedge intercompany financing transactions, and utilizes purchased foreign currency options with maturities of generally less than eighteen months and forward exchange contracts to hedge against the effect of exchange rate fluctuations on royalties and foreign source income.

Based on the Company's overall currency rate exposure as of and during the year ended June 30, 1999, including derivative and other foreign currency sensitive instruments, a near-term change in currency rates, at a 95% confidence level based on historical currency rate movements, would not materially affect the Company's financial statements.

COMMODITY PRICE EXPOSURE

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. The Company uses futures and options contracts, primarily in food and beverage products, to manage the volatility related to certain of these exposures. Gains and losses relating to qualifying hedges of firm commitments or anticipated inventory transactions are deferred in prepaid expenses and are included in the basis of the underlying transactions. Commodity hedging activity is not material to the Company's financial statements.

EURO CONVERSION

On January 1, 1999, eleven of fifteen member countries of the European Economic Union fixed conversion rates between their existing currencies ("legacy currencies") and one common currency, the euro. The euro trades on currency exchanges and may be used in business transactions. Conversion to the euro eliminated currency exchange rate risk between the member countries. Beginning in January 2002, new euro-denominated bills and coins will be issued and the legacy currencies will be withdrawn from circulation.

The Company is actively addressing the many areas involved with the introduction of the euro, including information management, finance, legal and tax. This review includes the conversion of information technology, and business and financial systems, and evaluation of currency risk as well as the impact on the pricing and distribution of the Company's products.

One outcome of the introduction of the euro is the trend toward more uniform pricing in all European markets, including those that have not adopted the euro as their common currency. The Company believes the effect of the introduction of the euro, as well as any related cost of conversion, will not have a material adverse impact on its financial statements.

ORGANIZATION 2005

As more fully described in Note 2 to the consolidated financial statements, under the heading Organization 2005, the Company has begun a major reorganization of its operations, moving from a geographical structure to product-based Global Business Units (GBUs) that will streamline management decision making, strategic planning and manufacturing. Consistent with this change, segment reporting will be restated starting in the first quarter of fiscal 2000 to reflect the following product-based segments: Fabric and Home Care, Paper, Beauty Care, Food and Beverage and Health Care. The GBU structure will be complemented by eight Market Development Organizations (MDOs) intended to maximize the business potential of the entire product portfolio in each local market. The new organization structure was effective July 1, 1999, although certain strategic planning activities began

effective January 1, 1999. Organization 2005 will also streamline and standardize the Company's global essential business services, such as accounting, employee benefits management, order management and information technology services, to a common Global Business Services organization.

The intention to redesign the Company's management and operating structures was first announced in September 1998. Organization plans and new operating procedures were finalized during the April-June quarter, 1999. As a result of the significant changes associated with the Organization 2005 program, the Company identified a number of restructuring projects that encompass manufacturing consolidations and standardization, enrollment reductions and other related costs. The Organization 2005 program, which was approved by the Board of Directors in June 1999, is expected to result in total charges of approximately \$2.6 billion (\$1.9 billion after tax) over six years. The Company recorded a current year charge of \$481 million (\$385 million after tax) and expects additional costs of approximately \$1.5 billion (\$1.0 billion after tax) during the next two years, approximately two-thirds of which will be incurred in fiscal 2000. The balance of the charges related to the Organization 2005 program are expected to be incurred after fiscal 2001. Costs to be incurred in future years are subject to varying degrees of estimation for key assumptions, such as normal employee attrition levels, the actual timing of the execution of plans and other variables. Thus, the amount and timing of future anticipated charges could change. Significant changes in estimated future charges will be disclosed as they occur.

Significant savings from the program are expected to begin accruing in fiscal 2001, reaching going annual levels of approximately \$900 million after tax by fiscal 2004.

Charges incurred under Organization 2005 will consist primarily of costs related to the consolidation of manufacturing facilities (including accelerated depreciation, asset write-downs and contract termination costs) and employee separation costs.

The non-cash costs of the program, primarily related to manufacturing consolidations and asset write-offs, accounted for approximately 88% of current year charges and will account for approximately 30% of the remaining total program costs. Approximately half of the plant or production module closings will take place through fiscal 2000 and the balance the following year. Costs associated with the manufacturing consolidation portion of the program are included in cost of products sold. A small portion of these costs, as well as the balance of the costs under the program will represent cash charges, and will be funded with cash from operations.

Organization 2005 charges recorded in fiscal 1999, all of which are included in Corporate & Other in the Company's segment reporting disclosure, are comprised of the following before-tax amounts:

Organization 2005 Fiscal 1999 Charges

	Total Charges	Cash Spent During Period	Amount Charged Against Assets	Ending Reserves
Employee separations.. .. .	\$45	\$(10)	\$—	\$35
Asset write-downs	217	—	(217)	—
Accelerated depreciation	208	—	(208)	—
Other	11	(2)	—	9
	<u>481</u>	<u>(12)</u>	<u>(425)</u>	<u>44</u>

Employee separation charges in 1999 relate to severance packages for approximately 400 people, representing primarily administrative employees in Asia, Europe, Middle East and Africa. The predominantly voluntary packages are formula-driven, based on salary levels and past service. Severance costs related to voluntary separations are charged to earnings when the employee accepts the offer in accordance with P&G policy for such programs. The streamlined work processes and manufacturing consolidations driven by the Organization 2005 program will result in additional separations of approximately 9,000 employees through fiscal 2001, representing approximately \$530 million of costs over that period. Net enrollment is expected to decline by approximately 75% of total separations, as some terminations will be partially offset through increased enrollment at remaining sites. Of total separations expected through fiscal 2001, approximately half will take place in manufacturing with the balance in administrative functions. Separation costs related to manufacturing

employees are included in cost of products sold, while those for administrative employees are reported in marketing, research and administrative expenses.

Asset write-downs relate primarily to manufacturing assets that, based on a shift in global strategy enabled by Organization 2005, as well as demand trends below expectation, now are expected to operate at levels significantly below their capacity. Because the projected cash flows from such assets over their remaining useful lives now are estimated to be less than their current carrying values, the assets were written down to estimated fair value as determined using discounted cash flows. The balance of the asset write-downs relate to "assets held for disposal" and represent excess capacity that is in the process of being removed from service and disposed. Such assets were written down to the lower of their current carrying basis or amounts expected to be realized upon disposal, less related disposal costs. Disposal costs are not expected to be significant. Asset write-downs charged to earnings in 1999 will not have a significant impact on future depreciation charges.

The charges for accelerated depreciation relate to long-lived assets that will be taken out of service prior to the end of their normal service period due to manufacturing consolidations, technology standardization and closures that will occur primarily over the next three years as a result of the Organization 2005 program. The Company has changed the estimated useful lives of such assets, resulting in an acceleration of depreciation. The underlying plant closures and consolidations will impact all regions and product segments. These planned plant closures and consolidations will not be executed immediately due to either capacity or logistics constraints. Accelerated depreciation charges for fiscal years 2000 and 2001 are expected to amount to approximately \$390 million before tax and \$170 million before tax, respectively.

Other costs include primarily relocation and training costs, as well as other Organization 2005-related expenses. Such costs are expensed as incurred. Other costs currently are estimated at \$220 million before tax and \$170 million before tax for fiscal years 2000 and 2001, respectively, reflecting increased activity related to the transition to Global Business Services.

YEAR 2000

The Company has substantially completed its program to address the possible exposures related to the Year 2000 impact on its computer systems. Progress against detailed plans is monitored and reported to management and the Audit Committee of the Board of Directors on a regular basis. Modification or replacement of critical financial, information and operational systems, including equipment with embedded microprocessors, have been substantially completed. Testing and certification of critical systems, which includes review of documented remediation work and test results by technical experts, key users and a central project team, is expected to be successfully completed by September 30, 1999. In addition, the Company's internal controls organization has reviewed the testing and certification process and observed the testing of selected critical systems in each region.

Critical Systems Description

	Year 2000		
	% of Applications Complete		
	Actual June 1998	Actual June 1999	Planned Sept. 1999
Critical manufacturing, operating and control systems	44.0%	99.0%	100.0%
All other critical systems	56.0%	99.6%	100.0%

As part of its Year 2000 preparation planning, the Company has also contacted suppliers and customers to assess the current state of readiness and any potential impact on operations if key third parties are not successful in converting their systems in a timely manner in all regions around the world. Risk assessment, readiness evaluation, action plans and contingency plans related to these third parties have now been completed.

The Company's risk management program includes emergency backup and recovery procedures to be followed in the event of the failure of a business-critical system. These procedures have been expanded to include the Year 2000 Business Continuity Plan (BCP). The objectives of the Plan are to ensure business-critical processes are protected from disruption and will continue to function during and after the year 2000, and to ensure the Company's ability to produce an acceptable level of products and services is safeguarded in the event of failures of external systems and services. The BCP will be complete by October 31, 1999 and will include, for example, identification of alternate suppliers or customers,

possible increases in safety inventory levels and other backup procedures. The Company believes the worst-case scenario is that a short-term disruption would occur with a few suppliers or customers. The Company has procedures in place to be notified immediately of any such disruption, and would respond as prescribed by the BCP.

Incremental costs, which include contractor costs to modify existing systems and costs of internal resources dedicated to achieving Year 2000 compliance, are charged to expense as incurred. Total Year 2000 costs, including BCP costs, are expected to total approximately \$90 million, of which 86% has been spent to date.

The Company is taking all reasonable steps to prevent major interruptions in the business due to Year 2000 issues. The effect, if any, on the Company's financial statements if the Company, its customers, its suppliers or the public sector are not fully Year 2000 compliant is not reasonably estimable. The Company believes, however, that the successful completion of its Year 2000 project will significantly reduce the risk of a major business interruption due to Year 2000 failures. Additionally, the Company's broad base of customers and suppliers and the worldwide nature of its operations is expected to mitigate any Year 2000 risks.

SUBSEQUENT EVENT

On August 11, 1999, the Company announced an agreement to acquire The Iams Company and Affiliates, a worldwide leader in pet nutrition, for approximately \$2.3 billion in cash. The acquisition will be financed mainly through external borrowings and is expected to be completed during the first quarter of fiscal 2000.

FORWARD-LOOKING STATEMENT

The Company has made and will make certain forward-looking statements in the Annual Report and in other contexts relating to volume growth, increases in market shares, Year 2000 compliance, Organization 2005, financial goals and cost reduction, among others.

These forward-looking statements represent challenging goals for the Company and are based on certain assumptions and estimates regarding the worldwide economy, technological innovation, competitive activity, pricing, currency movements, product introductions, governmental action and the development of certain markets. Among the key factors necessary to achieve the Company's goals are: (1) the achievement of lower costs and increases in reliability and capacity utilization, resulting from simplification and standardization and Organization 2005, (2) the ability to improve revenue and profitability despite high levels of competitive activity and the economic volatility in emerging markets, (3) the ability to maintain key customer relationships in important developed markets, (4) the continuation of substantial growth in significant developing markets such as China, Mexico, Brazil and the countries of Central and Eastern Europe, (5) the ability to successfully manage regulatory, tax and legal matters, (6) the ability to continue technological innovation, (7) the timely resolution of the Year 2000 issue by the Company and its customers and suppliers and (8) the ability to react to the introduction of the euro currency in Europe, including the ability to successfully compete in Europe. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of these key factors, then the Company's actual performance could vary materially from the forward-looking statements made herein.

