

The Procter & Gamble Company

£200,000,000
5.25% Notes due 2033

Issue price: 98.355%

The 5.25% Notes due 2033 (the "Notes") will bear interest from, and including, 4th December 2002 at the rate of 5.25 per cent. per annum payable annually in arrears on 19th January of each year, commencing 19th January 2004 (subject to any applicable laws and regulations). The Notes will mature on 19th January 2033 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 4.25 per cent. Treasury Stock 2032 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 Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear"), and for Clearstream Banking, *société anonyme* ("Clearstream") on a date on or about 4th December 2002 (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".

Deutsche Bank

ABN AMRO

Goldman Sachs International

Morgan Stanley

JPMorgan

BNP PARIBAS

HSBC

RBC Capital Markets

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 authorised 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 authorised 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 authorised 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".

This Offering Circular is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "Relevant Persons"). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. 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.

In connection with this issue, Deutsche Bank AG London 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 2002 Annual Report on Form 10-K for the fiscal year ended 30th June 2002; (2) excerpts from the Company's Annual Report to Shareholders for the fiscal year ended 30th June 2002; (3) excerpts from the Company's Definitive Proxy Statement dated 23rd August 2002; (4) the Company's Quarterly Report on Form 10-Q for the quarter ended 30th September 2002; and (5) the Company's Current Report on Form 8-K dated 26th November 2002 (related to reclassification of segment reporting). In addition, the Company's Current Reports on Form 8-K dated 5th August 2002, 27th September 2002, 24th October 2002, 29th October 2002 and 26th November 2002, which are not attached, are 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 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 4th December 2002 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 £200,000,000 5.25 per cent. Notes due 19th January 2033 (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 4th December 2002 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 £200,000,000 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, and including, 4th December 2002 at the rate of 5.25 per cent. per annum payable annually in arrears on 19th January (an “Interest Payment Date”). The first payment of interest will be made on 19th January 2004 in respect of the 411-day period from (and including) 4th December 2002 to (but excluding) 19th January 2004. 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 required to be calculated for a period of more than or less than one year, it will be calculated on the following basis:

- (i) if the Accrual Period (defined below) is equal to or shorter than the Determination Period (defined below) in which it falls, it will be calculated based on a day count fraction the numerator of which is the number of days in the Accrual Period and the denominator of which is the number of days in such Determination Period;
- (ii) if the Accrual Period is longer than one Determination Period, the day count fraction will be calculated based on the sum of (A) the number of days in such Accrual Period falling in the Determination Period in which it begins divided by the number of days in that Determination Period; and (B) the number of days in such Accrual Period falling in the next Determination Period divided by the number of days in such Determination Period.

For the purposes of the calculation of interest, “Accrual Period” means the relevant period for which interest is to be calculated (from (and including) the first such date to (but excluding) the last) and “Determination Period” means the period from (and including) 19th January in any year to (but excluding) the next 19th January.

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 Euroclear Bank S.A./N.V. as the operator of the Euroclear and for Clearstream, 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 4th December 2002. 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 under “Payment of Additional Amounts”), 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 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 Clearstream, 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 Clearstream.

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”. Under the sections referred to in such legend, United States persons (as defined under “Payment of Additional Amounts”), 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, for United States Federal income tax purposes.

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 Clearstream, each person who is for the time being shown in the records of Euroclear or Clearstream as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream 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 Clearstream 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 Clearstream as the holder of a particular principal amount of Notes represented by the Permanent Global Note must look solely to Euroclear or Clearstream, 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.

In addition, the Company undertakes that, if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 is issued, or any law implementing or complying with, or introduced in order to conform to, any such Directive is enacted, to the extent permitted by law it will maintain a paying agent in a Member State of the European Union (if any) that will not require withholding or deduction of tax pursuant to any such Directive or law.

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 cancelled, the Notes will be payable at par including Additional Amounts, if any, on 19th January 2033 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 19th January 2033 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 per cent. 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 4.25 per cent. Treasury Stock 2032 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 Deutsche Bank AG London.

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 per cent. 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 authorised 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 recognised 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 recognised 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 (as distinguished from, for example, status as a United States Alien as defined under “Payment of Additional Amounts”) of a beneficial owner of such Note or coupon who is a United States Alien (other than such a requirement which (a) 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) 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) would be applicable only to a payment by a custodian, nominee or other agent of the beneficial owner to the beneficial owner, or (d) 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 “Taxation – 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 per cent. 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 a 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, for example, 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 (j) 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 recognised 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 per cent. 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 "Taxation – 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, 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 any governmental authority of the nationality, residence or identity of the beneficial owner of the Note or coupon), or (iii) such holder or beneficial owner being or having been with respect to the United States a personal holding company, a foreign personal holding company, a controlled foreign corporation, a passive foreign investment company, a foreign private foundation, a foreign tax exempt organisation or 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 per cent. 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 United States Internal Revenue Code of 1986, as amended (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;
- (h) any tax, duty, assessment or other governmental charge required to be withheld or deducted where such withholding or deduction is imposed on a payment to an individual pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th–27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (i) any tax, duty, assessment or other governmental charge that would not have been imposed in respect of any Note or coupon if such Note or coupon had been presented to another paying agent in a Member State of the European Union; or
- (j) any combination of items (a), (b), (c), (d), (e), (f), (g), (h) and (i).

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 a person that is not a “United States person”. “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, or a trust that is subject to the primary supervision of a court within the United States and the control of a United States person or that has a valid election in effect under applicable Regulations to be treated as a “United States person”.

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, Clearstream 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 Gross 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 more than or less than one year, it will be calculated on the following basis:
 - (i) if the Accrual Period is equal to or shorter than the Determination Period in which it falls, it will be calculated based on a day count fraction the numerator of which is the number of days in the Accrual Period and the denominator of which is the number days in such Determination Period;
 - (ii) if the Accrual Period is longer than one Determination Period, the day count fraction will be calculated based on the sum of (A) the number of days in such Accrual Period falling in the Determination Period in which it begins divided by the number of days in that Determination Period; and (B) the number of days in such Accrual Period falling in the next Determination Period divided by the number of days in such Determination Period.

- (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 defences 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 per cent. 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 favour of the Company or a Domestic Subsidiary, (c) Mortgages in favour 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 cent. 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, unamortised 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 per cent. 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 per cent. 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 favourable vote of the holders of the lesser of (i) a majority in principal amount of the outstanding Notes and (ii) 75 per cent. 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 instalment 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 reorganisation.

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 per cent. 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 organised 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 Clearstream, be substituted for such publication in London, the delivery of the relevant notice to Euroclear and Clearstream 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 Clearstream; 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 £195,460,000 after deducting the Managers' combined commission but before deducting other expenses relating to the offering) will be used for the repayment of existing indebtedness and general corporate purposes.

THE COMPANY

Procter & Gamble has been incorporated under the laws of the State of Ohio since 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, we manufacture and market a broad range of consumer products in many countries throughout the world. Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983 1100.

Our business is organised into five product-based, reportable segments called Global Business Units (“GBUs”). These units are: fabric and home care; baby and family care; beauty care; health care; and snacks and beverages.

- Fabric and home care includes laundry, fabric enhancers, dishcare and household cleaning products. Representative brands include Ariel, Tide, Dryel, Downy, Cascade, Dawn, and Swiffer.
- Baby and family care includes tissues, towels, diapers and wipes. Representative brands include Bounty, Charmin, Pampers and Pampers Wipes.
- Beauty care includes hair care, hair colorants, deodorants, personal cleansing, skin care and cosmetics and fragrances. Beauty care also includes our feminine care line of tampons, pads and liners. Representative brands include Pantene, Herbal Essences, Nice 'N Easy, Head & Shoulders, Secret, Zest, Olay, Cover Girl, Old Spice, Always, Whisper and Tampax.
- Health care includes oral care, personal health care, pharmaceuticals, and pet health and nutrition. Representative brands include Crest, Scope, Metamucil, Vicks, Actonel, Asacol, Iams and Eukanuba.
- Snacks and beverages includes coffee, juice and snacks. Representative brands include Folgers, Sunny Delight and Pringles.

In the fiscal year ended 30th June 2002, the fabric and home care and baby and family care global business units accounted for 29 per cent. and 23 per cent. of total sales respectively. Beauty care accounted for 27 per cent., health care accounted for 12 per cent. and snacks and beverages accounted for 8 per cent. of total sales.

Our GBU structure is complemented by eight Market Development Organisations (“MDOs”) intended to maximise the business potential for the entire product portfolio in each local market. We began implementing the GBU/MDO structure in April 1999 as part of our Organisation 2005 restructuring programme. The programme was expanded in 2001 to deliver further cost reductions.

In the United States, as of 30th June 2002, we owned and operated 36 manufacturing facilities and leased and operated 2 manufacturing facilities in 21 states. In addition, we owned and operated 89 manufacturing facilities in 44 other countries as of that date.

RECENT DEVELOPMENTS

In October 2001, we announced our intention to divest our Crisco and Jif brands in a spin-merge transaction with the J. M. Smucker Company. We completed this transaction on 31st May 2002. The elements of the former food & beverage segment that were spun off or divested are now presented as part of the Company’s corporate segment. In addition, effective 1st July 2002 the Company realigned the management of its feminine care business from the baby, feminine & family care segment to beauty care segment.

To reflect these management and business changes selected prior year segment results have been reclassified to provide comparable current and historical results. For additional information and selected segment information for the fiscal years ended 30th June 2002 and 2001, please see the Company’s Current Report on Form 8-K dated 26th November 2002, attached hereto as Appendix V.

CAPITALISATION

The following table sets forth the unaudited consolidated capitalisation of the Company and its subsidiaries at 30th September 2002.

	30th September 2002 ⁽¹⁾ (Unaudited)
	<i>(in millions of dollars except per share amounts)</i>
Debt:	
Commercial paper and other borrowing due within one year ⁽²⁾	\$ 4,199
Long-Term Borrowings ⁽³⁾	11,263
Total debt	15,462
Shareholders' Equity:	
Convertible Class A preferred stock, stated value \$1 per share; 600,000,000 shares authorised, 85,736,314 outstanding	1,613
Non-Voting Class B preferred stock, stated value \$1 per share; 200,000,000 shares authorised, none outstanding	—
Common Stock, stated value \$1 per share; 5,000,000,000 shares authorised, 1,299,298,686 outstanding ⁽⁴⁾	1,299
Additional Paid-In Capital	2,586
Reserve for Employee Stock Ownership Plan debt retirement	(1,322)
Accumulated other comprehensive income	(2,464)
Retained earnings	12,527
Total Shareholders' Equity	14,239
Total capitalisation	\$29,701

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- (1) As of 2nd December 2002, there had been no material changes since 30th September 2002 in the Company's common stock, material increases in the Company's total consolidated 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.
 - (2) Includes \$1,383 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 2002 the Company's short-term bank lines with banks amounted to \$2.0 billion (none of which had been utilised at 2nd December 2002).
 - (3) Based on the exchange rate on 30th September 2002 of £1=\$1.568, as adjusted for the issuance of the Notes and the use of the net proceeds of the offering of the Notes for the repayment of existing short-term indebtedness (but excluding any other borrowings or repayments of indebtedness subsequent to 30th September 2002), Commercial paper and other borrowing due within one year, Long-Term Borrowings, Total debt and Total capitalisation would be approximately \$3,893 million, \$11,577 million, \$15,470 million and \$29,709 million, respectively.
 - (4) All of the outstanding common stock of the Company is fully paid and nonassessable.

SELECTED FINANCIAL INFORMATION

The following selected financial information for the quarters ended 30th September 2002 and 2001 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 2002 and 2001, respectively. The selected financial information for the year ended 30th June 2002 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 2002. The selected financial information for the years ended 30th June 2001, 2000 and 1999 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 2001. The selected financial information for the year ended 30th June 1998 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.