* * * *

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in Millions Except Per Share Amounts)

Years Ended June 30	1999	1998	1997
Net Sales	\$38,125	\$37,154	\$35,764
Cost of products sold	21,206	21,064	20,510
Marketing, research and administrative expenses	10,666	10,035	9,766
Operating Income	6,253	6,055	5,488
Interest expense	650	548	457
Other income, net	235	201	218
Earnings Before Income Taxes	5,838	5,708	5,249
Income taxes	2,075	1,928	1,834
Net Earnings	\$3,763	\$3,780	\$3,415
Basic Net Earnings Per Common Share	\$2.75	\$2.74	\$2.43
Diluted Net Earnings Per Common Share	\$2.59	\$2.56	\$2.28
Dividends Per Common Share	\$1.14	\$1.01	\$0.90

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Amounts in Millions Except Per Share Amounts)

June 30	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,294	\$ 1,549
Investment securities	506	857
Accounts receivable	2,940	2,781
Inventories		
Materials and supplies	1,176	1,225
Work in process	375	343
Finished goods	1,787	1,716
Deferred income taxes	621	595
Prepaid expenses and other current assets	1,659	1,511
Total Current Assets	11,358	10,577
Property, Plant and Equipment		
Buildings	3,885	3,660
Machinery and equipment	16,953	15,953
Land	562	539
	21,400	20,152
Accumulated depreciation	(8,774)	(7,972)
Total Property, Plant and Equipment	12,626	12,180
Goodwill and Other Intangible Assets		
Goodwill	7,062	7,023
Trademarks and other intangible assets	1,115	1,157
	8,177	8,180
Accumulated amortization	(1,355)	(1,169)
Total Goodwill and Other Intangible Assets	6,822	7,011
Other Non-Current Assets	1,307	1,198
Total Assets	\$32,113	\$30,966

See accompanying Notes to Consolidated Financial Statements.

June 30	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 2,300	\$ 2,051
Accrued and other liabilities	4,083	3,942
Taxes payable	1,228	976
Debt due within one year	3,150	2,281
	<hr/>	<hr/>
Total Current Liabilities	10,761	9,250
Long-Term Debt		
	6,231	5,765
Deferred Income Taxes	362	428
Other Non-Current Liabilities	2,701	3,287
	<hr/>	<hr/>
Total Liabilities	20,055	18,730
Shareholders' Equity		
Convertible Class A preferred stock, stated value \$1 per share (600 shares authorized)	1,781	1,821
Non-Voting Class B preferred stock, stated value \$1 per share (200 shares authorized; none issued)	—	—
Common stock, stated value \$1 per share (5,000 shares authorized; shares outstanding: 1999—1,319.8 and 1998—1,337.4)	1,320	1,337
Additional paid-in capital	1,337	907
Reserve for Employee Stock Ownership Plan debt retirement	(1,552)	(1,616)
Accumulated other comprehensive income	(1,606)	(1,357)
Retained earnings	10,778	11,144
	<hr/>	<hr/>
Total Shareholders' Equity	12,058	12,236
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	\$32,113	\$30,966

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in Millions/Shares in Thousands)

	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-in Capital	Reserve for ESOP Debt Retirement	Accumulated Other Comprehensive Income	Retained Earnings	Total	Total Comprehensive Income
Balance June 30, 1996	1,371,146	\$1,371	\$1,886	\$294	\$(1,676)	\$(418)	\$10,265	\$11,722	
Net earnings							3,415	3,415	\$3,415
Other comprehensive income:									
Currency translation, net of \$38 tax						(412)		(412)	(412)
Other, net of tax						11		11	11
Total comprehensive income									\$3,014
Dividends to shareholders:									
Common							(1,225)	(1,225)	
Preferred, net of tax benefit	(104)	(104)					(104)	(104)	
Treasury purchases	(30,875)	(31)					(1,621)	(1,652)	
Employee plan issuances	8,801	9		240				249	
Preferred stock conversions	1,771	2	(27)	25					
ESOP debt guarantee reduction					42			42	
Balance June 30, 1997	1,350,843	1,351	1,859	559	(1,634)	(819)	10,730	12,046	
Net earnings							3,780	3,780	\$3,780
Other comprehensive income:									
Currency translation, net of \$25 tax						(536)		(536)	(536)
Other, net of tax						(2)		(2)	(2)
Total comprehensive income									\$3,242
Dividends to shareholders:									
Common							(1,358)	(1,358)	
Preferred, net of tax benefit							(104)	(104)	
Treasury purchases	(24,716)	(25)					(1,904)	(1,929)	
Employee plan issuances	8,777	9		312				321	
Preferred stock conversions	2,557	2	(38)	36					
ESOP debt guarantee reduction					18			18	
Balance June 30, 1998	1,337,461	1,337	1,821	907	(1,616)	(1,357)	11,144	12,236	
Net earnings							3,763	3,763	\$3,763
Other comprehensive income:									
Currency translation, net of \$4 tax						(232)		(232)	(232)
Other, net of tax						(17)		(17)	(17)
Total comprehensive income									\$3,514
Dividends to shareholders:									
Common							(1,517)	(1,517)	
Preferred, net of tax benefit							(109)	(109)	
Treasury purchases	(29,924)	(30)					(2,503)	(2,533)	
Employee plan issuances	9,605	10		393				403	
Preferred stock conversions	2,612	3	(40)	37					
ESOP debt guarantee reduction					64			64	
Balance June 30, 1999	1,319,754	\$1,320	\$1,781	\$1,337	\$(1,552)	\$(1,606)	\$10,778	\$12,058	

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

Years Ended June 30	1999	1998	1997
Cash and Cash Equivalents, Beginning of Year	\$ 1,549	\$ 2,350	\$ 2,074
Operating Activities			
Net earnings	3,763	3,780	3,415
Depreciation and amortization	2,148	1,598	1,487
Deferred income taxes	(60)	(101)	(26)
Change in accounts receivable	(207)	42	8
Change in inventories	(96)	(229)	(71)
Change in accounts payable, accrued and other liabilities	792	(3)	561
Change in other operating assets and liabilities	(926)	(65)	503
Other	130	(137)	5
Total Operating Activities	5,544	4,885	5,882
Investing Activities			
Capital expenditures	(2,828)	(2,559)	(2,129)
Proceeds from asset sales	434	555	520
Acquisitions	(137)	(3,269)	(150)
Change in investment securities	356	63	(309)
Total Investing Activities	(2,175)	(5,210)	(2,068)
Financing Activities			
Dividends to shareholders	(1,626)	(1,462)	(1,329)
Change in short-term debt	689	1,315	(160)
Additions to long-term debt	986	1,970	224
Reductions of long-term debt	(334)	(432)	(724)
Proceeds from stock options	212	158	134
Treasury purchases	(2,533)	(1,929)	(1,652)
Total Financing Activities	(2,606)	(380)	(3,507)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(18)	(96)	(31)
Change in Cash and Cash Equivalents	745	(801)	276
Cash and Cash Equivalents, End of Year	\$ 2,294	\$ 1,549	\$ 2,350
Supplemental Disclosure			
Cash payments for:			
Interest, net of amount capitalized	\$ 640	\$ 536	\$ 449
Income taxes	1,957	2,056	1,380
Liabilities assumed in acquisitions	38	808	42

See accompanying Notes to Consolidated Financial Statements.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Consolidated financial statements and financial information included in this report are the responsibility of Company management. This includes preparing the statements in accordance with accounting principles generally accepted in the United States and necessarily includes estimates based on management's best judgments.

To help insure the accuracy and integrity of Company financial data, management maintains internal controls designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded and that assets are properly safeguarded. These controls are monitored by an ongoing program of internal audits. These audits are supplemented by a self-assessment program that enables individual organizations to evaluate the effectiveness of their controls. Careful selection of employees and appropriate divisions of responsibility are designed to achieve control objectives. The Company's "Worldwide Business Conduct Manual" sets forth management's commitment to conduct its business affairs with the highest ethical standards.

Deloitte & Touche LLP, independent public accountants, have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with generally accepted auditing standards.

The Board of Directors, acting through its Audit Committee composed entirely of outside directors, oversees the adequacy of internal controls. The Audit Committee meets periodically with representatives of Deloitte & Touche LLP and internal financial management to review internal control, auditing and financial reporting matters. The independent auditors and the internal auditors also have full and free access to meet privately with the Audit Committee.

John E. Pepper
Chairman of the Board

Durk I. Jager
President and Chief Executive

Clayton C. Daley Jr.
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

DELOITTE & TOUCHE LLP

250 East Fifth Street
Cincinnati, Ohio 45202

To the Board of Directors and Shareholders of The Procter & Gamble Company:

We have audited the accompanying consolidated balance sheets of The Procter & Gamble Company and subsidiaries as of June 30, 1999 and 1998 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company at June 30, 1999 and 1998 and the results of its operations and cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

/S/DELOITTE & TOUCHE LLP

July 29, 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Millions of Dollars Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The consolidated financial statements include The Procter & Gamble Company and its controlled subsidiaries (the Company). Investments in companies over which the Company exerts significant influence, but does not control the financial and operating decisions, are accounted for by the equity method. These investments are managed as integral parts of the Company's segment operations, and the Company's share of their results is included in net sales for the related segments.

USE OF ESTIMATES: Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from estimates.

ACCOUNTING CHANGES: In 1999, the Company adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which, on a prospective basis, revised the accounting for software development costs. Under SOP 98-1, certain costs that the Company has historically expensed are now capitalized. The adoption of this statement did not have a material impact on the Company's financial statements.

NEW PRONOUNCEMENTS: In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", which revises the accounting for derivative financial instruments. The Company is currently analyzing the impact of this statement, which is required to be adopted in 2001, but does not expect it to have a material impact on the Company's financial statements.

CURRENCY TRANSLATION: Financial statements of subsidiaries outside the U.S. generally are measured using the local currency as the functional currency. Adjustments to translate those statements into U.S. dollars are accumulated in a separate component of shareholders' equity. For subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency. Remeasurement adjustments for highly inflationary economies and other transactional exchange gains and losses are reflected in earnings.

CASHEQUIVALENTS: Highly liquid investments with maturities of three months or less when purchased are considered cash equivalents.

INVENTORY VALUATION: Inventories are valued at cost, which is not in excess of current market price. Cost is primarily determined by either the average cost or the first-in, first-out method. The replacement cost of last-in, first-out inventories exceeded carrying value by approximately \$100 and \$91 at June 30, 1999 and 1998, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS: The cost of intangible assets is amortized, principally on a straight-line basis, over the estimated periods benefited, generally forty years for goodwill and periods ranging from five to forty years for other intangible assets. The realizability of goodwill and other intangibles is evaluated periodically when events or circumstances indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses, including cash flow and profitability projections that incorporate the impact of existing Company businesses. The analyses necessarily involve significant management judgment to evaluate the capacity of an acquired business to perform within projections. Historically, the Company has generated sufficient returns from acquired businesses to recover the cost of the goodwill and other intangible assets.