Operating Results:

	<i>Year Ended 30th June</i>					<i>Three Months Ended 30th September</i>	
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
	<i>(dollars in millions, except per share data)</i>						
Net sales	\$37,154	\$38,125	\$39,951	\$39,244	\$40,238	9,766	10,796
Cost of products sold.	20,896	21,027	21,514	22,102	20,989	5,111	5,489
Earnings before income taxes	5,708	5,838	5,536	4,616	6,383	1,627	2,138
Income taxes	1,928	2,075	1,994	1,694	2,031	523	674
Net earnings	3,780	3,763	3,542	2,922	4,352	1,104	1,464
Basic net earnings per common share	\$2.74	\$2.75	\$2.61	\$2.15	\$3.26	\$0.83	\$1.10
Diluted net earnings per common share	\$2.56	\$2.59	\$2.47	\$2.07	\$3.09	\$0.79	\$1.04
Diluted average shares outstanding (in millions)	1,465.5	1,446.8	1,427.2	1,405.6	1,404.9	1,400.8	1,407.3
Ratio of earnings to fixed charges ⁽¹⁾	9.9	8.8	7.1	6.2	10.4	10.0	14.7

Financial Position (at period end):

	<i>30th June</i>					<i>30th September</i>	
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
	<i>(in millions)</i>						
Working capital ⁽²⁾	\$ 1,327	\$ 597	\$ 5	\$ 1,043	\$ (538)	\$ 1,482	\$ 492
Total assets.	31,042	32,192	34,366	34,387	40,776	35,611	41,850
Long-term debt.	5,774	6,265	9,012	9,792	11,201	10,111	11,263
Shareholders' equity	12,236	12,058	12,287	12,010	13,706	12,437	14,239

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

(2) Working capital is calculated by deducting current liabilities from current assets.

DIRECTORS AND MANAGEMENT

Name	Principal Occupation
Norman R. Augustine	Retired Chairman and Chief Executive Officer Lockheed Martin Corporation (aerospace, electronics, telecommunications and information management) and Chairman of the Executive Committee, Lockheed Martin Corporation; 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 Innovation and Technology Committees; age 67.
Bruce L. Byrnes	Vice Chairman of the Board and President – Global Beauty & Feminine Care and Global Health Care; Director of Procter & Gamble since 2002; age 54.
R. Kerry Clark	Vice Chairman of the Board and President – Global Market Development and Business Operations; Director of Procter & Gamble since 2002; age 50.
Scott D. Cook	Chairman of the Executive Committee of the Board of Intuit Inc. (a software and web services firm); Director of Intuit Inc., Amazon.com and eBay; Director of Procter & Gamble since 2000; member of the Compensation and Innovation and Technology Committees; age 50.
Domenico De Sole	President and Chief Executive Officer and Chairman of the Management Board of Gucci Group N.V. (a multibrand luxury goods company); Director of Bausch & Lomb; Director of Procter & Gamble since 2001; member of the Audit and Board Organisation and Nominating Committees; age 58.
Richard J. Ferris	Retired Co-Chairman, Doubletree Corporation (hotels); Director of Rockwell Collins, Inc.; Director of Procter & Gamble since 1979; Chairman of the Finance Committee and member of the Executive and Public Policy Committees; age 66.
Joseph T. Gorman	Retired Chairman and Chief Executive Officer, TRW Inc. (automotive, aerospace and information systems); Chairman and Chief Executive Officer, Moxahela Enterprises LLC (venture capital); Director Alcoa Inc., National City Corporation and Imperial Chemical Industries plc; Director of Procter & Gamble since 1993; member of the Compensation, Executive and Finance Committees; age 65.
A. G. Lafley	Chairman of the Board, President and Chief Executive; Director of General Motors Corporation and General Electric Company; Director of Procter & Gamble since 2000; member of the Executive Committee; age 55.
Charles R. Lee	Chairman of the Board of Directors of Verizon Communications (telecommunications services); Director of Verizon Communications, United Technologies Corporation, USS Corporation and Marathon Oil Corporation; Director of Procter & Gamble since 1994; member of the Audit, Board Organisation and Nominating and Compensation Committees; age 62.
Lynn M. Martin	Professor J. L. Kellogg Graduate School of Management, Northwestern University; Chair of the Council for the Advancement of Women and Advisor to the firm of Deloitte and Touche LLP; Director of SBC Communications, Ryder System, Inc., TRW Inc. and Dreyfus Funds; Director of Procter & Gamble since 1994; member of the Finance and Public Policy Committees; age 62.
John E. Pepper	Retired Chairman of the Board; 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 64.

Jonathan A. Rodgers	Former President of Discovery Networks, U.S. (media and communications); Director of Procter & Gamble since 2001; member of the Audit and Innovation and Technology Committees; age 56.
John F. Smith, Jr.	Chairman of the Board of General Motors Corporation (automobile and related businesses); Director of General Motors Corporation and Delta Airlines, Inc.; Director of Procter & Gamble since 1995; Chairman of the Audit Committee and member of the Board Organisation and Nominating and Public Policy Committees; age 64.
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 Cardiome Pharma Corporation and Science Applications International Corporation; Director of Procter & Gamble since 1995; Chairman of the Innovation and Technology Committee and member of the Board Organisation and Nominating Committees; age 62.
Robert D. Storey	Partner in the law firm of Thompson Hine, L.L.P., Cleveland, Ohio; Director of Verizon Communications; Director of Procter & Gamble since 1988; Chairman of the Public Policy Committee and member of the Board Organisation and Nominating and Finance Committees; age 66.
Marina v.N. Whitman Ph.D.	Professor of Business Administration and Public Policy, University of Michigan; Director of Unocal Corporation; Director of Procter & Gamble since 1976; Chairman of the Board Organisation and Nominating Committee, and member of the Compensation and Finance Committees; age 67.
Ernesto Zedillo	Former President of Mexico; Director of Alcoa Inc. and Union Pacific Corporation; Director of Procter & Gamble since 2001; member of the Finance and Public Policy Committees; age 50.

Executive Officers

Name	Office Held
A. G. Lafley	Chairman of the Board, President and Chief Executive
Bruce L. Byrnes	Vice Chairman of the Board and President – Global Beauty and Feminine Care and Global Health Care
R. Kerry Clark	Vice Chairman of the Board and President – Global Market Development and Business Operations
Richard L. Antoine	Global Human Resources Officer
G. Gilbert Cloyd	Chief Technology Officer
Clayton C. Daley, Jr.	Chief Financial Officer
Stephen N. David	Chief Information Officer and Business-to-Business Officer
R. Keith Harrison, Jr.	Global Product Supply Officer
John K. Jensen	Vice President and Comptroller
James J. Johnson	Chief Legal Officer
Mark D. Ketchum	President – Global Baby and Family Care
Robert A. McDonald	President – Global Fabric & Home Care
Jorge P. Montoya	President – Global Snacks & Beverages and Latin America
Charlotte R. Otto	Global External Relations Officer
Michael J. Power	Global Business Services Officer
James R. Stengel	Global Marketing Officer

All of the above Executive Officers, except Stephen N. David, Michael J. Power, James R. Stengel and John K. Jensen, are members of the Executive Committee of the Global Leadership Council of The Procter & Gamble Company. All of the Executive Officers named above have been employed by us for over five years.

TAXATION

United States Taxation

The following discussion summarises certain of the anticipated United States federal income and estate tax consequences applicable to the beneficial 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 Treasury regulations thereunder (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 per cent. 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 organisation 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 realised 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 (and, 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 (as defined for United States federal estate tax purposes) 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 per cent. 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 30 per cent. (which rate under current law will decrease to 29 per cent. for payments made in 2004 and 2005, and to 28 per cent. for payments made in 2006 through 2010, and will increase to 31 per cent. thereafter). 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 under “Payment of Additional Amounts”). 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 under “Payment of Additional Amounts”), (ii) a controlled foreign corporation within the meaning of Section 957(a) of the Code, (iii) a foreign person 50 per cent. or more of whose gross income from a certain specified period is effectively connected with its conduct of a United States trade or business, or (iv) a foreign partnership if, at any time during its taxable year, more than 50 per cent. 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 are subject to information reporting unless such custodian, nominee or agent has sufficient documentary evidence in its records that the beneficial owner is not a United States person (and such custodian, nominee or agent has no actual knowledge or reason to know that any of the information or certifications associated with such documentation are unreliable) or the beneficial owner otherwise establishes an exemption. In addition, 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 or reason to know 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 subject to information reporting unless such broker has sufficient documentary evidence in its records that the beneficial owner is not a United States person (and such broker has no actual knowledge or reason to know that any of the information or certifications associated with such documentation are unreliable) or the beneficial owner otherwise establishes an exemption. In addition, 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.

In the case of a United States Alien that is a partnership or a trust, the requirements for obtaining an exemption from information reporting and backup withholding tax with respect to payments of interest on and principal of a Note and payment of the proceeds of a sale of a Note may apply to the partners of the partnership or the beneficial owners of the trust, respectively. United States Aliens that are partnerships or trusts should consult their own tax advisers concerning such requirements.

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 Alien’s United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

“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; 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.

Proposed EU Directive on the Taxation of Savings Income

The European Union is currently considering a proposal for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that member states of the European Union will be required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a paying agent resident within its jurisdiction to an individual resident in that other member state, subject to the right of certain member states (including possibly Luxembourg, Belgium and Austria) to have the option instead to adopt a withholding system for a transitional period in relation to such payments. The proposed directive will not take effect unless certain major financial centers that are not members of the European Union, including the United States, agree to the European Union's request for an exchange of information on nonresidents' savings income before the end of 2002.

The draft directive is not final and may be subject to further amendment and/or clarification. Pending agreement on the final text of the directive, it cannot be determined presently what effect, if any, its adoption would have on the Notes or coupons or any payments in respect thereof. Additional Amounts, as described above under "Payment of Additional Amounts", will not, in any event, be payable by the Company as a result of such directive.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, dated 2nd December 2002, 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 98.355 per cent. of the principal amount thereof less a combined commission of 0.625 per cent. of the principal amount thereof, plus accrued interest, if any, from 4th December 2002, the principal amount of Notes set forth opposite its name below:

<i>Manager</i>	<i>Principal Amount of Notes to be Purchased</i>
Deutsche Bank AG London	£88,000,000
J.P. Morgan Securities Ltd.	£88,000,000
ABN AMRO Bank N.V.	4,000,000
BNP Paribas	4,000,000
Goldman Sachs International	4,000,000
HSBC Bank plc	4,000,000
Morgan Stanley & Co. International Limited	4,000,000
Royal Bank of Canada Europe Limited	4,000,000
	£200,000,000

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, will not offer or sell any Notes to persons in the United Kingdom 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 businesses 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 (as amended); (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

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 Eric J. Wunsch, 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. Mr. Wunsch 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 Mr. Wunsch. Fried, Frank, Harris, Shriver & Jacobson from time to time performs legal services for the Company.

INDEPENDENT AUDITORS

The consolidated financial statements included in the Company's Annual Report to Shareholders for the year ended 30th June 2002, which are attached in Appendix II, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report dated 5th August 2002.

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 BNP Paribas Securities Services, Luxembourg branch (“BP2S”), during the term of the Notes. BP2S, 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 authorised on behalf of the Company by resolutions adopted by the Board of Directors of the Company on 11th July 2001.

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 2002, 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: 015860308. The Notes have been assigned the following ISIN number: xs0158603083 and WKN number: 229050.

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 authorised 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 authorised 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, 2002

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, 2002

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 1,300,493,412 shares of Common Stock outstanding as of July 31, 2002. The aggregate market value of the voting stock held by non-affiliates amounted to \$116 billion on July 31, 2002.

Documents Incorporated By Reference

Portions of the Annual Report to Shareholders for the fiscal year ended June 30, 2002 are incorporated by reference into Part I, Part II and Part IV of this report.

Portions of the Proxy Statement for the 2002 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.

In 1999, the Company announced its intention to transition from its previous geographic-based structure to a product-based global business unit structure. Concurrent with that change, the Company initiated a multi-year restructuring program, a discussion of which is incorporated herein by reference to Note 2, Restructuring Program, which appears on pages 33-34 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002. On November 16, 2001, the Company completed the acquisition of the Clairol business from Bristol-Myers Squibb Company and, on May 31, 2002, the Company completed the spin-off of the Jif peanut butter and Crisco shortening brands to the Company's shareholders and their subsequent merger into the J.M. Smucker Company. Additional information about these two transactions is incorporated herein by reference to Note 3, Acquisitions and Spin-off, which appears on pages 34-35 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002. Additional information required by this item is incorporated herein by reference to the Letter to Shareholders, which appears on pages 1-14 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

Financial Information About Industry Segments

The Company's products fall into five business segments: fabric and home care; baby, feminine and family care; beauty care; health care; and food and beverage.

Additional information required by this item is incorporated herein by reference to Note 13, Segment Information, of the Notes to the Consolidated Financial Statements, which appears on page 44, and Financial Review, which appears on pages 17-25 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

Narrative Description of Business

The Company's business, represented by the aggregate of its fabric and home care; baby, feminine and family care; beauty care; health care; and food and beverage segments, is essentially homogeneous. None of these segments are seasonal. Many of the factors necessary for an understanding of these five segments are similar. The primary differences relate to the degree of capital intensity of the businesses, which may affect gross margin trends versus operating margins. 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 for 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 food, drug, mass and other retail outlets.

The laundry and diaper categories constitute approximately 19% and 12% of consolidated fiscal 2002 sales, respectively. These results are comparable to the year before. 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 and continued protection of these trademarks, patents and licenses.

Most of the raw materials used by the Company are purchased from others, some of whom are single-source suppliers. 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 2002 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 2003.

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 Company has approximately 102,000 employees. The decline of approximately 4,000 employees versus the prior year is primarily from separations related to the Company's restructuring program, partially offset due to increased enrollment from the Clairol acquisition.

Additional information required by this item is incorporated herein by reference to Note 13, Segment Information, which appears on page 44; Financial Summary, which appears on page 46; and Financial Review, which appears on pages 17-25 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

Financial Information About Foreign and Domestic Operations

The information required by this item is incorporated herein by reference to Note 13, Segment Information, which appears on page 44, and Financial Review, which appears on pages 17-25 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002. Company sales by geography for the fiscal year ended June 30, 2002 were as follows: North America - 57%; Europe, Middle East and Africa - 26%; Asia - 10% and Latin America - 7%.

Assets and net sales in the United States and internationally were as follows (in millions):

	Net Sales (for the year ended June 30)			Assets (as of June 30)		
	2002	2001	2000	2002	2001	2000
United States	\$ 21,198	\$ 20,334	\$ 20,038	\$ 23,434	\$ 18,318	\$ 17,398
International	19,040	18,910	19,913	17,342	16,069	16,968

Item 2. Properties.

In the United States, the Company owns and operates 36 manufacturing facilities and leases and operates 2 manufacturing facilities. These facilities are located in 21 different states. In addition, the Company owns and operates 89 manufacturing facilities in 44 other countries. Fabric and home care products are produced at 46 of these locations; baby, feminine and family care products at 42; health care products at 24; beauty care products at 28; and food and beverage products at 12. 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 accrued at the end of June 30, 2002 representing the Company's probable future costs that can be reasonably estimated was \$5 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 September 1, 2002 are:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Elected to Officer Position</u>
Alan G. Lafley	Chairman of the Board, President and Chief Executive Director since June 8, 2000	55	1992
Bruce L. Byrnes	Vice Chairman of the Board and President - Global Beauty & Feminine Care and Global Health Care Director since April 8, 2002	54	1991
R. Kerry Clark	Vice Chairman of the Board and President - Global Market Development & Business Operations Director since April 8, 2002	50	1995
Richard L. Antoine	Global Human Resources Officer	56	1998
G. Gilbert Cloyd	Chief Technology Officer	56	2000
Clayton C. Daley Jr.	Chief Financial Officer	50	1998
Stephen N. David	Chief Information Officer and Business-to-Business Officer	53	1998
R. Keith Harrison, Jr.	Global Product Supply Officer	54	2001
James J. Johnson	Chief Legal Officer	55	1991
Mark D. Ketchum	President - Global Baby & Family Care	52	1996
Robert A. McDonald	President - Global Fabric & Home Care	49	1999
Jorge P. Montoya	President – Global Snacks & Beverages and Latin America	56	1991
Charlotte R. Otto	Global External Relations Officer	49	1996
Michael J. Power	Global Business Services Officer	54	2001
James R. Stengel	Global Marketing Officer	47	2001
John K. Jensen	Vice President and Comptroller	53	2002

All of the above named Executive Officers, except Stephen N. David, John K. Jensen, Michael J. Power and James R. Stengel, are members of the Executive Committee 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.

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, 2002, and Part III, Item 12 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data

The information required by this item is incorporated by reference to Financial Summary, which appears on page 46 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

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 17-25; Note 1, Summary of Significant Accounting Policies, which appears on pages 32-33; Note 2, Restructuring Program, which appears on pages 33-34; Note 3, Acquisitions and Spin-off, which appears on pages 34-35; Note 12, Commitments and Contingencies, which appears on page 43; and Note 13, Segment Information, which appears on page 44 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

The Company has made and will make certain forward-looking statements in the Annual Report to Shareholders for the fiscal year ended June 30, 2002 and in other contexts relating to volume and net sales growth, increases in market shares, financial goals and cost reduction, among others.

These forward-looking statements are based on assumptions and estimates regarding competitive activity, pricing, product introductions, economic conditions, technological innovation, currency movements, governmental action and the development of certain markets. Among the key factors necessary to achieve the Company's goals are: (1) the successful integration of the Company's new organization structure, including achievement of expected cost and tax savings; (2) the ability to achieve business plans, including growing volume profitably, despite high levels of competitive activity, especially with respect to the product categories and geographical markets in which the Company has chosen to focus; (3) the ability to maintain key customer relationships; (4) the achievement of growth in significant developing markets such as China, Turkey, Mexico, the Southern Cone of Latin America, the countries of Central and Eastern Europe and the countries of Southeast Asia; (5) the ability to successfully manage regulatory, tax and legal matters, including resolution of pending matters within current estimates; (6) the successful and timely execution of planned brand divestitures; (7) the ability to successfully implement, achieve and sustain cost improvement plans in manufacturing and overhead areas; (8) the ability to successfully manage currency (including currency issues in Latin America), interest rate and certain commodity cost exposures; and (9) the ability to manage the continued political and/or economic uncertainty in Latin America and the Middle East, as well as any political and/or economic uncertainty due to terrorist activities. 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 17-25, and Note 7, Risk Management Activities, which appears on pages 36-38 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

Item 8. Financial Statements and Supplemental Data

The financial statements and supplemental data are incorporated by reference to pages 27-46 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002.

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 4-9 and 22 of the proxy statement filed since the close of the fiscal year ended June 30, 2002, 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 9-17 of the proxy statement filed since the close of the fiscal year ended June 30, 2002, pursuant to Regulation 14A which involved the election of directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table gives information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of the Company's equity compensation plans as of June 30, 2002. The table includes the following plans: The Procter & Gamble 2001 Stock and Incentive Compensation Plan; The Procter & Gamble 1992 Stock Plan; The Procter & Gamble 1992 Stock Plan (Belgian Version); The Procter & Gamble 1993 Non-Employee Directors' Stock Plan; and The Procter & Gamble Future Shares Plan.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	107,657,476	\$ 65.07	114,717,657
Equity compensation plans not approved by security holders (2)	12,505,420	\$ 80.61	4,015,000
Total	120,162,896	\$ 66.68	118,732,657 (3)

- (1) Includes The Procter & Gamble 2001 Stock and Incentive Compensation Plan; The Procter & Gamble 1992 Stock Plan; and The Procter & Gamble 1993 Non-Employee Directors' Stock Plan.
- (2) Includes The Procter & Gamble 1992 Stock Plan (Belgian Version) and The Procter & Gamble Future Shares Plan.
- (3) This number exceeds by 4,196,000 the total number of securities available for grant listed in Note 8, Earnings Per Share and Stock Options, which appears on pages 38-39 of the Annual Report to Shareholders for the fiscal year ended June 30, 2002. The chart in Note 8 excludes securities available under equity compensation plans not approved by security holders (4,015,000) and securities available under The Procter & Gamble 1993 Non-Employee Directors' Stock Plan (181,000).

The Procter & Gamble 1992 Stock Plan (Belgian Version)

Effective February 14, 1997, the Company's Board of Directors approved The Procter & Gamble 1992 Stock Plan (Belgian Version). Although the plan has not been submitted to shareholders for approval, the plan is nearly identical to The Procter & Gamble 1992 Stock Plan, approved by the Company's shareholders on October 13, 1992, except for a few minor changes designed to comply with the Belgian tax laws.

The plan is a stock incentive plan designed to attract, retain, and motivate key Belgian employees. Under the plan, eligible participants may be granted or offered the right to purchase stock options, may be granted stock appreciation rights, and/or may be granted shares of the Company's common stock. Except in the case of death of the recipient, all stock options and stock appreciation rights must vest in no less than one year from the date of grant and must expire no later than fifteen years from the date of grant. The exercise price for all stock options granted under the Plan is the average price of the Company's stock on the date of grant. If a recipient of a grant leaves the Company while holding an unexercised option or right, any unexercisable portions immediately become void, except in the case of death, and any exercisable portions become void within one month of departure, except in the case of death or retirement. Any common stock awarded under the plan may be subject to restrictions on sale or transfer while the recipient is employed, as the committee administering the plan may determine.

The Procter & Gamble Future Shares Plan

On October 14, 1997, the Company's Board of Directors approved The Procter & Gamble Future Shares Plan pursuant to which options to purchase shares of the Company's common stock, may be granted to employees worldwide. The purpose of this plan is to advance the interests of the Company by giving substantially all employees a stake in the Company's future growth and success and to strengthen the alignment of interests between employees and the Company's shareholders through increased ownership of shares of the Company's stock. The plan has not been submitted to shareholders for approval.

Subject to adjustment for changes in the Company's capitalization, the number of shares to be granted under the plan is not to exceed 17 million shares. Under the plan's regulations, recipients are granted options to acquire 100 shares of the Company's common stock at an exercise price equal to the average price of the Company's common stock on the date of the grant. These options vest five years after the date of grant and expire ten years following the date of grant. If a recipient leaves the employ of the Company prior to the vesting date for a reason other than Disability, Retirement or Special Separation (as defined in the plan), then the award is forfeited.

At the time of the first grant following approval of the plan, each employee of the Company not eligible for an award under the 1992 Stock Plan was granted options for 100 shares. Since the date of the first grant, each new employee of the Company has also received options for 100 shares.

Additional 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, 2002, 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, 2002, 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 independent auditors' report are incorporated by reference in Part II, Item 8.

- Independent Auditors' Report
- Consolidated statement of earnings -- for years ended June 30, 2002, 2001 and 2000
- Consolidated balance sheet -- as of June 30, 2002 and 2001
- Consolidated statement of shareholders' equity -- for years ended June 30, 2002, 2001 and 2000
- Consolidated statement of cash flows -- for years ended June 30, 2002, 2001 and 2000
- 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.