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment are recorded at cost reduced by accumulated depreciation. Depreciation expense is provided based on estimated useful lives using the straight-line method. Estimated useful lives are periodically reviewed, and where warranted, changes are made that result in an acceleration of depreciation.

FAIR VALUES OF FINANCIAL INSTRUMENTS: Fair values of cash equivalents, short and long-term investments and short-term debt approximate cost. The estimated fair values of other financial instruments, including debt and risk management instruments, have been determined using available market information and valuation methodologies, primarily discounted cash flow analysis. These estimates require considerable judgment in interpreting market data, and changes in assumptions or estimation methods may significantly affect the fair value estimates.

RECLASSIFICATIONS: Certain reclassifications of prior years' amounts have been made to conform with the current year presentation.

2. ORGANIZATION 2005

On June 9, 1999, the Company announced an Organization 2005 program that is an integral part of the broader 2005 initiative, which includes a realignment of the organization structure, work processes and culture designed to accelerate growth by streamlining management decision-making, manufacturing and other work processes to increase the Company's ability to innovate and bring initiatives to global markets more quickly.

In connection with this program, effective July 1, 1999, the Company moved from a geographic region structure to product-based Global Business Units (GBUs), which will be responsible for all strategic, manufacturing and sourcing activities. The GBU structure will be complemented by eight Market Development Organizations (MDOs) intended to maximize the business potential of the entire product portfolio in each local market. Organization 2005 will also consolidate, standardize and streamline essential business services such as accounting, employee benefits, order management and information technology services, by creating a Global Business Services organization. In order to implement the program's structural changes and achieve the benefits of faster growth, the Company also needs to make a number of structural and organizational changes to both its administrative and manufacturing operations. This will result in the implementation of standardized global manufacturing facilities and processes designed to streamline its global manufacturing capabilities.

The costs resulting from Organization 2005 include those related to separation and relocation of employees, streamlining manufacturing capabilities, including consolidation and closure of certain manufacturing facilities, and other charges. Total charges related to Organization 2005 are expected to approximate \$2.6 billion (\$1.9 billion after tax) over six years. The Company recorded charges totaling \$481 (\$385 after tax) for the year ended June 30, 1999, and expects to record additional charges under this program totaling \$1.5 billion (\$1.0 billion after tax) during the next two years, approximately two-thirds of which will be incurred in fiscal 2000. The balance of the charges related to Organization 2005 are not expected to materially affect any single year, and savings are expected to offset the charges. Given the scope, magnitude and term of this program, the expected timing and amount of costs and savings are based on management's judgment. Accordingly, such estimates could change as future events evolve.

For 1999, the before-tax charges consisted of the following:

	Total Charges	Cash Spent During Period	Amount Charged Against Assets	Ending Reserves
Employee separations	\$45	\$(10)	\$—	\$35
Asset write-downs	217	—	(217)	—
Accelerated depreciation	208	—	(208)	—
Other	11	(2)	—	9
	481	(12)	(425)	44

The Organization 2005 charges are included in the Company's cost of products sold (\$443) and in marketing, research and administrative expenses (\$38), and are included in *Corporate & Other* for segment reporting.

The employee separation charges in 1999 relate to severance packages for approximately 400 people, primarily administrative employees in Asia, Europe, Middle East and Africa. The predominantly voluntary packages are formula-driven based on salary levels and past service and were charged to earnings upon acceptance of the package. The Organization 2005 program will result in approximately 9,000 additional employee separations over the next two years.

The asset write-downs relate primarily to manufacturing assets that, based on a shift in global strategy resulting from Organization 2005, as well as demand trends below expectation, now are expected to operate at levels significantly below their capacity for an extended period of time. Because the projected cash flows from such assets over their remaining useful lives are less than the current carrying values, the assets were written down to their estimated fair values as determined using discounted cash flows. The balance of the asset write-downs relate to "assets held for disposal" and represent excess capacity that is in the process of being removed from service and disposed. Such assets were written down to the lower of their current carrying basis or amounts expected to be realized upon disposal, net of related disposal costs. Such disposal costs are not expected to be significant. The disposition of these assets, which do not have a significant remaining carrying value, will be completed during the first quarter of fiscal 2000, primarily through abandonment. The asset write-downs charged to earnings in 1999 will not have a significant impact on future depreciation charges.

The accelerated depreciation relates to long-lived productive assets that will be taken out of service prior to the end of their normal service period due to manufacturing consolidations, technology standardization and closures that will occur primarily over the next three years, resulting from Organization 2005. The Company's policy is to change the estimated useful lives of such assets, resulting in an acceleration of depreciation. The underlying plant closures and consolidations will impact all regions and product segments. These planned plant closures and consolidations will not be executed immediately due to either capacity or logistics constraints.

3. ACQUISITIONS

Acquisitions accounted for as purchases in 1999 and 1997 totaled \$137 and \$150, respectively. In 1998, the Company acquired Tambrands, Inc., and its global leading brand, Tampax, for approximately \$1,844 in cash. Other acquisitions in 1998 totaled \$1,425 and included the acquisition of paper businesses and increased ownership in various ventures in Latin America and Asia. The 1998 acquisitions, all of which were accounted for using the purchase method, resulted in goodwill of \$3,335.

4. SUPPLEMENTAL FINANCIAL INFORMATION

	June 30	
	1999	1998
ACCRUED AND OTHER LIABILITIES		
Marketing expenses	\$1,094	\$1,109
Compensation expenses	449	485
Other	2,540	2,348
	4,083	3,942
OTHER NON-CURRENT LIABILITIES		
Postretirement benefits	\$1,081	\$1,193
Pension benefits	926	843
Other	694	1,251
	2,701	3,287

SELECTED OPERATING EXPENSES

Research and development costs are charged to earnings as incurred and were \$1,726 in 1999, \$1,546 in 1998 and \$1,469 in 1997. Advertising costs are charged to earnings as incurred and were \$3,538 in 1999, \$3,704 in 1998 and \$3,466 in 1997.

NET EARNINGS PER COMMON SHARE

Net earnings less preferred dividends (net of related tax benefits) are divided by the weighted average number of common shares outstanding during the year to calculate basic net earnings per common share. Diluted net earnings per common share are calculated to give effect to stock options and convertible preferred stock.

Basic and diluted net earnings per share are reconciled as follows:

	Years ended June 30		
	1999	1998	1997
Net earnings available to common shareholders	\$3,654	\$3,676	\$3,311
Effect of dilutive securities			
Preferred dividends, net of tax benefit	109	104	104
Preferred dividend impact on funding of ESOP	(22)	(25)	(32)
Diluted net earnings	3,741	3,755	3,383
Basic weighted average common shares outstanding	1,328.1	1,343.4	1,360.3
Effect of dilutive securities			
Conversion of preferred shares	97.2	99.8	101.9
Exercise of stock options.. .. .	21.5	22.3	24.8
Diluted weighted average common shares outstanding	1,446.8	1,465.5	1,487.0

5. SHORT-TERM AND LONG-TERM DEBT

	June 30	
	1999	1998
SHORT-TERM DEBT		
U.S. obligations	\$2,308	\$1,435
Foreign obligations	375	560
Current portion of long-term debt	467	286
	<u>3,150</u>	<u>2,281</u>

The weighted average short-term interest rates were 5.7% and 6.2% as of June 30, 1999 and 1998, respectively.

	Average Rate	Maturities	June 30	
			1999	1998
LONG-TERM DEBT				
U.S. notes and debentures	6.59%	1999-2049	\$3,760	\$2,897
ESOP Series A	8.33%	1999-2004	472	545
ESOP Series B	9.36%	2007-2021	1,000	1,000
U.S. commercial paper			1,019	1,207
Foreign obligations			447	402
Current portion of long-term debt			(467)	(286)
			<u>6,231</u>	<u>5,765</u>

Long-term weighted average interest rates in the preceding table are as of June 30, 1999, and include the effects of related interest rate swaps discussed in Note 6. Certain commercial paper balances have been classified as long-term debt based on the Company's intent and ability to renew the obligations on a long-term basis. The Company has entered into derivatives that convert certain of these commercial paper obligations into fixed-rate obligations.

The fair value of the long-term debt was \$6,517 and \$6,412 at June 30, 1999 and 1998, respectively. Long-term debt maturities during the next five years are as follows: 2000—\$467; 2001—\$368; 2002—\$453; 2003—\$1,103; and 2004—\$1,190.

6. RISK MANAGEMENT ACTIVITIES

The Company is exposed to market risk, including changes in interest rates, currency exchange rates and commodity prices. To manage the volatility relating to these exposures, the Company nets the exposures on a consolidated basis to take advantage of natural offsets and enters into various derivative transactions for the residual portion pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. The financial impacts of these hedging instruments are offset in part or in whole by corresponding changes in the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes.

INTEREST RATE MANAGEMENT

The Company's policy is to manage interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the

difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. For qualifying hedges, the interest rate differential is reflected as an adjustment to interest expense over the life of the swaps.

Certain currency interest rate swaps are designated as hedges of the Company's related foreign net investments. Currency effects of these hedges are reflected in the accumulated other comprehensive income section of shareholders' equity, offsetting a portion of the translation of the net assets.

The following table presents information for all interest rate instruments. The notional amount does not necessarily represent amounts exchanged by the parties and, therefore, is not a direct measure of the Company's exposure to credit risk. The fair value approximates the cost to settle the outstanding contracts. The carrying value includes the net amount due to counterparties under swap contracts, currency translation associated with currency interest rate swaps and any marked-to-market value adjustments of instruments.

	June 30	
	1999	1998
Notional amount	\$1,614	\$2,149
Fair value	\$7	\$7
Carrying value	15	28
Unrecognized loss	(8)	(21)

Although derivatives are an important component of the Company's interest rate management program, their incremental effect on interest expense for 1999, 1998 and 1997 was not material.

CURRENCY RATE MANAGEMENT

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates.

The major foreign currency exposures involve the markets in Western and Eastern Europe, Asia and Mexico. The primary purpose of the Company's foreign currency hedging activities is to protect against the volatility associated with foreign currency purchases of materials and other assets and liabilities created in the normal course of business. Corporate policy prescribes the range of allowable hedging activity. The Company primarily utilizes forward exchange contracts and purchased options with maturities of less than eighteen months.

In addition, the Company enters into certain foreign currency swaps to hedge intercompany financing transactions, and utilizes purchased foreign currency options with maturities of generally less than eighteen months and forward exchange contracts to hedge against the effect of exchange rate fluctuations on royalties and foreign source income.