Exhibits:

- Exhibit (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 2001 Stock and Incentive Compensation Plan which was adopted by shareholders at the annual meeting on October 9,

- 2001 (Incorporated by reference to Exhibit (10-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 2001).
- (10-2) -- The Procter & Gamble 1992 Stock Plan (as amended June 12, 2001) which was adopted by the shareholders at the annual meeting on October 13, 1992 (Incorporated by reference to Exhibit (10-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 2001).
- (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 July 11, 2000) 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, 2000).
- (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 (as amended December 12, 2000) which was adopted by the shareholders at the annual meeting on October 11, 1994 (Incorporated by reference to Exhibit (10-8) of the Company's Annual Report on Form 10-K for the year ended June 30, 2001).
- (10-8) -- The Procter & Gamble 1992 Stock Plan (Belgian Version) (as amended December 11, 2001) which was adopted by the Board of Directors on February 14, 1997.
- (10-9) -- The Procter & Gamble Future Shares Plan (as amended December 11, 2001) which was adopted by the Board of Directors on October 14, 1997.
- Exhibit (11) -- Computation of earnings per share.
- Exhibit (12) -- Computation of ratio of earnings to fixed charges.
- Exhibit (13) -- Annual Report to Shareholders (pages 1-48).

- Exhibit (21) -- Subsidiaries of the registrant.
- Exhibit (23) -- Independent Auditors' Consent
- Exhibit (99-1) -- Certification of Periodic Financial Reports by the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
- (99-2) -- 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, 2001).
- (99-3) -- Directors and Officers (First and Sixth) Excess Liability Binder of Insurance.
- (99-4) -- Directors and Officers (Second) Excess Liability Binder of Insurance.
- (99-5) -- Directors and Officers (Third) Excess Liability Binder of Insurance.
- (99-6) -- Directors and Officers (Fourth) Excess Liability Binder of Insurance.
- (99-7) -- Directors and Officers (Fifth) Excess Liability Binder of Insurance.
- (99-8) -- Directors and Officers (Seventh) Excess Liability Binder of Insurance.

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:

During the quarter ended June 30, 2002, the Company filed Current Reports on Form 8-K containing information pursuant to Item 5 ("Other Events") dated April 30, 2002, relating to the announcement of earnings for the January-March 2002 quarter; and dated June 12, 2002, relating to confirmation of previously issued guidance for fiscal year 2002.

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 A.G. LAFLEY
(A.G. Lafley)
Chairman of the Board,
President and Chief Executive
September 10, 2002

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>A.G. LAFLEY</u> (A.G. Lafley)	Chairman of the Board, President and Chief Executive (Principal Executive Officer)	September 10, 2002
<u>CLAYTON C. DALEY JR.</u> (Clayton C. Daley Jr.)	Chief Financial Officer (Principal Financial Officer)	
<u>JOHN K. JENSEN</u> (John K. Jensen)	Vice President and Comptroller (Principal Accounting Officer)	
<u>NORMAN R. AUGUSTINE</u> (Norman R. Augustine)	Director	
<u>DONALD R. BEALL</u> (Donald R. Beall)	Director	
<u>BRUCE L. BYRNES</u> (Bruce L. Byrnes)	Director	
<u>R. KERRY CLARK</u> (R. Kerry Clark)	Director	
<u>SCOTT D. COOK</u> (Scott D. Cook)	Director	
<u>DOMENICO DESOLE</u> (Domenico DeSole)	Director	

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>RICHARD J. FERRIS</u> (Richard J. Ferris)	Director	September 10, 2002
<u>JOSEPH T. GORMAN</u> (Joseph T. Gorman)	Director	
<u>CHARLES R. LEE</u> (Charles R. Lee)	Director	
<u>LYNN M. MARTIN</u> (Lynn M. Martin)	Director	
<u>JOHN E. PEPPER</u> (John E. Pepper)	Director	
<u>JOHNATHAN A. RODGERS</u> (Johnathan A. Rodgers)	Director	
<u>JOHN F. SMITH, JR.</u> (John F. Smith, Jr.)	Director	
<u>RALPH SNYDERMAN</u> (Ralph Snyderman)	Director	
<u>ROBERT D. STOREY</u> (Robert D. Storey)	Director	
<u>MARINA V.N. WHITMAN</u> (Marina v.N. Whitman)	Director	
<u>ERNESTO ZEDILLO</u> (Ernesto Zedillo)	Director	

CERTIFICATIONS

I, A.G. Lafley, certify that:

1. I have reviewed this annual report on Form 10-K of The Procter & Gamble Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 10, 2002

A.G. LAFLEY
(A.G. Lafley)
Chairman of the Board,
President and Chief Executive

I, Clayton C. Daley Jr., certify that:

1. I have reviewed this annual report on Form 10-K of The Procter & Gamble Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 10, 2002

CLAYTON C. DALEY JR.
(Clayton C. Daley Jr.)
Chief Financial Officer

EXHIBIT (11)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

Computation of Earnings Per Share

Amounts in millions except per share amounts

	Years Ended June 30				
	1998	1999	2000	2001	2002
<u>BASIC NET EARNINGS PER SHARE</u>					
Net earnings	\$ 3,780	\$ 3,763	\$ 3,542	\$ 2,922	\$ 4,352
Preferred dividends, net of tax benefit	104	109	115	121	124
Net earnings available to common shareholders	<u>\$ 3,676</u>	<u>\$ 3,654</u>	<u>\$ 3,427</u>	<u>\$ 2,801</u>	<u>\$ 4,228</u>
Basic weighted average common shares outstanding	<u>1,343.4</u>	<u>1,328.1</u>	<u>1,313.2</u>	<u>1,300.3</u>	<u>1,297.4</u>
Basic net earnings per common share	<u>\$ 2.74</u>	<u>\$ 2.75</u>	<u>\$ 2.61</u>	<u>\$ 2.15</u>	<u>\$ 3.26</u>
<u>DILUTED NET EARNINGS PER SHARE</u>					
Net earnings	\$ 3,780	\$ 3,763	\$ 3,542	\$ 2,922	\$ 4,352
Deduct preferred dividend impact on funding of ESOP	25	22	18	15	12
Diluted net earnings	<u>\$ 3,755</u>	<u>\$ 3,741</u>	<u>\$ 3,524</u>	<u>\$ 2,907</u>	<u>\$ 4,340</u>
Basic weighted average common shares outstanding	1,343.4	1,328.1	1,313.2	1,300.3	1,297.4
Add potential effect of:					
Conversion of preferred shares (1)	99.8	97.2	94.3	91.9	88.8
Exercise of stock options (2)	22.3	21.5	19.7	13.4	18.7
Diluted weighted average common shares outstanding	<u>1,465.5</u>	<u>1,446.8</u>	<u>1,427.2</u>	<u>1,405.6</u>	<u>1,404.9</u>
Diluted net earnings per common share	<u>\$ 2.56</u>	<u>\$ 2.59</u>	<u>\$ 2.47</u>	<u>\$ 2.07</u>	<u>\$ 3.09</u>

- (1) Despite being included currently in diluted net earnings per common share, the actual conversion to common stock occurs pursuant to the repayment of the ESOP debt over a period exceeding 20 years.
- (2) Approximately 36 million in 2002, 38 million in 2001 and 17 million in 2000 of the Company's outstanding stock options were not included in the diluted net earnings per common share calculation because to do so would have been antidilutive (i.e., the exercise price exceeded market value.)

EXHIBIT (12)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIESComputation of Ratio of Earnings to Fixed Charges

Millions of Dollars

	Years Ended June 30				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
EARNINGS AS DEFINED					
Earnings from operations before income taxes after eliminating undistributed earnings of equity method investees	\$5,704	\$5,866	\$5,474	\$4,574	\$6,442
Fixed charges	<u>639</u>	<u>751</u>	<u>811</u>	<u>872</u>	<u>687</u>
TOTAL EARNINGS, AS DEFINED	<u>\$6,343</u>	<u>\$6,617</u>	<u>\$6,285</u>	<u>\$5,446</u>	<u>\$7,129</u>
FIXED CHARGES, AS DEFINED					
Interest expense	\$ 548	\$ 650	\$ 792	\$ 794	\$ 603
1/3 of rental expense	<u>91</u>	<u>101</u>	<u>89</u>	<u>78</u>	<u>84</u>
TOTAL FIXED CHARGES, AS DEFINED	<u>\$ 639</u>	<u>\$ 751</u>	<u>\$ 881</u>	<u>\$ 872</u>	<u>\$ 687</u>
RATIO OF EARNINGS TO FIXED CHARGES	9.9	8.8	7.1	6.2	10.4

EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES Subsidiaries of the Registrant

Alejandro Llauro E. Hijos S.A.I.C. [Argentina]
Anjali (HK) Corporation [Hong Kong]
Anjali Corporation [Delaware]
An-Pro Company [Ohio]
B&C International Co. (BVI) Ltd. [British Virgin Islands]
Bess Hygiene AG [Switzerland]
Betrix Cosmetic GmbH [Germany]
Blendax GmbH [Germany]
Blendax Unterstützungskasse GmbH [Germany]
Carlos BT [Hungary]
Celtic Insurance Company Limited [Bermuda]
Cheladerm, Inc. [Delaware]
Clairol (China) Ltd. [China]
Clairol Brasil Ltda [Brazil]
Clairol GmbH [Germany]
Clairol Limited [U.K.]
Clairol Peru S.R.L. [Peru]
Compania Procter & Gamble Mexico, S. de R.L. de C.V. [Mexico]
Compañia Quimica S.A. [Argentina]
Comunivers sa [Morocco]
Corpydes S.A. de C.V. [Mexico]
Crest Toothpaste Inc. [Canada]
Detergent Products A.G. [Switzerland]
District Pet Imaging, LLC [Ohio]
Eczacibasi Yatirim Holding Ortakligi A.S. [Turkey]
Elysee BT [Hungary]
Eurocos Cosmetic GmbH [Germany]
Eurocos Cosmetic Warenvertrieb GmbH [Austria]
Eurocos Ltd [U.K.]
EURO-Juice G.m.b.H. Import und Vertrieb [Germany]
European Beauty Products (U.K.) Limited [U.K.]
Ferraris BT [Hungary]
Fountain Square Music Publishing Co., Inc. [Ohio]
Frank BT [Hungary]
Gala Cosmetics International Limited [U.K.]
Gala of London Limited [U.K.]
Giorgio Beverly Hills, Inc. [Delaware]
Girl Cosmetics Limited (U.K.)
Global Business Services de Costa Rica Limitada [Costa Rica]
Herve Leger Parfums GmbH [Germany]
Humatro Corporation [Delaware]
Hyginett KFT [Hungary]
Iams (Deutschland) Vertriebs GmbH [Germany]
Iams Argentina S.A. [Argentina]
Iams Australia/New Zealand Pty. Ltd. [Australia]
Iams Canada Inc. [Canada]
Iams Chile Limitada [Chile]
Iams Companion Animal Research Institute, Inc. [Ohio]
Iams do Brasil [Brazil]

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EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
Subsidiaries of the Registrant

Iams Europe B.V. [Netherlands]
Iams France EURL [France]
Iams Global, Inc. [Ohio]
Iams Japan K.K. [Japan]
Iams Mexico, S. de R.L. de C.V. [Mexico]
Iams Pet Food GmbH & Co. KG [Germany]
Iams Pet Food International B.V. [Netherlands]
Iams Pet Imaging, Inc. [Ohio]
Iams Pet Imaging, LLC [Ohio]
Iams S. Africa Pty. [S. Africa]
Iams Servicios, S. de R.L. de C.V. [Mexico]
Iams U.K. Limited [U.K.]
Industrial Catenation Services (Pty.) Ltd. [S. Africa]
Industrias Modernas, S.A. [Guatemala]
Inmobiliaria Procter & Gamble de Venezuela, S.C.S. [Venezuela]
Inmobiliaria Procter & Gamble de Venezuela, S.R.L. Venezuela
Inversiones Industrias Mammi, S.C.A. [Venezuela]
Inversiones Industrias Mammi-1, S.R.L. [Venezuela]
Inversiones Procter & Gamble de Venezuela, S.C.A. [Venezuela]
Inversiones Procter & Gamble de Venezuela-1, S.R.L. [Venezuela]
Juvian Fabric Care Corporation [Ohio]
Kangra Valley Enterprises Ltd. [Delaware]
Komal Manufacturing Chemists Ltd. [India]
Laboratoire Lachartre S.N.C. [France]
Liberty Street Music Publishing Company, Inc. [Ohio]
Loreto y Pena Pobre, S.A. de C.V. [Mexico]
Malabar (HK) Corporation Limited [Hong Kong]
Marcvenca Inversiones, C.A. [Venezuela]
Max Factor & Co. (U.K.) Ltd. [Bermuda]
Max Factor & Co. [Delaware]
Max Factor K.K. [Japan]
Max Factor Limited [U.K.]
Midway Holdings Ltd. [Cayman Islands]
Millstone Coffee, Inc. [Washington]
Modern Industries Company - Dammam [Saudi Arabia]
Modern Industries Company - Jeddah [Saudi Arabia]
Modern Products Company - Jeddah [Saudi Arabia]
Moroccan Modern Industries [Morocco]
Neoblanc-Produtos de Higiene e Limpeza Lda. [Portugal]
Novomoskovskbytkhim [Russia]
Noxell (Barbados) Limited [Barbados]
Noxell (Panama) S.A. [Panama]
Noxell (Thailand) Limited [Thailand]
Noxell Corporation [Maryland]
Olay Company, Inc. [Delaware]
Olga BT [Hungary]
OOO Procter & Gamble Services Company [Russia]
P&G-Clairol, Inc. [Delaware]
P&G C&CA, Inc. [Ohio]

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EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES Subsidiaries of the Registrant

P&G Consultoria E Servicos Ltda. [Brazil]
P&G do Brasil Comercial Ltda. [Brazil]
P&G Holding B.V. [Netherlands]
P&G Holding Company S.A. [Argentina]
P&G Indochina [Vietnam]
P&G Industrial Peru S.R.L. [Peru]
P&G Inversiones S.A. [Argentina]
P&G Israel M.D.O. Ltd. [Israel]
P&G K.K. [Japan]
P&G Northeast Asia Pte. Ltd. [Singapore]
P&G Prestige Beaute S.A.R.L. [Switzerland]
P. T. Procter & Gamble Indonesia Tbk [Indonesia]
P.T. Procter & Gamble Home Products Indonesia [Indonesia]
Papierhygiene GmbH [Germany]
PFX Pet Supply, Inc. [Ohio]
PGV Chile S.A. [Chile]
PNX Distributing, Inc. [Ohio]
PNX Real Estate, Inc. [Ohio]
PPPProducts SARL [Switzerland]
Procter & Gamble (Chengdu) Ltd. [PRC]
Procter & Gamble (China) Ltd. [PRC]
Procter & Gamble (Cosmetics and Fragrances) Limited [U.K.]
Procter & Gamble (East Africa) Limited [Kenya]
Procter & Gamble (Egypt) Industrial and Commercial Company [Egypt]
Procter & Gamble (Egypt) Manufacturing Company [Egypt] (Partnership)
Procter & Gamble (Enterprise Fund) Limited [U.K.]
Procter & Gamble (Guangzhou) Ltd. [PRC]
Procter & Gamble (Health & Beauty Care) Limited [U.K.]
Procter & Gamble (Ireland) Limited [Ireland]
Procter & Gamble (Malaysia) Sdn. Berhad [Malaysia]
Procter & Gamble (Manufacturing) Ireland Limited [Ireland]
Procter & Gamble (NBD) Pty. Ltd. [Australia]
Procter & Gamble (Vietnam) Ltd. [Vietnam]
Procter & Gamble (Yemen) Ltd [Yemen]
Procter & Gamble A/S [Norway]
Procter & Gamble Amiens S.N.C. [France]
Procter & Gamble Argentina S.A. [Argentina]
Procter & Gamble Asia Pacific Ltd. [Hong Kong]
Procter & Gamble Asia Pte. Ltd. [Singapore]
Procter & Gamble Australia Proprietary Limited [Australia]
Procter & Gamble Austria GmbH [Austria]
Procter & Gamble Bangladesh Private Ltd. [Bangladesh]
Procter & Gamble Belize Ltda. [Belize]
Procter & Gamble Beteiligungs GmbH [Germany]
Procter & Gamble Beverages GmbH [Germany]
Procter & Gamble Blois S.A.S. [France]
Procter & Gamble Bolivia S.R.L. [Bolivia]
Procter & Gamble Bulgaria EOOD [Bulgaria]
Procter & Gamble Business Services Canada Company [Canada]

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THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES Subsidiaries of the Registrant

Procter & Gamble Central & Eastern Europe GmbH [Germany]
Procter & Gamble Chile, Inc. [Ohio]
Procter & Gamble Colombia Ltda. [Colombia]
Procter & Gamble Color, S.C.A. [Venezuela]
Procter & Gamble Commercial de Cuba, S.A. [Cuba]
Procter & Gamble D.J.L. Sarajevo [Bosnia]
Procter & Gamble d.o.o. za trgovinu [Croatia]
Procter & Gamble Danmark AS [Denmark]
Procter & Gamble de Panama, S.A. [Panama]
Procter & Gamble de Venezuela, S.C.A. [Venezuela]
Procter & Gamble de Venezuela, S.R. L. [Venezuela]
Procter & Gamble Detergent (Beijing) Ltd. [PRC]
Procter & Gamble Development Company A.G. [Switzerland]
Procter & Gamble Distributing Limited [U.K.]
Procter & Gamble Distribution Company (Europe) BVBA [Belgium]
Procter & Gamble do Brasil & Cia (Partnership) [Brazil]
Procter & Gamble do Brasil S/A [Brazil]
Procter & Gamble do Brazil, Inc. [Delaware]
Procter & Gamble do Nordeste S/A [Brazil]
Procter & Gamble Eastern Europe, Inc. [Ohio]
Procter & Gamble Ecuador Compania Anonima [Ecuador]
Procter & Gamble Egypt [Egypt]
Procter & Gamble Energy Company LLC [Ohio]
Procter & Gamble Espana S.A. [Spain]
Procter & Gamble Eurocor N.V. [Belgium]
Procter & Gamble Europe N.V. [Belgium]
Procter & Gamble Europe SA [Switzerland]
Procter & Gamble European Services SARL [Switzerland]
Procter & Gamble European Supply Company BVBA [Belgium]
Procter & Gamble European Technical Center BVBA Belgium
Procter & Gamble Export Operations SARL [Switzerland]
Procter & Gamble Far East, Inc. [Ohio]
Procter & Gamble Finance (Canada) Limited Partnership [Canada]
Procter & Gamble Financial Services [Ireland]
Procter & Gamble Finland OY [Finland]
Procter & Gamble France S.N.C. [France]
Procter & Gamble FSC (Barbados) Inc. [Barbados]
Procter & Gamble Ghana, Ltd. [Ghana]
Procter & Gamble GmbH [Germany]
Procter & Gamble Gulf FZE [United Arab Emirates]
Procter & Gamble Hair Care, LLC [Delaware]
Procter & Gamble Health and Beauty Care-Europe Limited [U.K.]
Procter & Gamble Health Products, Inc. [Delaware]
Procter & Gamble Hellas A.E. [Greece]
Procter & Gamble Holding (Thailand) Limited [Thailand]
Procter & Gamble Holding Denmark ApS [Denmark]
Procter & Gamble Holding GmbH [Germany]
Procter & Gamble Holdings Singapore Pte. Ltd. [Singapore]
Procter & Gamble Home Products Limited [India]

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EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES Subsidiaries of the Registrant

Procter & Gamble Hong Kong Limited [Hong Kong]
Procter & Gamble Hungary Wholesale Trading Partnership (KKT) [Hungary]
Procter & Gamble Hygien OY [Finland]
Procter & Gamble Hygiene & Health Care Limited [India]
Procter & Gamble Inc. [Ontario, Canada]
Procter & Gamble India Holdings, Inc. [Ohio]
Procter & Gamble Industrial 1, S.R.L. [Venezuela]
Procter & Gamble Industrial e Comercial Ltda.[Brazil]
Procter & Gamble Industrial S.C.A. [Venezuela]
Procter & Gamble Interamericas de Costa Rica Ltda. [Costa Rica]
Procter & Gamble Interamericas de El Salvador Ltda. [El Salvador]
Procter & Gamble Interamericas de Guatemala Ltda. [Guatemala]
Procter & Gamble Interamericas de Honduras Ltda. [Honduras]
Procter & Gamble Interamericas de Nicaragua, S.A. [Nicaragua]
Procter & Gamble Interamericas LLC [Delaware]
Procter & Gamble International Operations Pte. Ltd. [Singapore]
Procter & Gamble International Operations SA [Switzerland]
Procter & Gamble Investment Subsidiary Inc. [Canada]
Procter & Gamble Investments UK [U.K.]
Procter & Gamble Italia, S.p.A. [Italy]
Procter & Gamble Italy s.r.l. [Italy]
Procter & Gamble Jamaica Ltd. [Jamaica]
Procter & Gamble Kazakhstan [Kazakhstan]
Procter & Gamble Korea IE, Co. [Korea]
Procter & Gamble Korea Inc. [Korea]
Procter & Gamble Korea S&D Co. [Korea]
Procter & Gamble Laundry & Cleaning Products Limited [U.K.]
Procter & Gamble Limited [U.K.]
Procter & Gamble Limited Liability Company [Uzbekistan]
Procter & Gamble Luxembourg Finance Sarl [Luxembourg]
Procter & Gamble Luxembourg Investment Sarl [Luxembourg]
Procter & Gamble Manufactura, S. de R.L. de C.V. [Mexico]
Procter & Gamble Manufacturing (Thailand) Limited [Thailand]
Procter & Gamble Manufacturing (Tianjin) Co. Ltd. [PRC]
Procter & Gamble Manufacturing Belgium N.V. [Belgium]
Procter & Gamble Manufacturing GmbH [Germany]
Procter & Gamble Manufacturing Istra [Russia]
Procter & Gamble Manufacturing Romania SRL [Romania]
Procter & Gamble Marketing & Commercial Activities d.o.o. [Slovenia]
Procter & Gamble Marketing and Services D.O. [Yugoslavia]
Procter & Gamble Marketing Latvia Ltd. [Latvia]
Procter & Gamble Marketing Ltd. Skopje [Macedonia]
Procter & Gamble Marketing Romania SRL (Romania)
Procter & Gamble Maroc [Morocco]
Procter & Gamble Mataro, S.L. [Spain]
Procter & Gamble Mexico Holdings, B.V. [Netherlands]
Procter & Gamble Moldova SRL [Moldova]
Procter & Gamble N.S. Holding Company [Canada]
Procter & Gamble Nederland B.V. [Netherlands]

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THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES Subsidiaries of the Registrant