Gains and losses related to qualifying hedges of foreign currency firm commitments or anticipated transactions are deferred in prepaid expense and are included in the basis of the underlying transactions. To the extent that a qualifying hedge is terminated or ceases to be effective as a hedge, any deferred gains and losses up to that point continue to be deferred and are included in the basis of the underlying transaction. All other foreign exchange contracts are marked-to-market on a current basis, generally to marketing, research and administration expense. To the extent anticipated transactions are no longer likely to occur, the related hedges are closed with gains or losses charged to earnings on a current basis.

Currency instruments outstanding are as follows:

	June 30	
	1999	1998
Notional amount		
Forward contracts	\$1,988	\$3,448
Purchased options	1,358	1,262
Currency swaps	33	217
Fair value		
Forward contracts	\$(6)	\$30
Purchased options	19	16
Currency swaps	5	8

The reduction in the notional amount of forward contracts reflects the introduction of the euro and increased efficiencies in our hedge program. The deferred gains and losses on these instruments were not material.

In addition, in order to hedge currency exposures related to the net investments in foreign subsidiaries, the Company utilizes local currency financing entered into by the subsidiaries, and currency interest rate swaps and other foreign currency denominated financing instruments entered into by the parent. Gains and losses on instruments designated as hedges of net investments are offset against the translation effects reflected in shareholders' equity.

Currency interest rate swaps, foreign currency instruments and foreign currency denominated debt that have been designated as hedges of the Company's net investment exposure in certain foreign subsidiaries have notional amounts totaling \$826 and \$1,138 at June 30, 1999 and 1998, respectively. These hedges resulted in gains of \$5 and \$42, net of \$4 and \$25 in tax effects, reflected in shareholders' equity.

CREDIT RISK

Credit risk arising from the inability of a counterparty to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company. It is the Company's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Company does not expect to incur material credit losses on its risk management or other financial instruments.

7. STOCK OPTIONS

The Company has stock-based compensation plans under which stock options are granted annually to key managers and directors at the market price on the date of grant. The 1999 grants are fully exercisable after three years and have a fifteen year life, while prior years' grants are fully exercisable after one year and have a ten year life. In 1998, the Company granted stock options to all eligible employees not covered by the key manager and director plans. These grants, which comprised 8.7 million of the 20.3 million options granted in 1998, are fully exercisable after five years and have a ten year life. The Company issues stock appreciation rights in countries where stock options have not been approved by local governments.

Pursuant to FASB Statement No. 123, "Accounting for Stock-Based Compensation", the Company has elected to account for its employee stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, compensation cost has not been recognized for stock options issued under these plans. Had compensation cost for the plans been determined based on the fair value at the grant date consistent with FASB Statement No. 123, the Company's net earnings and earnings per share would have been as follows:

	Years ended June 30		
	1999	1998	1997
Net earnings			
As reported	\$3,763	\$3,780	\$3,415
Pro forma	3,683	3,472	3,305
Net earnings per common share			
Basic			
As reported	\$2.75	\$2.74	\$2.43
Pro forma	2.69	2.51	2.35
Diluted			
As reported	2.59	2.56	2.28
Pro forma	2.53	2.35	2.20

The fair value of each option grant is estimated on the date of grant using a binomial option-pricing model with the following weighted average assumptions:

	Years ended June 30		
	1999	1998	1997
Interest rate	5.4%	5.6%	6.6%
Dividend yield	1.5%	2%	2%
Expected volatility	26%	26%	22%
Expected life in years	7	6	6

Stock option activity was as follows:

	Options in Thousands		
	1999	1998	1997
Outstanding, July 1	79,918	68,514	66,657
Granted	7,026	20,315	10,409
Exercised	(9,397)	(8,477)	(8,357)
Canceled	(737)	(434)	(195)
Outstanding, June 30	76,810	79,918	68,514
Exercisable	61,664	59,610	58,098
Available for grant	39,874	31,558	28,538
Average price			
Outstanding, beginning of year	\$45.58	\$31.00	\$24.79
Granted	89.72	83.26	58.72
Exercised	22.36	18.57	16.02
Outstanding, end of year	52.11	45.58	31.00
Exercisable, end of year	43.79	32.74	26.03
Weighted average fair value of options granted during the year	32.23	24.56	17.14

The following table summarizes information about stock options outstanding at June 30, 1999:

Range of Prices	Options Outstanding		
	Number Outstanding (Thousands)	Weighted-Avg Exercise Price	Weighted-Avg Remaining Contractual Life
\$15 to 26	19,642	\$22.99	2.3 years
28 to 46	21,899	35.24	5.7
57 to 83	17,822	71.10	8.0
84 to 94	17,447	86.66	10.6

The following table summarizes information about stock options exercisable at June 30, 1999:

Range of Prices	Options Exercisable	
	Number Exercisable (Thousands)	Weighted-Avg Exercise Price
\$15 to 26	19,642	\$22.99
28 to 46	21,899	35.24
57 to 83	9,824	61.65
84 to 94	10,299	84.59

8. EMPLOYEE STOCK OWNERSHIP PLAN

The Company maintains the Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan (ESOP) to provide funding for two primary postretirement benefits: a defined contribution profit sharing plan and certain U.S. postretirement health care benefits.

The ESOP borrowed \$1,000 in 1989, which has been guaranteed by the Company. The proceeds were used to purchase Series A ESOP Convertible Class A Preferred Stock to fund a portion of the defined contribution plan. Principal and interest requirements are \$117 per year, paid by the trust from dividends on the preferred shares and from cash contributions and advances from the Company. The shares are convertible at the option of the holder into one share of the Company's common stock. Annual credits to participants' accounts are based on individual base salaries and years of service, and do not exceed 15% of total participants' annual salaries and wages. The liquidation value is equal to the issue price of \$13.75 per share.

	Years Ended June 30		
	1999	1998	1997
ESOP preferred shares allocated at market value	\$279	\$235	\$247
Company contributions	18	35	11
Benefits earned	297	270	258

In 1991, the ESOP borrowed an additional \$1,000, also guaranteed by the Company. The proceeds were used to purchase Series B ESOP Convertible Class A Preferred Stock to fund a portion of retiree health care benefits. Debt service requirements are \$94 per year, funded by preferred stock dividends and cash contributions from the Company. Each share is convertible at the option of the holder into one share of the Company's common stock. The liquidation value is equal to the issue price of \$26.12 per share.

	Shares in Thousands		
	1999	1998	1997
Outstanding, June 30			
Series A	58,342	60,635	62,952
Series B	37,485	37,805	38,045

Shares of the ESOP are allocated at original cost based on debt service requirements, net of advances made by the Company to the trust. The fair value of the Series A shares serves to reduce the Company's cash contribution required to fund the profit sharing plan contributions earned. The Series B shares are considered plan assets of the other retiree benefits plan. Dividends on all preferred shares, net of related tax benefit, are charged to retained earnings. The preferred shares held by the ESOP are considered outstanding from inception for purposes of calculating diluted net earnings per common share.

9. POSTRETIREMENT BENEFITS

The Company offers various postretirement benefits to its employees.

DEFINED CONTRIBUTION RETIREMENT PLANS

Within the U.S., the most significant retirement benefit is the defined contribution profit sharing plan described in Note 8.

OTHER RETIREE BENEFITS

The Company also provides certain health care and life insurance benefits for substantially all U.S. employees who become eligible for these benefits when they meet minimum age and service requirements. Generally, the health care plans require contributions from retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. Retiree contributions change annually in line with health care cost trends. These benefits are partially funded by an ESOP, as well as certain other assets contributed by the Company.

Certain other employees, primarily outside the U.S., are covered by local defined benefit pension, health care and life insurance plans.

The elements of the net amount recognized for the Company's postretirement plans are summarized below:

	Years ended June 30			
	Pension Benefits		Other Retiree Benefits	
	1999	1998	1999	1998
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$2,282	\$1,991	\$1,465	\$1,460
Service cost	111	106	49	42
Interest cost	140	148	97	102
Participants' contributions	4	3	17	11
Amendments	(5)	21	(1)	(6)
Actuarial loss (gain)	164	87	(356)	(71)
Acquisitions	4	154	0	1
Curtailments	(3)	13	0	0
Currency exchange	(73)	(85)	(1)	(7)
Benefit payments	(136)	(156)	(71)	(67)
Benefit obligation at end of year	2,488	2,282	1,199	1,465
Change in Plan Assets				
Fair value of plan assets at beginning of year	1,523	1,229	2,611	1,828
Actual return on plan assets	111	243	(49)	803
Acquisitions	4	131	0	0
Employer contributions	95	103	8	37
Participants' contributions	4	3	17	11
Currency exchange	(46)	(30)	0	(1)
Benefit payments	(136)	(156)	(71)	(67)
Fair value of plan assets at end of year	1,555	1,523	2,516	2,611
Funded Status				
Funded status at end of year	(933)	(759)	1,317	1,146
Unrecognized net actuarial loss (gain)	17	(163)	(2,384)	(2,354)
Unrecognized transition amount	27	32	0	0
Unrecognized prior service cost	37	75	(21)	(21)
Net amount recognized	(852)	(815)	(1,088)	(1,229)
Prepaid benefit cost	\$59	\$34	\$1	\$1
Accrued benefit cost	(936)	(849)	(1,089)	(1,230)
Accumulated other comprehensive income	25	0	0	0
Net liability recognized	(852)	(815)	(1,088)	(1,229)

The Company's stock comprised \$2,346 and \$2,443 of other retiree plan assets, net of Series B ESOP debt, as of June 30, 1999 and 1998, respectively.

Assumptions for the postretirement benefit calculations are as follows:

	Years ended June 30			
	Pension Benefits		Other Retiree Benefits	
	1999	1998	1999	1998
Weighted average assumptions				
Discount rate	6.0%	7.0%	7.5%	6.8%
Expected return on plan assets	8%	9%	10%	9%
Rate of compensation increase	5%	5%	—	—
Initial health care cost trend rate*	—	—	6%	8%

*Assumed to decrease to 5% by 2006 and remain at that level thereafter.

Components of the net periodic benefit cost are as follows:

	Years ended June 30					
	Pension Benefits			Other Retiree Benefits		
	1999	1998	1997	1999	1998	1997
Components of Net Periodic Benefit Cost						
Service cost	\$111	\$106	\$100	\$49	\$42	\$45
Interest cost	140	148	131	97	102	109
Expected return on plan assets	(105)	(103)	(87)	(218)	(171)	(138)
Amortization of prior service cost	8	7	5	(2)	(2)	(2)
Amortization of transition amount	3	3	0	0	0	0
Curtailment loss	0	12	0	0	0	0
Recognized net actuarial loss (gain)	4	0	(7)	(58)	(41)	(18)
Gross benefit cost	161	173	142	(132)	(70)	(4)
Dividends on ESOP preferred stock	0	0	0	(78)	(78)	(79)
Net periodic benefit cost	161	173	142	(210)	(148)	(83)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$1,382, \$1,122 and \$233, respectively, as of June 30, 1999, and \$1,206, \$984 and \$155, respectively, as of June 30, 1998.

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:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$28	\$(23)
Effect on postretirement benefit obligation	162	(136)

10. INCOME TAXES

Earnings before income taxes consist of the following:

	Years ended June 30		
	1999	1998	1997
United States	\$3,474	\$3,632	\$3,232
International	2,364	2,076	2,017
	<u>5,838</u>	<u>5,708</u>	<u>5,249</u>

The income tax provision consists of the following:

	Years ended June 30		
	1999	1998	1997
Current Tax Expense			
U.S. Federal	\$1,080	\$996	\$967
International	934	918	805
U.S. State & Local	121	115	88
	<u>2,135</u>	<u>2,029</u>	<u>1,860</u>
Deferred Tax Expense			
U.S. Federal	(74)	51	1
International & other	14	(152)	(27)
	<u>(60)</u>	<u>(101)</u>	<u>(26)</u>
Total	<u>2,075</u>	<u>1,928</u>	<u>1,834</u>

Taxes credited to shareholders' equity for the years ended June 30, 1999 and 1998 were \$222 and \$147, respectively. Undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely were \$7,764 at June 30, 1999.

The effective income tax rate was 35.5%, 33.8% and 34.9% in 1999, 1998 and 1997, respectively, compared to the U.S. statutory rate of 35.0%. Excluding the Organization 2005 program costs and related tax effects, the effective tax rate was 34.4%.

Deferred income tax assets and liabilities are comprised of the following:

	June 30	
	1999	1998
Current deferred tax assets	\$621	\$595
Non-current deferred tax assets (liabilities)		
Depreciation	\$(979)	\$(1,058)
Postretirement benefits	392	435
Loss and other carryforwards.. .. .	206	167
Other	19	28
	(362)	(428)

Included in the above are total valuation allowances of \$140 and \$177 in 1999 and 1998, respectively.

11. COMMITMENTS AND CONTINGENCIES

The Company has purchase commitments for materials, supplies, and property, plant and equipment incidental to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market.

The Company is subject to various lawsuits and claims with respect to matters such as governmental regulations, income taxes and other actions arising out of the normal course of business. The Company is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Accrued environmental liabilities for remediation and closure costs at June 30, 1999 were \$58 and, in management's opinion, such accruals are appropriate based on existing facts and circumstances. Current year expenditures were not material.

While the effect on future results of these items is not subject to reasonable estimation because considerable uncertainty exists, in the opinion of management and Company counsel, the ultimate liabilities resulting from such claims will not materially affect the Company's financial statements.

12. SEGMENT INFORMATION

In 1999, the Company was organized and managed on a geographical basis, with four operating segments: North America, which includes the United States and Canada; Europe, Middle East and Africa; Asia; and Latin America.

The Corporate & Other segment includes certain financing and employee benefit costs, goodwill amortization, other general corporate income and expense items, segment eliminations, certain asset impairments and the Organization 2005 costs (see Note 2). Corporate & Other also includes the activities of the Company's simplification and standardization program for the consolidation and re-engineering of selected manufacturing and distribution facilities, simplified product line-ups, as well as the gains and losses on sales of non-strategic brands and assets. Beginning with the fourth quarter of 1999, the Organization 2005 program superseded the simplification and standardization program. Corporate assets primarily include cash, investment securities and goodwill.

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 12%, 11% and 10% of consolidated net sales in 1999, 1998 and 1997, respectively. These sales occurred primarily in the North America segment.

		North	Europe, Middle East and Africa	Asia	Latin America	Corporate & Other	Total
		America					
Net Sales	1999	\$18,977	\$11,878	\$3,648	\$2,825	\$797	\$38,125
	1998	18,456	11,835	3,453	2,640	770	37,154
	1997	17,625	11,587	3,573	2,306	673	35,764
Net Earnings	1999	2,710	1,214	279	318	(758)	3,763
	1998	2,474	1,092	174	274	(234)	3,780
	1997	2,253	956	275	256	(325)	3,415
Earnings Before Income Taxes ..	1999	4,215	1,692	411	350	(830)	5,838
	1998	3,789	1,540	266	329	(216)	5,708
	1997	3,516	1,446	400	326	(439)	5,249
Identifiable Assets	1999	11,390	6,286	2,793	1,577	10,067	32,113
	1998	11,063	5,998	2,499	1,519	9,887	30,966
	1997	10,280	5,433	2,726	1,389	7,716	27,544
Capital Expenditures	1999	1,484	905	265	174	—	2,828
	1998	1,433	686	266	174	—	2,559
	1997	1,163	547	287	132	—	2,129
Depreciation and Amortization ..	1999	902	481	161	87	517	2,148
	1998	731	345	144	91	287	1,598
	1997	666	374	139	71	237	1,487
Interest Expense	1999	—	—	—	—	650	650
	1998	—	—	—	—	548	548
	1997	—	—	—	—	457	457

PRODUCT NET SALES INFORMATION

The following is supplemental information on net sales by product groups, aligned as follows:

Laundry and Cleaning-dish care, fabric conditioners, hard surface cleaners and laundry.
 Paper-diapers, feminine protection, tissue and towel, and wipes.
 Beauty Care-cosmetics, deodorants, fragrances, hair care, personal cleansing and skin care.
 Food and Beverage-coffee, commercial services, juice, peanut butter, shortening and oil, and snacks.
 Health Care-gastrointestinal, oral care, pharmaceuticals and respiratory care.

	Laundry and Cleaning	Paper	Beauty Care	Food and Beverage	Health Care	Corporate & Other	Total
1999	\$11,517	\$11,451	\$7,115	\$4,381	\$2,836	\$825	\$38,125
1998	11,099	10,862	7,160	4,376	2,849	808	37,154
1997	10,892	10,101	7,101	4,107	2,895	668	35,764

13. QUARTERLY RESULTS (UNAUDITED)

		Quarters Ended				Total Year*
		Sept. 30	Dec. 31	Mar. 31	June 30*	
Net Sales	1998-99	\$9,510	\$9,934	\$9,231	\$9,450	\$38,125
	1997-98	9,355	9,641	8,881	9,277	37,154
Operating Income	1998-99	1,874	1,837	1,665	877	6,253
	1997-98	1,739	1,688	1,516	1,112	6,055
Net Earnings	1998-99	1,167	1,142	1,040	414	3,763
	1997-98	1,087	1,046	961	686	3,780
Basic Net Earnings Per Common Share	1998-99	.86	.84	.76	.29	2.75
	1997-98	.79	.76	.69	.50	2.74
Diluted Net Earnings Per Common Share	1998-99	.80	.78	.72	.29	2.59
	1997-98	.73	.71	.65	.47	2.56

FINANCIAL HIGHLIGHTS

	Millions of Dollars Except Per Share and Percentage Amounts				
	1999*	1998	1997	1996	1995
Net Sales	\$38,125	\$37,154	\$35,764	\$35,284	\$33,482
Operating Income	6,253	6,055	5,488	4,815	4,244
Net Earnings	3,763	3,780	3,415	3,046	2,645
Net Earnings Margin	9.9%	10.2%	9.5%	8.6%	7.9%
Basic Net Earnings Per Common Share	2.75	2.74	2.43	2.14	1.85
Diluted Net Earnings Per Common Share	2.59	2.56	2.28	2.01	1.74
Dividends Per Common Share	1.14	1.01	.90	.80	.70
Research and Development Expense	1,726	1,546	1,469	1,399	1,304
Advertising Expense	3,538	3,704	3,466	3,254	3,284
Total Assets	32,113	30,966	27,544	27,730	28,125
Capital Expenditures	2,828	2,559	2,129	2,179	2,146
Long-Term Debt	6,231	5,765	4,143	4,670	5,161
Shareholders' Equity	12,058	12,236	12,046	11,722	10,589

*Operating income includes a before-tax charge of \$481 for Organization 2005 program costs. Net earnings include an after-tax charge of \$385 for Organization 2005 program costs, and basic and diluted net earnings per share include charges of \$.29 and \$.26, respectively.

* * * *

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Automated service available after U.S. business hours.

OR WRITE

The Procter & Gamble Company
Shareholder Services Department
P.O. Box 5572
Cincinnati
Ohio 45201-5572

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COMMON STOCK PRICE RANGE AND DIVIDENDS

	Price Range				Dividends	
	1998-99		1997-98		1998-99	1997-98
	High	Low	High	Low		
Quarter Ended						
September 30	\$94.00	\$65.13	\$77.56	\$64.06	\$.2850	\$.2525
December 31	94.81	69.63	83.44	62.00	.2850	.2525
March 31	101.81	82.00	87.88	77.31	.2850	.2525
June 30	103.81	84.13	92.50	80.19	.2850	.2525

CORPORATE HEADQUARTERS

The Procter & Gamble Company
P.O. Box 599
Cincinnati
Ohio 45201-0599

TRANSFER AGENT/SHAREHOLDER SERVICES

The Procter & Gamble Company
Shareholder Services Department
P.O. Box 5572
Cincinnati
Ohio 45201-5572

REGISTRAR

Chase Manhattan Trust Company, N.A.
255 East Fifth Street, Suite 2115
Cincinnati
Ohio 45202

EXCHANGE LISTING

New York, Cincinnati, Amsterdam, Paris, Basle, Geneva, Lausanne, Zurich, Frankfurt, Brussels, Tokyo.

SHAREHOLDERS OF COMMON STOCK

There were 278,245 Common Stock shareholders of record, including participants in the Shareholder Investment Program, as of July 23, 1999.

FORM 10-K

Beginning in October 1999, shareholders may obtain a copy of the Company's 1999 report to the Securities and Exchange Commission on Form 10-K by going to P&G's investor Web site at www.pg.com/investor or by calling us at 1-800-764-7483. This information is also available at no charge by sending a request to Shareholder Services at the address listed above.

SHAREHOLDERS' MEETING

The next annual meeting of shareholders will be held on Tuesday, October 12, 1999. A full transcript of the meeting will be available from Linda D. Rohrer, Assistant Secretary, at a cost of \$10. Ms. Rohrer can be reached at One P&G Plaza, Cincinnati, Ohio 45202-3315.

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APPENDIX III
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1999

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 1999

Commission file number 1-434

THE PROCTER & GAMBLE COMPANY
(Exact name of registrant as specified in its charter)

Ohio
(State of incorporation)

31-0411980
(I.R.S. Employer Identification No.)