Procter & Gamble Nicaragua y Cia Ltda. [Nicaragua]
Procter & Gamble Nigeria Limited [Nigeria]
Procter & Gamble Nordic Inc. [Ohio]
Procter & Gamble Norge AS [Norway]
Procter & Gamble NPD, Inc. [Ohio]
Procter & Gamble O.O.O. [Russia]
Procter & Gamble Operations Polska - Spolka Akcyjna [Poland]
Procter & Gamble Oral Care (Guangzhou) [China]
Procter & Gamble Orleans S.A.S. [France]
Procter & Gamble Pakistan (Private) Limited [Pakistan]
Procter & Gamble Paper (Guangzhou) Ltd. [PRC]
Procter & Gamble Paper (Suzhou) Co. Ltd. [PRC]
Procter & Gamble Personal Cleansing (Tianjin) Ltd. [PRC]
Procter & Gamble Peru S.R.L. [Peru]
Procter & Gamble Pharmaceuticals Canada, Inc. [Canada]
Procter & Gamble Pharmaceuticals France [France]
Procter & Gamble Pharmaceuticals Longjumeau S.A.S. [France]
Procter & Gamble Pharmaceuticals N.V. [Belgium]
Procter & Gamble Pharmaceuticals Nederland B.V. [Netherlands]
Procter & Gamble Pharmaceuticals Puerto Rico, Inc. [Delaware]
Procter & Gamble Pharmaceuticals SARL [Switzerland]
Procter & Gamble Pharmaceuticals U.K. Limited [U.K.]
Procter & Gamble Pharmaceuticals, Inc. [Ohio]
Procter & Gamble Pharmaceuticals-Germany GmbH [Germany]
Procter & Gamble Philippines, Inc. [Philippines]
Procter & Gamble Platform, Inc. [Ohio]
Procter & Gamble Polska Sp. zo.o [Poland]
Procter & Gamble Porto, Lda. [Portugal]
Procter & Gamble Portugal S.A. [Portugal]
Procter & Gamble Prestige Beaute GmbH [Germany]
Procter & Gamble Product Supply (U.K.) Limited [U.K.]
Procter & Gamble Productions, Inc. [Ohio]
Procter & Gamble Quimica Ltda. [Brazil]
Procter & Gamble reflect.com, Inc. [Delaware]
Procter & Gamble RHD, Inc. [Ohio]
Procter & Gamble S.A. [Chile]
Procter & Gamble S.r.l. [Italy]
Procter & Gamble Service GmbH [Germany]
Procter & Gamble Services (Switzerland) SA [Switzerland]
Procter & Gamble Services Company N.V. [Belgium]
Procter & Gamble Services France S.A.S. [France]
Procter & Gamble Servicios Latinoamerica, S.C.A. [Venezuela]
Procter & Gamble Servicios Latinoamerica-1, S.R.L. [Venezuela]
Procter & Gamble Servicios S.A. [Argentina]
Procter & Gamble Singapore Investment Pte. Ltd. [Singapore]
Procter & Gamble Singapore Pte. Ltd. [Singapore]
Procter & Gamble South Africa Proprietary Limited [South Africa]
Procter & Gamble Sri Lanka Private Ltd. [Sri Lanka]
Procter & Gamble Sverige AB [Sweden]

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EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES Subsidiaries of the Registrant

Procter & Gamble Switzerland SARL [Switzerland]
Procter & Gamble Taiwan Limited [Taiwan]
Procter & Gamble Technical Centers Limited [U.K.]
Procter & Gamble Technology (Beijing) Co., Ltd. [PRC]
Procter & Gamble Tenedora, S.A. [Venezuela]
Procter & Gamble Trading (Thailand) Limited [Thailand]
Procter & Gamble Tuketim Mallari Sanayii A.S. [Turkey]
Procter & Gamble U.K. [U.K.] (Partnership)
Procter & Gamble Ukraine (Ukraine)
Procter & Gamble, Spol. s r.o. (Ltd.) [Slovak Republic]
Procter & Gamble-Hutchison Ltd. [Hong Kong]
Procter & Gamble-Rakona, A.S. [Czech Republic]
Productos Sanitarios S.A. [Argentina]
Progam Realty & Development Corporation [Philippines]
Progasud S.p.A. [Italy]
Promotora de Bienes y Valores, S. de R.L. de C.V. [Mexico]
PUR Water Purification Products, Inc. [Ohio]
Richardson-Vicks do Brasil Quimica e Farmaceutica S.A. [Brazil]
Richardson-Vicks Real Estate Inc. [Ohio]
Richvest B.V. [Netherlands]
Riverfront Music Publishing Co., Inc. [Ohio]
Röhm Pharma GmbH Wien [Austria]
Rosemount Corporation [Delaware]
R-V Chemicals Holdings Ltd. [Ireland]
S.C. Detergenti S.A. [Romania]
SCS Sales + Cosmetic Service GmbH [Germany]
Shulton (Great Britain) Ltd. [U.K.]
Shulton (New Zealand) Limited [New Zealand]
Shulton S.A. [Guatemala]
Shulton, Inc. [New Jersey]
Societe Immobiliere Les Colombettes, S.A. [Switzerland]
SpinBrush Company [Ohio]
SsangYong Paper Co. Ltd. [Korea]
Sundor Brands Inc. [Florida]
Sundor Brands Limited [U.K.]
Sundor Canada, Inc. [Delaware]
Surfac S. R. Ltda. [Peru]
Sycamore Productions, Inc. [Ohio]
Tambrands (Continental) Ltd. [U.K.]
Tambrands Dosmil, S.A. de C.V. [Mexico]
Tambrands France S.A.S. [France]
Tambrands Inc. [Delaware]
Tambrands Industria e Comercia Ltda. [Brazil]
Tambrands International Trading (Shanghai) Co., Ltd. [PRC]
Tambrands Investments Ltd. [U.K.]
Tambrands Ireland Limited [Ireland]
Tambrands Limited [U.K.]
Tambrands Ukraine Ltd. [Ukraine]
Temple Trees Investments [India]

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EXHIBIT (21)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
Subsidiaries of the Registrant

Tempo AG [Switzerland]
The Dover Wipes Company [Ohio]
The Folger Coffee Company [Ohio]
The Iams Company [Ohio]
The Malabar Company [Delaware]
The Procter & Gamble Commercial Company [Ohio]
The Procter & Gamble Company of South Africa (Proprietary) Limited [S. Africa]
The Procter & Gamble Distributing Company [Ohio]
The Procter & Gamble GBS Company [Ohio]
The Procter & Gamble Global Finance Company [Ohio]
The Procter & Gamble iVentures Company [Ohio]
The Procter & Gamble Manufacturing Company [Ohio]
The Procter & Gamble Manufacturing Company of Lebanon, S.A.L.[Lebanon]
The Procter & Gamble Ohio Brands Company [Ohio]
The Procter & Gamble Paper Products Company [Ohio]
The Procter & Gamble U.S. Business Services Company [Ohio]
Thomas Hedley & Co. Limited [U.K.]
TRAPOFA Leonhard-Speditions GmbH I.L. [Germany]
US/KK Investments, Inc. [Ohio]
Verwaltungsgesellschaft Iams Pet Food mbH [Germany]
Vick International Corporation [Delaware]
Vick Nigeria Limited [Nigeria]
Vidal Sassoon (Shanghai) Academy [PRC]
Vidal Sassoon Co. [Ohio]

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APPENDIX II

EXCERPTS FROM THE ANNUAL REPORT TO SHAREHOLDERS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

AS ATTACHED TO THE

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2002



A.G. Lafley
Chairman of the Board,
President and
Chief Executive

Fellow Shareholders:

P&G touches the lives of consumers around the world every day. Thirty million times a day, in more than 160 countries, P&G brands face their first moment of truth, when consumers stand in front of a store shelf – at a Wal-Mart store in West Virginia, a Carrefour store in France, a bodega in Mexico, a corner market in Egypt or a tiny “sari sari” store in the Philippines – and decide whether to buy a P&G brand, or a competing product.

A lot happens in that moment, as consumers assess the performance, quality and value P&G brands offer relative to other products on the shelf. When we strike the right balance between brand promise and store price, we win that first moment of truth.

Winning the first moment of truth is only half the battle. Soon after, P&G brands face a second moment of truth. Nearly two *billion* times a day, P&G products are put to the test when consumers use Tide to clean their clothes, Pampers to care for their babies, Pantene to care for their hair, Olay to improve the condition of their skin, Crest to brighten their smile. Every one of P&G’s brands is put to this test.

In every one of those nearly two billion experiences, consumers decide whether P&G brands live up to their promises. When we get this right – when we deliver the benefits promised, when we provide a delightful and memorable usage experience, when we make everyday life a little bit better, a little more convenient, a little bit healthier and more beautiful – then we begin to earn the trust on which great brands are built.

At P&G, we’ve been competing for and winning these moments of truth for 165 years. As a result, we’ve built one of the largest and strongest portfolios of leading brands in the world.

We have made substantial progress over the past two years in strengthening P&G’s business. We’re back in the lead. We’re committed to continuing this progress and to ensuring we squarely face changing marketplace realities – to get out in front and to stay in front of change.

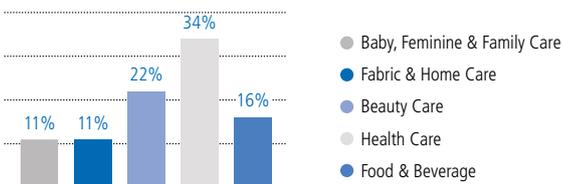
Back on Track

Getting back in the lead has certainly been “Job One” over the past two years. With clear strategic choices, operational excellence and financial discipline, we are now returning to the consistent, reliable earnings and cash growth that shareholders expect from P&G.

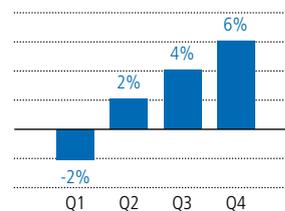
We are delivering long-term growth objectives ahead of plan. Our long-term goals are to consistently deliver double-digit core earnings per share growth, and 4% to 6% sales growth, excluding the impacts of foreign exchange. Core net earnings increased 10% to \$5.1 billion. Core diluted net earnings per share, which excludes the impact of restructuring charges and the prior-year amortization of goodwill and indefinite-lived intangibles (which is no longer required under new accounting rules), increased 10% to \$3.59. Core operating income increased 12% to \$7.6 billion. Volume for the year grew 7%. Sales were up 4%, excluding foreign exchange impact, despite corrective pricing actions taken over the last 18 months. Consumers have reacted positively to the improved value our brands now offer, with volume and sales growth accelerating in the second half of the year.

This growth is broad-scale. Every business unit delivered profitable growth at rates above the corporate objective. Every geographic region delivered volume growth. We have work yet to do, but we have achieved P&G’s long-term growth objectives a year earlier than we had projected.

Net Earnings Growth
(by segment versus previous year)



Net Sales Growth
(by quarter versus previous year)



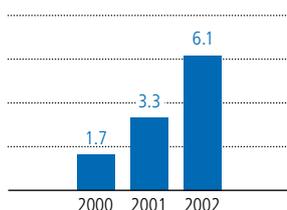
We achieved P&G's long-term growth objectives a year earlier than projected.

We are increasing free cash flow. Cash generation is a key indicator of a company's underlying health, and P&G's management is focused on creating leadership, sustained cash flow growth in each of our business units. Free cash flow – operating cash after capital spending – was \$6.1 billion, up 83% from last year and more than triple the free cash flow generated two years ago. Capital spending improvement has been a key driver. Our objective was to reduce capital spending to 6% of sales by fiscal 2004, and we've exceeded that goal two years ahead of schedule. We are now resetting our capital spending target to below 5% of sales, and continue to look for opportunities to improve asset efficiencies.

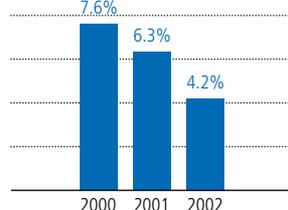
We are delivering superior total shareholder return (TSR). TSR is the key business unit metric upon which P&G's business planning and management compensation are based. The combination of strong earnings growth and focus on cash has resulted in superior business returns over the past year. P&G's share price has responded accordingly, outpacing the major indices of Dow Jones and the S&P 500.

These are substantial achievements, in tough economic times, in a very competitive global marketplace. These are the kinds of results P&G has delivered consistently and reliably for decades. This is the level of performance that P&G shareholders expect and also that we – the men and women of P&G – expect of ourselves. I want to commend the dedication, discipline and creativity of P&G people who delivered these results.

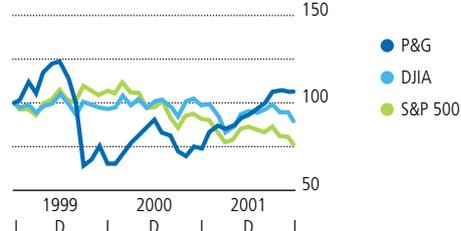
Free Cash Flow
(in billions of dollars)



Capital Spending
(as % of sales)



Total Shareholder Return
(indexed versus July 1999)





Success Drivers

There are six drivers of P&G's success: consumer focus, strategic choices, operational excellence, financial discipline, organizational structure and brand-building capability.