One Procter & Gamble Plaza, Cincinnati, Ohio
(Address of principal executive offices)

45202
(Zip Code)

Registrant's telephone number, including area code

(513) 983-1100

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	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

There were 1,314,171,455 shares of Common Stock outstanding as of October 31, 1999.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The Condensed Consolidated Statements of Earnings of The Procter & Gamble Company and subsidiaries for the three months ended September 30, 1999 and 1998, the Condensed Consolidated Balance Sheets as of September 30, 1999 and June 30, 1999, and the Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 1999 and 1998 follow. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim period reported. However, such financial statements may not be necessarily indicative of annual results. Certain reclassifications of prior year's amounts have been made to conform with the current year's presentation.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Millions of Dollars Except Per Share Amounts)

	Three Months Ended September 30	
	1999	1998
NET SALES	\$9,919	\$9,510
Cost of products sold	5,206	5,142
Marketing, research, and administrative expenses	2,866	2,494
OPERATING INCOME	1,847	1,874
Interest expense	147	157
Other income, net	45	50
EARNINGS BEFORE INCOME TAXES	1,745	1,767
Income taxes	598	600
NET EARNINGS	<u>\$1,147</u>	<u>\$1,167</u>
PER COMMON SHARE:		
Basic net earnings	\$ 0.85	\$ 0.86
Dilutive net earnings	\$ 0.80	\$ 0.80
Dividends	\$0.320	\$0.285
AVERAGE COMMON SHARES OUTSTANDING—DILUTED ..	1,435.2	1,454.5

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Millions of Dollars)

	Three Months Ended September 30	
	1999	1998
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$2,294	\$1,549
OPERATING ACTIVITIES		
Net earnings	1,147	1,167
Depreciation and amortization	518	399
Deferred income taxes	191	81
Change in:		
Accounts receivable	(256)	(140)
Inventories	(294)	(189)
Accounts payable and accruals	392	138
Other operating assets and liabilities	(350)	(270)
Other	(1)	5
TOTAL OPERATING ACTIVITIES	1,347	1,191
INVESTING ACTIVITIES		
Capital expenditures	(684)	(440)
Proceeds from asset sales and retirements	98	137
Acquisitions	(2,797)	0
Change in investment securities	169	70
TOTAL INVESTING ACTIVITIES	(3,214)	(233)
FINANCING ACTIVITIES		
Dividends to shareholders	(452)	(406)
Change in short-term debt	1,965	841
Additions to long-term debt	1,007	765
Reduction of long-term debt	(265)	(105)
Proceeds from stock options	45	28
Purchase of treasury shares	(601)	(1,078)
TOTAL FINANCING ACTIVITIES	1,699	45
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3)	(12)
CHANGE IN CASH AND CASH EQUIVALENTS	(171)	991
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$2,123	\$2,540

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999. The results of operations for the three month period ended September 30, 1999 are not necessarily indicative of the results for the full year.
2. Comprehensive Income — Total comprehensive income is comprised primarily of net earnings, net currency translation gains and losses, and net unrealized gains and losses on securities. Total comprehensive income for the three months ended September 30, 1999 and 1998 was \$1,240 million and \$1,254 million, respectively.
3. Segment Information:
Effective July 1, 1999, the Company moved from a geographic region structure to product-based Global Business Units, which are responsible for all strategic, manufacturing and sourcing activities. Consistent with this, segment reporting has been changed to reflect the following product-based segments: Fabric and Home Care, Paper, Beauty Care, Food and Beverage and Health Care. Prior year information has been restated to conform with current year presentation. The basis for presenting segment results generally is consistent with overall company reporting. The primary difference relates to presentation of partially-owned operations, which are presented based on 100% ownership basis. The adjustment for this is included in Corporate & Other, which additionally also includes certain financing and investment activities, goodwill amortization, charges related to Organization 2005, and other general corporate income and expense items.

(Amounts in millions)

Three Months Ended September 30	Fabric & Home Care	Paper	Health Care	Beauty Care	Food & Beverage	Corporate & Other
Net Sales						
1999	\$3,160	\$3,012	\$799	\$1,820	\$1,209	\$ (81)
1998	2,915	3,077	692	1,823	1,154	(151)
Earnings Before Income Taxes						
1999	\$ 774	\$ 575	\$147	\$ 357	\$ 169	\$(277)
1998	708	616	117	379	130	(183)
Net Earnings						
1999	\$ 484	\$ 343	\$ 91	\$ 225	\$ 106	\$(102)
1998	442	352	70	235	79	(11)

Item 2. Management Discussion and Analysis

Results of Operations

The Company reported net earnings of \$1.15 billion or \$0.80 per diluted share for the quarter ended September 30, 1999. These results include charges related to the Company's Organization 2005 program, which was announced last June. This multi-year program is associated with the Company's reorganization to product-based Global Business Units, as described more fully below.

Core net earnings per diluted share, which exclude the Organization 2005 costs, were \$0.88, a 10 percent increase over the first quarter of last year. Core net earnings were \$1.27 billion, excluding \$120 million after tax in charges related to Organization 2005. This solid progress reflects a continued cost-containment focus in the face of significant initiative investments that yielded initial results in the first quarter and laid the foundation for future growth.

Reported net sales for the first quarter were a record \$9.92 billion, up four percent. Net sales grew five percent, excluding a one percent impact of negative exchange rates, primarily the euro and the Brazilian real. Unit volume grew two percent. New premium-priced initiatives and product upgrades boosted sales ahead of volume.

Gross margin was 47.5 percent for the current quarter compared to 45.9 percent in the same quarter of the prior year and 44.8 percent for the full fiscal year ended June 30, 1999. Included in Cost of Product Sold is \$105 million before tax related to Organization 2005. Gross margin was positively impacted this quarter by improved pricing, product mix, and lower manufacturing expenses.

Operating margin was 18.6 percent for the quarter compared to 19.7 percent in the same quarter a year ago and 16.4 percent for the prior fiscal year. Excluding \$160 million before tax in Organization 2005 charges, operating margin was 20.2 percent, primarily due to gross margin improvement.

Following are highlights by business segment:

Fabric and Home Care

As the Company's biggest and fastest-growing business unit, Fabric and Home Care set the pace for the Company's results. Net sales grew eight percent to \$3.16 billion on four percent unit volume growth supplemented by the launch of higher-margin initiatives and product upgrades. Currency impacts depressed sales by one percent. The recent launches of Swiffer and Dryel in North America and strong base business results drove volume gains. Share-building initiative activity in Northeast Asia spurred double-digit volume growth in the geography. Ariel tablets performed well after their spring launch in the United Kingdom and are currently being expanded in Western Europe. Net earnings grew ten percent to \$484 million, reflecting volume growth and improved pricing, despite continued initiative investment and the impact of unfavorable currency movements, particularly the euro.

Paper

The Paper business demonstrated strong volume gains on certain key brands, behind an upgrade on Charmin and increased capacity on Bounty and Charmin. These results were mitigated by significant competitive activity, particularly in diapers and feminine care products. Excluding a two percent impact from the Attends divestiture, volume and net sales were stable for the quarter, with net sales at \$3.01 billion. On the base business, successful pricing measures on certain brands and markets were offset by negative currency impacts. Despite the improved pricing, chiefly behind product upgrades in diapers, increased spending in a difficult competitive environment resulted in net earnings of \$343 million, a two percent decline.

Food and Beverage

Food and Beverage posted a strong first quarter. Geographical expansion in both snacks and juice helped push sales up five percent to \$1.21 billion, on comparable unit volume growth. A slate of new initiatives in North America, including Folgers Whole Bean, Pringles Twin Pack, Sunny Delight Eclipse, and Jif Smooth Sensations, along with the expansion of Pringles and Sunny Delight across Western Europe, drove the volume growth. Earnings grew 35 percent to \$106 million, behind the volume gains on the base business, higher-margin initiatives, and improved gross margin.

Beauty Care

During the first quarter, Beauty Care continued to see benefits from the launch of Oil of Olay Cosmetics, as well as a number of other premium initiatives. Premium initiatives, as well as favorable currency impacts in Northeast Asia, helped offset a three percent unit volume decline to maintain sales in line with year-ago levels at \$1.82 billion. Currency effects contributed one percent to the sales increase. Volume comparisons reflect strong year-ago results and the current competitive environment, primarily for hair care in key European markets. Western Europe results were negatively impacted by the recent introduction of new trade terms in France and the prior year divestiture of certain minor brands. Volume also was impacted by economic sluggishness in China that dampened consumption and certain trade inventory adjustments in advance of current quarter pricing actions. Net earnings were \$225 million, down four percent as volume declines and initiative spending offset pricing improvements.

Health Care

Health Care segment results included the integration of the newly acquired pet health and nutrition business, The Iams Company, in September, 1999. Net sales increased 16 percent to \$799 million on seven percent unit volume growth, primarily reflecting the Iams acquisition. Negative exchange impacts reduced sales by one percent for the quarter. Net earnings were \$91 million, a 29 percent increase over the prior year. The overall segment earnings reflect the benefits of favorable pricing and increased licensing and divestiture activity, which more than offset continued investment behind future initiatives and product upgrades.

Corporate

The Corporate segment includes certain financing and investing activities, other general corporate income and expense items, segment eliminations, and Organization 2005 costs which amounted to \$120 million after tax for the July-September 1999 quarter.

Financial Condition

Total debt increased \$2.7 billion since June 30, 1999. The incremental debt was used primarily to fund the previously announced share repurchase program and the acquisition of The Iams Company, which was completed August 31, 1999.

Year 2000 Update

As outlined in the 10-K for the year ended June 30, 1999, the Company has substantially completed its program to address the possible exposures related to the impact on its computer systems of the Year 2000. These plans have not changed materially in terms of scope or estimated costs to complete, and have progressed according to previously identified time schedules.

Implementation of required changes to critical systems is complete. Testing and certification of critical systems, which includes review of documented remediation work and test results by technical experts, key users, and a central project team, was successfully completed by September 30, 1999. The focus in this area is now on maintaining Year 2000 readiness. The Company's risk management program, which was expanded to include the Year 2000 Business Continuity Plan (BCP), was completed by October 31, 1999, consistent with previously identified time schedules. The objectives of the BCP are twofold: (1) to ensure business-critical processes are protected from disruption and will continue to function during and after the year 2000; and, (2) to ensure the Company's ability to produce an acceptable level of products and services is safeguarded in the event of failures of external systems and services. The BCP includes, for example, identification of alternative suppliers or customers, possible increases in safety inventory levels and other backup procedures.

Businesses and assets acquired by the Company after June 30, 1999 but prior to the end of 1999 are subjected by the Company to a Year 2000 assessment process and, where feasible, representations as to Year 2000 readiness are obtained from the seller. Post-closing, the Company will take such actions as it considers necessary regarding Year 2000 readiness, including modification or remediation work and testing.

Incremental costs related to Year 2000 efforts, which include contractor costs to modify existing systems and costs of internal resources dedicated to achieving and maintaining Year 2000 compliance, are charged to expense as incurred. Costs are expected to total approximately \$90 million, of which over 90 percent has been spent through September 30, 1999.

The Company is taking all reasonable steps to prevent major interruptions in the business due to Year 2000 issues. The effect, if any, on the Company's financial statements if the Company, its customers, its suppliers, or the public sector are not fully Year 2000 compliant is not reasonably estimable. The Company believes, however, that the successful completion of its Year 2000 project will significantly reduce the risk of a major business interruption due to Year 2000 failures. Additionally, the Company's broad base of customers and suppliers and the worldwide nature of its operations is expected to mitigate any Year 2000 risks.

Organization 2005 Update

On June 9, 1999, the Company announced an Organization 2005 program that is an integral part of the broader 2005 initiative, which includes a realignment of the organization structure, work processes and culture designed to accelerate growth by streamlining management decision-making, manufacturing and other work processes. These changes are intended to increase the Company's ability to innovate and bring initiatives to global markets more quickly. In order to implement the program's structural changes and achieve the benefits of faster growth, the Company needs to make a number of structural changes to both its administrative and manufacturing operations.