Consumer focus. The consumer is boss and we put the consumer at the heart of all we do. First and foremost, this means getting the consumer value equation right on all our brands. It also means delivering superior, consumer-meaningful innovation. Competitive pressures make this a continuing challenge, but we are working hard in every part of our business to deliver a continual stream of innovation that meets consumer needs in ways that reset performance expectations and represent superior value.

We are also making sure that P&G business leaders – including me – get out of the office and into stores and homes to talk directly with people who buy and use our products. No other real-world experience clarifies the choices we must make as much as these conversations with consumers.

Strategic choices. We've focused on P&G's core categories, leading brands, and the biggest retail customers and country markets. And, we're investing in faster-growing, higher-margin, more asset-efficient businesses. A good example is the acquisition of Clairol, which complements the core Hair Care business and helps P&G enter the fast-growing hair colorant category. Strategic choices like these are paying off. For example, about one-fourth of total gross margin improvement in fiscal 2002 came from our emphasis on faster-growing, higher-margin businesses such as Beauty Care and Health Care.

Operational excellence. Execution determines success, and we've placed heightened emphasis on operational excellence at P&G. Again, Clairol is a good example. We closed this deal in less than six months and fully integrated business operations seven months later. Most important, we accomplished a smooth integration and we're on track to deliver the committed synergy savings ahead of schedule.

Financial discipline. We have reinforced P&G's long-standing commitment to financial discipline. Our efforts are seen most clearly in the Company's business results. Even before the highly publicized accounting failures at several companies, we took a number of specific



Recent P&G innovations include Pampers Baby Stages of Development diapers, Crest SpinBrush and Whitestrips, Olay Daily Facials and Total Effects, Tampax Pearl, Tide and Downy Clean Breeze, Swiffer and many others.



Iams in North America is another great example of operational excellence. Starting with a 25,000 store, 3,000 truck launch – P&G's largest ever – Iams has delivered nine consecutive quarters of market share growth.

steps to ensure strong corporate governance. We reiterated clear expectations for ethical behavior. We instituted a broad-based Financial Stewardship program – more than 18 months ago – to provide even more focus on fiduciary responsibilities, internal controls and accounting processes. We continue to engage openly with P&G’s Board of Directors, and with the Board’s Audit Committee, which is comprised entirely of independent directors. And we maintain an independent relationship with Deloitte & Touche, including formal processes to approve non-audit services. These practices are consistent with the way P&G has operated for decades, and we are continually renewing the organization’s commitment to them.

Organizational structure. P&G’s unique operating structure is creating meaningful competitive advantage. In 1999, we reorganized the Company by consolidating categories and brands into Global Business Units (GBUs), aggregating country and regional go-to-market capabilities into Market Development Organizations (MDOs) and providing single-source business services through a Global Business Services organization (GBS). It has taken some time to implement, but we’re now reaping real advantage from consumer and market responsiveness and the substantial synergies made possible by the new structure. The success of Pampers Baby Stages of Development initiative in the United Kingdom is one good example. The business unit focused on delivering superior product, packaging and advertising; the MDO delivered an outstanding trial plan, superior in-store fundamentals and strong External Relations support. By “dividing and conquering” against a common business strategy and plan, we achieved more, faster. Since the launch, Pampers’ U.K. market share is back to 51%, 16 points ahead of the #2 brand.

Brand building. Branding is more important than ever – and big, leading brands are more valuable than ever. In a sea of choices where confusion reigns, consumers value the reliable promise of their favorite brands. This plays to our strength: branding is in P&G’s DNA. P&G has 12 billion-dollar brands in its portfolio today – and more are expected to come. These brands represent more than half of the Company’s sales and earnings. Equally important, these brands account for the majority of P&G’s consumer interactions – the millions of “moments of truth” we face and win every day.



P&G's Billion-Dollar Brands

Pampers

Over 30 million babies experience the comfort and dryness of Pampers every day.



Tide

Tide cleans more than 32 million loads of laundry every day.



Ariel

More than 300 million pieces of clothing are washed with Ariel every day.



Always/Whisper

On an average day, over 25 million women are using Always.



Pantene

Nearly 1.7 million consumers purchase a Pantene product every day.



Charmin

Every day, 50 million households in North America squeeze the Charmin.





Bounty

Every day, 50 million North American households experience Bounty as the Quicker Picker-Upper.

Iams

Iams and Eukanuba provide 27 million dogs and cats with superior nutrition every day.



Crest

A Crest product brings a beautiful, healthy smile to over 150 million faces every day.

Folgers

Americans drink 85 million cups of Folgers every day.



Pringles

People pop 275 million Pringles every day.

Downy/Lenor

Downy softens and freshens over 21 million loads of laundry every day.



Changing Consumer Expectations

While we've made steady progress, we know we're in a fast-moving, global marketplace in which the magnitude, pace and scope of change are accelerating. To keep P&G in the lead, it is essential that we anticipate change and get in front of it. We're doing that with a focus on three "new realities" that are shaping the future marketplace.

First is the changing expectations of consumers. Our business has always been about consumer value and in today's demanding economic environment, value is more important than ever.

The key to winning in this environment is to reset expectations for performance *and* price. Olay Total Effects is a good illustration. In global research, women identified seven distinct signs of aging that affect the condition of their skin. Many products addressed one or two of these signs, but no single product fought all seven. Further, the products that performed best in this category were high-end department store brands priced at \$60 or \$70 a bottle. With Olay Total Effects, we created a single product for all seven signs of aging based on technology that rivals or exceeds the best department store skin care brands – and offered it at a fraction of the department store price but at the top end of mass skin care pricing. Olay Total Effects is now the #1 anti-aging moisturizer in the U.S., U.K., China, Canada and Australia – growing our total Olay Skin Care franchise by nearly 20%.

The difficulty of meeting this performance/value challenge in developing markets – such as China or Eastern Europe – is even greater. Consumers in these markets have similar performance expectations, but far less purchasing power. To succeed in these markets, it's often necessary to rethink the fundamentals – everything from manufacturing to product and packaging to marketing and distribution. We have experience winning in developing markets with a range of creative solutions: single-use Pantene sachets in China and van-based distribution in Poland, for example. And we continue to develop other approaches. This will be an area of increasing importance for P&G.



Olay Total Effects

Olay Total Effects is now the #1 anti-aging moisturizer in the U.S., U.K., China, Canada and Australia.



Retailers as Partners and Competitors

The second “new reality” is the changing nature of retailing. Increasingly, we have a dual relationship with retail customers: we are strong partners and sometimes competitors.

In concept, the need for tighter relationships between manufacturers and retailers is obvious: we both serve the same consumer, we both want to build consumer loyalty to our brands, we’re both trying to grow sales faster and more profitably. But, in practice, retailers and manufacturers can work at cross purposes. Energy, resources and time that could be devoted to creating a delightful “first moment of truth” shopping experience can be spent in unproductive discussions over shelf space, pricing, discounts and terms.

Together with retail partners, we are working hard to change this practice. For example, we know consumers are often frustrated when buying hair care products. They find it hard to locate everything they want and are often left confused and searching for product information. We’re working with more than 30 retailers to enhance the performance of their hair care departments. We’ve simplified the shopping experience, provided more consumer education and made it easier for consumers to find and ultimately use the products that best meet their needs. Shoppers are spending half the time *finding* products and more time in the aisle *browsing* and *discovering* products – all of which leads to increased volume, sales and profits for P&G *and* our retail partners. These changes are delivering department growth ranges between 10% and 44% for retailers and P&G.

Retailers are sometimes competitors as well as partners. Their own brands are growing as the retailers, themselves, grow. Private labels or store brands strive to match innovation quickly and try to present a compelling value alternative in many categories. This is healthy, in my opinion. It requires that we continue to lead innovation and to price P&G products competitively. Further, the growing strength of store brands underscores the importance of always being the #1 or #2 brand in any category. Brands that can’t maintain this leadership stature will find it difficult to compete effectively with the best store brands. Based on our internal global share measures, we have the #1 or #2 brand in 17 of our 19 key global categories – categories that account for about 70% of sales and earnings. P&G is in a strong position, and ready to become an even better retail partner.



The New “Interconnected” Organization

The third “new reality” is the emerging importance of operating as an interconnected company. A recent report by industry consultant Booz Allen Hamilton noted “‘Vertical’ thinking (i.e., own or control every link in the supply chain) has given way to ‘virtual’ thinking (i.e., create a flexible web of supply relationships and focus exclusively on what one does best).”

At P&G, we see this as an enormous opportunity – in part, because that’s where the marketplace is headed and, even more so, because P&G has a strong history of developing partnerships that bring out the best in us and our partners. We’ve done it for years with advertising agencies, customers, joint venture partners and technology suppliers.

When Dr. John’s, the maker of SpinBrush toothbrushes, approached us about licensing the Crest name, we recognized the opportunity. Within five months of that first contact, we bought the company and then brought Crest’s new, powered SpinBrush to market in record time. Crest SpinBrush, now in 20 markets, has a 50% volume share of the growing powered-brush category in the U.S. and has quadrupled the sales of the original Dr. John’s product.

When we developed the bisphosphonate technology in Actonel, we increased marketing capability by partnering with Aventis, whose field sales force had broad access to and credibility with doctors. The partnership worked well, and today Actonel is a nearly \$400 million brand and growing.

Our vision is that P&G will be the best company in the world at spotting, developing and leveraging partnerships in every area of the business. In fact, I want P&G to be a magnet for best-in-class partners who want to build significant new business together.



Crest SpinBrush

Now in 20 markets, Crest SpinBrush has a 50% volume share of the growing powered-brush category in the U.S.



Actonel

In partnership with Aventis, P&G has built Actonel into a nearly \$400 million brand.



The Next Generation of Leadership

The bottom line is this: P&G is getting back on track. We have what it takes and we're doing what it takes to stay in the lead – now, and in the future. We're making clear strategic choices, strengthening operational excellence and operating with rigorous financial discipline. We're delivering the earnings growth to which we've committed – ahead of plan. We're generating cash from every business unit – at record levels. We're delivering returns that exceed the performance of the Dow Jones index and the S&P 500. In short, we are returning to the level of performance you, and we, expect from P&G – and we are determined to keep it up.

I want to close this letter with one final point. The reason things work well at P&G is that everyone is an owner and a leader. We hire people because they're leaders. We give them the training, development and experience to become even stronger leaders. We promote people who deliver superior results, operate with integrity and strengthen those around them. We have a culture that values and embraces leadership. That's true at the top of our organization. In the middle. At entry-level. It's true of people who've just joined P&G, as well as those who've spent 20- or 30-year careers at P&G.

The key in such an organization is to provide individual and business unit growth opportunities, and then to empower people to lead and execute with excellence. That is precisely what we're doing at P&G. I have no doubt we have the right organization to keep our Company growing. In these past two years, I have witnessed a passionate sense of ownership for our business that deepens my confidence in P&G's future, no matter what challenges we may face.

As owners of Procter & Gamble, you can be assured that the pioneering spirit, operating discipline and dogged commitment to being in the lead that have always characterized this Company – for 165 years! – are as alive today as they have ever been.

A.G. Lafley
Chairman of the Board,
President and Chief Executive

August 5, 2002

Financial Review

Results of Operations

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

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

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

Volume and Net Sales

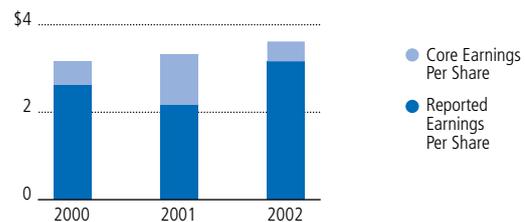
Record sales in 2002 of \$40.24 billion exceeded 2001 sales by \$994 million, or 3%. Excluding an unfavorable exchange rate impact of 1% in the current year, net sales grew 4%. Core net sales, which exclude restructuring impacts, were \$40.17 billion, up 2% versus \$39.38 billion in 2001. Excluding an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

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

Net Earnings

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

Net Earnings Per Share (on a diluted basis)



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

Operating Costs

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

Additionally, the Company is beginning to see gross margin improvement from the shift to higher-margin businesses, such as health care and beauty care. Excluding restructuring charges, gross margin in 2001 reflects fairly stable cost of products sold, despite raw material price increases – highlighting the benefits of cost control efforts.