Charges related to Organization 2005 consist primarily of costs related to the consolidation of manufacturing facilities (including accelerated depreciation, asset writedowns and contract termination costs) and employee separation costs. During the quarter ended September 30, 1999, the Company recorded expenses totaling \$160 million before tax related to Organization 2005, as detailed in the following table:

ORGANIZATION 2005 JULY-SEPTEMBER 1999 CHARGES (BEFORE TAX)

	Beginning Reserves	Total New Charges	Cash Spent During Period	Amount Charged Against Assets	Ending Reserves
Employee separations.. .. .	\$35	\$ 47	\$(12)	\$ —	\$70
Asset write-downs	—	2	—	(2)	—
Accelerated depreciation	—	100	—	(100)	—
Other	9	11	(6)	(2)	12
	<u>\$44</u>	<u>\$160</u>	<u>\$(18)</u>	<u>\$(104)</u>	<u>\$82</u>

Organization 2005 charges are included in the Company's cost of products sold (\$105 million) and in marketing, research and administrative expenses (\$55 million), and are included in Corporate & Other in the Company's segment reporting disclosure. The underlying plant closures and consolidations will impact all regions and product segments. The planned plant closures and consolidations will not all be executed immediately due to either capacity or logistics constraints.

Employee separation charges in July-September, 1999 relate to severance packages for approximately 700 people, representing primarily administrative employees in North America, Asia, Europe, Middle East and Africa. The predominantly voluntary packages are formula-driven, based on salary levels and past service. Severance costs related to voluntary separations are charged to earnings when the employee accepts the offer in accordance with P&G policy for such programs. On average, net enrolment is expected to decline by approximately 75 percent of total separations, as some terminations will be partially offset through increased enrolment at remaining sites. Of total separations expected through fiscal 2001, approximately half will take place in manufacturing with the balance in administrative functions. Separation costs related to manufacturing employees are included in cost of products sold, while those for administrative employees are reported in marketing, research and administrative expenses.

Charges for accelerated depreciation relate to long-lived assets that will be taken out of service prior to the end of their normal service period due to manufacturing consolidations, technology standardization and closures that will occur primarily over the next three years as a result of the Organization 2005 program. The Company has changed the estimated useful lives of such assets, resulting in an acceleration of depreciation. The majority of accelerated depreciation recorded in the July-September, 1999 quarter is concentrated in the Paper segment and reflects the standardization of manufacturing and other work processes being undertaken in that segment.

Other costs include primarily relocation and training costs, as well as other Organization 2005-related expenses. Such costs are expensed as incurred.

PART II. OTHER INFORMATION

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

At the Company's 1999 Annual Meeting of Shareholders held on October 12, 1999, the following action was taken:

The following Directors were elected for terms of office expiring in 2002:

	Votes for	Votes withheld	Abstentions*	Broker Non-Votes*
Donald R. Beall	1,204,249,875	8,046,622	N/A	N/A
Gordon F. Brunner	1,201,356,980	10,939,517	N/A	N/A
Richard B. Cheney	1,203,346,454	8,950,043	N/A	N/A
Durk I. Jager	1,200,494,695	11,801,802	N/A	N/A
Charles R. Lee	1,203,914,387	8,382,110	N/A	N/A

* Pursuant to the terms of the Notice of Annual Meeting and Proxy Statements, proxies received were voted, unless authority was withheld, in favor of the election of the five nominees named.

A proposal by the Board of Directors to ratify the appointment of Deloitte & Touche LLP as the Company's independent auditors to conduct the annual audit of the financial statements of the Company and its subsidiaries for the fiscal year ending June 30, 2000, was approved by the shareholders. The shareholders cast 1,201,941,481 votes in favor of this proposal and 6,590,219 votes against. There were 3,772,827 abstentions.

A proposal by the Board of Directors to ratify and approve certain grants of stock options or stock appreciation rights was approved by the shareholders. The proposal, reflecting the Compensation Committee's recommendation to encourage executive participants to hold their stock options for a longer period, requested that all outstanding grants of conditional stock options with a life of more than ten years to the Chief Executive or to any other executive officer subject to Section 162 (m) of the Internal Revenue Code and subject to U.S. taxes be approved, have conditions removed, and have a maximum life of no more than fifteen years from the date of grant. The shareholders cast 1,108,929,577 votes in favor of this proposal and 90,198,842 votes against. There were 13,171,228 abstentions.

A shareholder resolution proposed by Evelyn Y. Davis was defeated by the shareholders. The proposal sought to reinstate the system of electing all Directors annually, in place of the system of classifying Directors into three classes with overlapping three-year terms which was approved by the shareholders in 1985. The Board opposed the resolution. The shareholders cast 416,736,482 votes in favor of the resolution and 614,231,103 against. There were 18,201,527 abstentions and 163,135,416 broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- (3-1) Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- (3-2) Regulations (Incorporated by reference to Exhibit (3-2) of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
- (11) Computation of Earnings per Share.
- (12) Computation of Ratio of Earnings to Fixed Charges.
- (27) Financial Data Schedule.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K containing information pursuant to Item 5 ("Other Events") dated August 11, 1999, entitled "Joint Press Release by The Proctor & Gamble Company and The Iams Company Regarding the Purchase of Iams by P&G."

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

D.R. WALKER

.....

D. R. Walker
Vice President and Comptroller
(Principal Accounting Officer)

Date: November 5, 1999

EXHIBIT (11)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

Computation of Earnings Per Share

(Amounts in Millions of Dollars Except Per Share Amounts)

	Three Months Ended September 30	
	1999	1998
BASIC NET EARNINGS PER SHARE		
Net earnings	\$1,147	\$1,167
Deduct preferred stock dividends	30	25
Net earnings applicable to common stock	<u>\$1,117</u>	<u>\$1,142</u>
Average number of common shares outstanding	<u>1,316.5</u>	<u>1,332.4</u>
Basic net earnings per share	<u>\$ 0.85</u>	<u>\$ 0.86</u>
DILUTED NET EARNINGS PER SHARE		
Net earnings	\$1,147	\$1,167
Deduct differential — preferred vs. common dividends	5	5
Net earnings applicable to common stock	<u>\$1,142</u>	<u>\$1,162</u>
Average number of common shares outstanding	<u>1,316.5</u>	<u>1,332.4</u>
Add potential effect of:		
Exercise of options	23.3	24.0
Conversion of preferred stock	95.4	98.1
Average number of common shares outstanding, assuming dilution	<u>1,435.2</u>	<u>1,454.5</u>
Diluted earnings per share	<u>\$ 0.80</u>	<u>\$ 0.80</u>

EXHIBIT (12)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges

(Millions of Dollars)

	Years Ended June 30				
	1995	1996	1997	1998	1999
EARNINGS AS DEFINED					
Earnings from operations before income taxes after eliminating undistributed earnings of equity method investees.. .. .	\$4,022	\$4,695	\$5,274	\$5,704	\$5,866
Fixed charges, excluding capitalized interest	571	576	534	639	751
TOTAL EARNINGS, AS DEFINED ..	\$4,593	\$5,271	\$5,808	\$6,343	\$6,617
FIXED CHARGES, AS DEFINED					
Interest expense including capitalized interest	\$ 511	\$ 493	\$ 457	\$ 548	\$650
1/3 of rental expense	83	91	77	91	101
TOTAL FIXED CHARGES AS DEFINED	\$ 594	\$ 585	\$ 534	\$ 639	\$ 751
RATIO OF EARNINGS TO FIXED CHARGES.. .. .	7.7	9.0	10.9	9.9	8.8

APPENDIX IV
CURRENT REPORT ON FORM 8-K
DATED AUGUST 11, 1999

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report

PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported)

August 11, 1999

THE PROCTER & GAMBLE COMPANY
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation)	1-434 (Commission File Number)	31-0411980 (IRS Employer Identification Number)
One Procter & Gamble Plaza, Cincinnati, Ohio (Address of principal executive offices)		45202 (Zip Code)
Registrant's telephone number, including area code		(513) 983-1100

Item 5. Other Events

On August 2, 1999, The Procter & Gamble Company (the "Company") entered into a Share Purchase Agreement between the Company, The Iams Company, and Certain of its Affiliates and The Shareholders of the Iams Company and Certain of Its Affiliates.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

/s/TERRY L. OVERBEY

.....
Terry L. Overbey, Secretary

Date: August 11, 1999

Exhibit

1. **Joint Press Release by The Procter & Gamble Company and The Iams Company dated August 11, 1999.**

EXHIBIT

FOR IMMEDIATE RELEASE

P&G AND IAMS JOIN FOR BETTER PET HEALTH

CINCINNATI AND DAYTON, OH, Aug. 11, 1999—The Procter & Gamble Company (P&G) and The Iams Company today announced that P&G will purchase Iams for about \$2.3 billion. Iams is a global leader in premium pet nutrition. Its Eukanuba and Iams brands of dog and cat food are sold in 77 countries.

This is P&G's largest acquisition. The agreement is subject to U.S. and foreign pre-merger clearances.

"Iams is a terrific business—strong innovation, leading brands, global growth, talented people," said Durk Jager, P&G's president and chief executive. "It fits well with P&G strengths, including expertise in health and nutrition. Iams will be an important contributor to accelerating our growth."

Clay Mathile, chairman and owner of The Iams Company, said: "This is an exciting growth opportunity for our products and people because P&G understands and respects Iams' mission, which is to enhance the well being of dogs and cats. With P&G, we can further advance that mission around the world."

Building Block for Growth

In June, P&G said acquisitions will be one "building block" in a total program to reach the company's Organization 2005 growth goals. Entering the global pet health and nutrition business, specifically with Iams, is a first step.

In fact, the idea of entering global pet nutrition was spawned by P&G's new corporate new ventures (CNV) group. The group is charged with examining and pursuing new growth opportunities, which cut across or go beyond P&G's current businesses.

"In our old structure, an idea like this would have been much more difficult to bring to life," Jager said. "In Organization 2005, it took just 60 days, from the time we first met with Iams management."

The global pet food market is huge: \$25 billion. The premium segment, which now represents 10% of the global market, is growing fastest. Iams is leading that growth. With annual sales of about \$800 million, Iams has been growing an average of 16 percent annually for the past four years.

At the same time, Iams' international sales represent only 30% of total revenues, even though two-thirds of the global pet nutrition market exists outside of North America. P&G intends to use its global scale and strong presence outside of the U.S. to drive growth, as it expands the Eukanuba and Iams brands internationally.

Outstanding Fit

P&G and Iams see this move as a tremendous opportunity to combine and capitalize on each organization's strengths. Specifically:

- **Product innovation.** Pet products based on superior nutritional science, targeted to specific health needs, are growing fast. Iams is already the best at this. P&G will bring its scientific expertise in nutrition, bone and tooth health, hygiene, hair and skin care. Together, this will lead to more health benefits for dogs and cats.
- **Premium-performance, premium-priced products.** This is P&G's strategy and Iams' heritage. Iams is the recognized leader in premium dog and cat nutrition. Both companies invest more than 2 percent of annual sales in R&D, far more than most competitors.
- **Strong brands.** Eukanuba and Iams are leading, trusted brands—just like Tide, Vicks and Pantene.
- **Distribution.** Iams has built a strong foundation internationally. P&G's global scale and capability will fuel and sustain that growth.

P&G Committed to Iams

Iams employs 2100 people globally, including more than 700 in Ohio. Under P&G ownership, Iams headquarters will remain in Dayton for at least several years. The Paul F. Iams Technical Center is expected to remain in the Dayton area.

In addition, Iams' manufacturing facilities in Ohio, Nebraska, North Carolina, South Dakota and the Netherlands will continue producing Eukanuba and Iams dog and cat foods.

As part of P&G, Iams will join P&G's health care and corporate new ventures global business unit, which is led by Bruce L. Byrnes.

P&G said its first order of business will be to learn the pet health and nutrition business first-hand, "from the experts." P&G said it expects the acquisition will be completed in about 30 days.

For more than 50 years, The Iams Company has enhanced the health and well being of dogs and cats by providing world-class quality foods. For information on pet care and nutrition, call the Iams pet professionals at 1-800-863-4267, or visit Iams on the web at www.iams.com.

P&G markets more than 300 brands to nearly five billion people in more than 140 countries. These brands include Crest, Pantene Pro-V, Pampers, Oil of Olay, Vicks and Pepto-Bismol. P&G has on-the-ground operations in 70 countries and employs more than 110,000 people. For fiscal year 1998-99, P&G sales were \$38 billion. Visit P&G's website: www.pg.com.

* * *

Contacts:	Don Tassone, P&G	513/945-8170
	Linda Ulrey, P&G	513/983-8975
	Bryan Brown, Iams	937/264-7416

APPENDIX V

**PRESS RELEASE
DATED 25th JANUARY 2000**

**P&G Reports Second Quarter Earnings,
Growth Accelerates**

CINCINNATI, Jan. 25, 2000 — The Procter & Gamble Company reported today another quarter of strong sales and profit growth on record second quarter unit volume. Crediting faster speed-to-market with initiatives and a greater strategic focus from its Organization 2005 program, the company achieved its largest quarterly sales increase since 1997. Unit volume grew six percent, reflecting continued initiative activity around the world, base business growth and acquisitions. Net sales increased seven percent to a record \$10.59 billion. Exchange rates, primarily in Western Europe, negatively impacted sales by two percentage points.

The company reported net earnings of \$1.13 billion, or \$0.78 per diluted share, for the quarter ended December 31, 1999, including charges of \$137 million related to its Organization 2005 program. Core net earnings per diluted share, which exclude the Organization 2005 costs, were \$0.88, a 13 percent increase over the second quarter of last year. Organization 2005 is the company's multi-year program designed to accelerate growth by increasing innovation and speed-to-market. The objective of the program is to increase long-term sales growth to six-to-eight percent annually and increase growth in core net earnings per share to 13-15 percent over a five year period.

"Organization 2005 is allowing us to continually innovate and bring new-to-the-world products to market faster, as evidenced by our accelerating momentum in sales growth," said P&G Chairman and Chief Executive Durk I. Jager. "In this quarter, we have integrated Iams and are already changing the rules of the game in the pet food industry by expanding into new retail channels. We're making new investments in start-up internet ventures, such as reflect.com, a personalized cosmetics internet-based brand. We are changing the way we do business and plan to introduce even more new initiatives during the last half of the fiscal year."

"Our new Organization 2005 structure is working well," continued Jager. "It is streamlining our management structure and decision making as we consolidate strategic management into fewer locations. This will result in even greater speed and lower costs, including a gradual reduction in tax costs outside of the United States as we increase our operational efficiencies."

For the first six months, reported net earnings were \$2.27 billion, or \$1.58 per diluted share. Worldwide sales grew five percent to \$20.51 billion, or seven percent excluding the effects of unfavorable exchange rates, on four percent unit volume growth. Core net earnings were \$2.53 billion, while core diluted net earnings per share grew 11 percent to \$1.76.

Following are highlights by business segment:

Fabric and Home Care: Fabric and home care continued to deliver strong results, with unit volume growth of eight percent, double the growth rate posted in the September quarter this year. Sales increased 10 percent to \$3.17 billion, while net earnings grew seven percent to \$405 million. Excluding negative currency impacts, sales grew 12 percent. Base business strength and initiatives combined to ignite top-line growth. Volume growth was broad-based across major markets in North America and Western Europe. Importantly, both volume and share growth were particularly strong in Northeast Asia and the Southern Cone (Brazil, Argentina, Chile). Febreze®, Swiffer® and Dryel® sales continued to grow strongly from global expansion and the introduction of new line extensions. The company also announced plans to introduce Ariel® liquid in Japan and to launch another innovative new product, Fit Fruit and Vegetable Wash®, in the United States this spring.

For the first six months of the fiscal year, a six percent unit volume increase and higher value initiatives drove sales up nine percent. Net earnings increased eight percent.

Paper: Paper results improved during the second quarter, with three percent volume growth behind strong increases on Charmin® and Bounty® and improved performance in diapers. The divestiture of the Attends adult incontinence business weakened comparisons, negatively impacting volume and sales by two percent versus the same quarter last year. Net sales increased one percent to \$3.18 billion. Excluding negative exchange rate impacts, net sales grew three percent. Continued investment in new initiatives and geographic expansion impacted earnings, which declined 15 percent to \$293 million. Earnings also were affected by rising pulp prices, although pricing actions in baby care last year helped mitigate the effects in most geographies.

On a year-to-date basis, sales were down one percent on flat unit volume. Net earnings fell eight percent.

Beauty Care: Beauty care was impacted by a difficult competitive environment and declining consumption in China, where the hair care market has been especially hard hit by the weakened economy. Sales fell three percent to \$1.90 billion on a five percent volume decline. Net earnings were equal to year-ago at \$273 million, due largely to progress on cost control. The company continues to emphasize long-term value creation by investing in premium initiatives, such as Secret Platinum® and Oil of Olay Cosmetics®. Several new product upgrades and launches, including the U.S. launch of the Physique® styling-led hair care brand, are planned for the back half of the year.

For the first six months of the year, unit volume fell four percent. Sales and net earnings fell two percent.

Health Care: The health care segment delivered strong results this quarter, behind the acquisitions of Iams, and Recovery Engineering with its water filtration brand, PuR®. Net sales increased 35 percent to \$1.07 billion on 33 percent unit volume growth. Net earnings were up 57 percent to \$125 million, driven by outstanding progress by Iams that supplemented solid base business earnings. The company recently announced that Iams pet food products will be expanded to new retail channels in the coming quarter, only a few months after the integration of the acquisition. Health care also introduced ThermaCare® portable heat wraps, which are intended to change the way consumers think about pain relief.

On a year-to-date basis, unit volume increased 21 percent with net sales up 26 percent. Net earnings increased 44 percent. Improvements were driven by the newly acquired businesses, as well as strong growth in leading respiratory brands.

Food and Beverage: Continued expansion of snacks across geographies, mainly in Western Europe, drove strong quarterly results, with sales increasing four percent to \$1.32 billion on comparable unit volume growth. Recent launches of Pringles® in Spain and Italy, and the introduction of Pizzalicious flavor in Japan are yielding great results. Excluding the effects of the Hawaiian Punch divestiture, volume grew nine percent, boosted by recent initiative launches of Folgers Whole Bean®, Pringles Twin Pack®, Sunny Delight Eclipse®, and Jif Smooth Sensations®. Significant improvements in gross margin, behind a sharpened focus on cost control, boosted earnings 23 percent to \$137 million, despite investments in new initiatives.

For the first half of the year, sales increased five percent on four percent unit volume growth. Net earnings climbed 28 percent, reflecting cost improvements.

Fiscal Year Estimates

The company confirmed that it was comfortable with the current range of analyst estimates for fiscal year earnings. However, earnings growth may be more concentrated in the April-June quarter, given heavy initiative spending planned for the January-March quarter. Volume and sales increases through the remainder of the year are expected to be above the growth achieved in the July-December period. For fiscal year 2001 and beyond, the company has raised its internal expectations and is targeting for earnings growth near the top of its 13-15 percent target range, as it sees increased financial benefits flowing from Organization 2005.

Procter & Gamble markets approximately 300 brands to nearly five billion consumers in over 140 countries. These brands include Tide®, Ariel®, Crest®, Pantene Pro-V®, Always®, Whisper®, Pringles®, Pampers®, Oil of Olay®, Iams® and Vicks®. Based in Cincinnati, Ohio, USA, P&G has on-the-ground operations in over 70 countries and employs more than 110,000 people worldwide.

This news release contains forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition to the risks and uncertainties noted in this news release, there are certain factors that could cause results to differ materially from those anticipated by some of the statements made. These factors are listed in Management's Discussion and Analysis of Financial Condition and Results of Operations in the company's most recently filed Form 10-K.

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THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

Consolidated Earnings Information

Three Months Ended December 31, 1999

	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	Net Earnings	% Change Versus Year Ago
Fabric and Home Care	\$ 3,168	10%	\$653	7%	\$405	7%
Paper	3,181	1%	498	-16%	293	-15%
Beauty Care	1,903	-3%	420	-4%	273	0%
Health Care	1,074	35%	202	75%	125	57%
Food and Beverage	1,321	4%	219	21%	137	23%
Corporate (excluding O-2005 costs)	(59)	n/a	(94)	n/a	30	n/a
Total Company — Core Organization 2005 Costs	10,588	7%	1,898	10%	1,263	11%
	n/a	n/a	(183)	n/a	(137)	n/a
Total Company — Reported Core Earnings Per Common Share:	10,588	7%	1,715	-1%	1,126	-1%
— Basic					\$ 0.94	12%
— Diluted					\$ 0.88	13%
Reported Earnings Per Common Share:						
— Basic					\$ 0.83	-1%
— Diluted					\$ 0.78	0%

Six Months Ended December 31, 1999

	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	Net Earnings	% Change Versus Year Ago
Fabric and Home Care	\$ 6,328	9%	\$1,427	8%	\$890	8%
Paper	6,193	-1%	1,073	-11%	637	-8%
Beauty Care	3,722	-2%	777	-5%	498	-2%
Health Care	1,874	26%	349	50%	215	44%
Food and Beverage	2,530	5%	388	25%	243	28%
Corporate (excluding O-2005 costs)	(140)	n/a	(211)	n/a	47	n/a
Total Company — Core Organization 2005 Costs	20,507	5%	3,803	9%	2,530	10%
	n/a	n/a	(343)	n/a	(257)	n/a
Total Company — Reported Core Earnings Per Common Share:	20,507	5%	3,460	-1%	2,273	-2%
— Basic					\$ 1.88	11%
— Diluted					\$ 1.76	11%
Reported Earnings Per Common Share:						
— Basic					\$ 1.68	-1%
— Diluted					\$ 1.58	0%
Average Shares Outstanding						
— Diluted					1,434.8	

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