Marketing, research, administrative and other expense (MRA&O) was \$12.57 billion in 2002 versus \$12.41 billion in 2001 and \$12.48 billion in 2000. These include restructuring costs of \$519 million in 2002, \$583 million in 2001 and \$318 million in 2000. Excluding restructuring charges and amortization of goodwill and indefinite-lived intangibles, MRA&O was \$12.05 billion in the current year versus \$11.59 billion in 2001 and \$11.94 billion in 2000. As a percent of core net sales, MRA&O was 30.0% in 2002, 29.4% in 2001 and 29.9% in 2000. The Company achieved good progress on restructuring savings that have reduced base selling, research and administrative costs. The increase in the current year was due primarily to Clairol integration costs and increases in other operating charges. Additionally, marketing support efficiencies realized in the prior year continued in the current year – although marketing costs did not decline as dramatically due to the significant progress made in the prior year.

Operating & Net Earnings Margins

Operating margin was 16.6% compared to 12.1% in 2001 and 14.9% in 2000. Excluding restructuring charges and amortization of goodwill and indefinite-lived intangibles, core operating margin increased 170 basis points to 19.0%, from 17.3% in 2001. Core operating margin was 17.5% in 2000.

Net earnings margin was 10.8% versus 7.4% in 2001 and 8.9% in 2000. Excluding restructuring charges and amortization of goodwill and indefinite-lived intangibles, core net earnings margin was 12.6%, up from 11.7% in 2001 and 11.1% in 2000. The margin increase in 2002 reflects excellent operating earnings progress and the benefits of lower interest expense. In 2001, the core net margin increase reflected the gains from minor brand divestitures and lower taxes, partially offset by increased product costs and unfavorable exchange impacts.

Non-Operating Items

Interest expense was \$603 million in 2002, compared to \$794 million in 2001 and \$722 million in 2000. The decline in interest expense was driven by lower interest rates

partially offset by an increase in debt. The increase in 2001 reflected higher debt levels, primarily due to share repurchasing and acquisitions.

Other non-operating income, net, which consists primarily of interest and investment income and divestiture gains, contributed \$308 million in 2002, compared to \$674 million in 2001 and \$304 million in 2000. This decline is driven by significantly lower income from divestitures and asset sales in 2002 versus 2001 as the Company's activity to divest non-core brands declined. Going forward, divestitures are expected to remain at these lower levels.

The Company's effective tax rate for the current year was 31.8%, compared to 36.7% in 2001 and 36.0% in 2000. Excluding restructuring costs, amortization of goodwill and indefinite-lived intangibles and related tax effects, the core effective tax rate was flat versus 2001 at 31.1% compared to 32.5% in 2000.

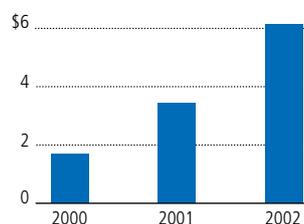
Financial Condition

The Company's financial condition remains solid – particularly regarding cash flow generation. One of the Company's focus areas is to improve its cash efficiency as a key element of achieving superior shareholder return.

Cash

Operating cash flow provides the primary source of funds to finance operating needs, capital expenditures and shareholder dividends. This is supplemented by additional borrowings to provide funds to finance the share repurchase program and acquisitions. The overall cash position of the Company reflects a global strategy to optimize cash management while considering off-shore funding needs, liquidity management objectives and other economic considerations.

Free Cash Flow
(in billions of dollars)



Free cash flow, defined as operating cash flow less capital expenditures, for 2002 was \$6.06 billion, up over 80% from

2001. This increase is indicative of the heightened emphasis on cash generation the Company has placed on all of its operating units. Free cash flow was \$3.32 billion in 2001 and \$1.66 billion in 2000.

The Company continues to generate strong cash flow from operations. In 2002, cash flow from operations was \$7.74 billion, up \$1.94 billion from \$5.80 billion in 2001, which was an increase of \$1.12 billion from \$4.68 billion in 2000. Higher earnings were the primary contributor. In addition, taxes payable increased approximately \$500 million versus the prior year, primarily driven by utilization of prior year overpayments and deferred tax assets. Depreciation and amortization charges declined by \$578 million versus the prior year. Of this decrease, \$235 million is attributable to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, under which goodwill and indefinite-lived intangible assets are no longer being amortized. The remaining decline is primarily driven by lower accelerated depreciation from the restructuring program in fiscal 2002 versus 2001.

Net cash used for acquisitions completed during 2002 totaled \$5.47 billion, primarily driven by the Clairol acquisition. This compares to \$138 million in 2001 and \$2.97 billion in 2000, which included the Iams and PUR acquisitions.

The Company continues to divest certain non-strategic brands in order to focus resources on core businesses. The divestitures declined significantly in the current year, returning to historical levels. The proceeds from these and other asset sales generated \$227 million in cash flow in the current year, which is significantly reduced when compared to the \$788 million generated in 2001 and \$419 million generated in 2000.

The Company maintains a share repurchase program, which authorizes the purchase of shares annually on the open market. A primary purpose of the program is to mitigate the dilutive impact of stock option grants – effectively pre-funding the exercise obligation. Additionally, there is a discretionary component under which it may repurchase additional outstanding shares. Current year purchases under the combined programs were \$568 million, compared to \$1.25 billion in 2001 and \$1.77 billion in 2000. The decline in the current year is primarily due to cash requirements associated with the Clairol acquisition. The Company anticipates the buy-back program will return to historical levels in 2003.

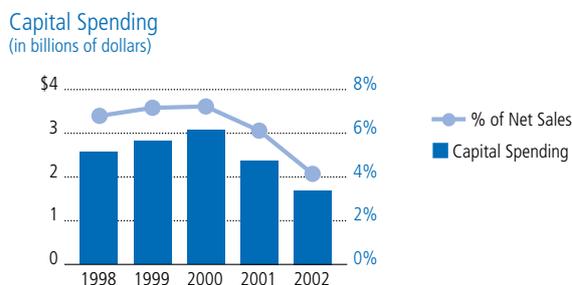
Common share dividends grew 9% to \$1.52 per share in 2002 versus \$1.40 in 2001 and \$1.28 in 2000. The annual dividend rate will increase to \$1.64 per common share in 2003, marking the 47th consecutive year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were \$2.10 billion, \$1.94 billion and \$1.80 billion in 2002, 2001 and 2000, respectively.

Total debt increased \$2.91 billion to \$14.93 billion compared to \$12.02 billion in 2001 and \$12.25 billion in 2000. This increase was primarily driven by the Clairol acquisition – which had a purchase price of approximately \$5.00 billion.

Long-term borrowing available under the Company's current shelf registration statement filed in March 2002 was \$4.00 billion at June 30, 2002. Additionally, the Company is able to issue commercial paper at favorable rates and to access general bank financing.

Capital Spending

Capital spending efficiency has been a focus area for the Company. Spending decreased \$807 million to \$1.68 billion in 2002, compared to \$2.49 billion in 2001 and \$3.02 billion in 2000. Current year spending is 4.2% of net sales, compared to 6.3% and 7.6% in 2001 and 2000, respectively.



This current year reduction of more than \$800 million versus the prior year surpasses the Company's 6% of net sales goal two years earlier than originally anticipated. This improvement in capital spending is the result of three main factors: 1) completing the majority of the re-platforming and capacity expansion investment in the baby, feminine and family care business unit, 2) sourcing consolidation and improved capacity utilization; and, 3) increasing emphasis on reduced but sustainable capital spending levels to improve shareholder value.

Liquidity

The Company does not have off-balance sheet arrangements,

commitments or related party transactions that are considered material. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the factors discussed in the Forward-Looking Statements.

Purchase Commitments

The Company has purchase commitments for materials, supplies, services and fixed assets as part of the normal course of business. In the aggregate, such commitments are not at prices in excess of current market rates. Due to the proprietary nature of many of the Company’s materials and processes, certain supply contracts contain penalty provisions for early termination. The Company does not expect changes in such provisions to materially affect results of operations or its financial condition. This conclusion is made based upon reasonably likely outcomes assumed by reference to historical experience and current business plans.

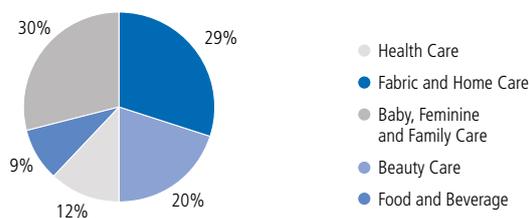
As discussed previously, the Company’s primary source of liquidity is cash generated from operations. Additionally, the Company is able to support its short-term liquidity, if necessary, through agreements with a diverse group of creditworthy financial institutions. The Company has never drawn on these facilities and does not intend to do so in the foreseeable future. However, should the facilities be needed, when combined with cash on hand, the Company believes they would provide the Company with sufficient credit funding to cover any short-term financing requirements.

Segment Results

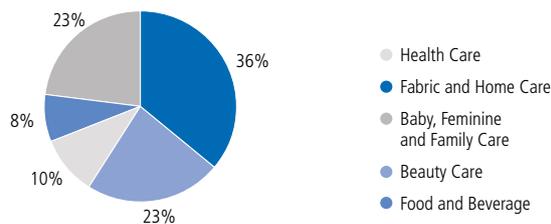
The following pages provide perspective on the Company’s business segments. Product-based segment results exclude items that are not included in measuring business performance for management reporting purposes, most notably certain financing, investing, employee benefit and restructuring costs.

Sales in companies over which the Company exerts significant influence, but does not control the financial and operating decisions, are reported for segment purposes in a manner similar to consolidated subsidiaries. Taxes are reflected in the business segments at estimated local statutory tax rates. The effects of these conventions are eliminated in the corporate segment to adjust management reporting conventions to accounting principles generally accepted in the United States of America.

2002 Net Sales by Business Segment



2002 Net Earnings by Business Segment



Health Care

Health care delivered exceptional results, as strength in the oral care and pharmaceutical businesses drove a 15% increase in unit volume and a 14% increase in net sales. Net sales were \$4.98 billion in 2002. Excluding a 1% negative impact of foreign exchange, net sales grew 15%. Health care’s volume growth from high-margin products funded increased marketing investments and yielded a net earnings increase of 34% to \$521 million.

Oral care led the volume growth, up significantly versus 2001. The global Crest brand continued to grow behind strength across the portfolio, including Crest SpinBrush, Crest Whitestrips and the base dentifrice business. In 2002, Crest joined the ranks of the Company’s billion dollar brands.

Pet health and nutrition volume increased 10% behind continued growth in the United States. Global growth was driven by new product innovation and expansion into new geographies and channels outside the United States in the second half of the year.

Pharmaceuticals continued to deliver strong results with worldwide volume up 29%, behind the strength of Actonel, the Company’s post-menopausal osteoporosis drug.

In 2001, health care unit volume increased 15%, driven by the excellent performance of the pet health and nutrition, pharmaceuticals and oral care businesses. Net sales were

\$4.35 billion, up 11%. Excluding a 3% unfavorable exchange impact, net sales grew 14%. Net earnings were \$390 million, a 16% increase over fiscal 2000.

Fabric and Home Care

Fabric and home care delivered strong earnings driven by an excellent program of cost reduction and sharpened consumer value. Unit volume grew 3%, with growth across every geographic region. Net sales for the year were flat at \$11.62 billion. Excluding a 1% unfavorable foreign exchange impact, net sales increased 1%, as volume growth was partially offset by pricing investments to improve in-store presence and the consumer value equation, primarily in Western Europe.

Net earnings were \$1.83 billion, up 11% behind lower material prices, product reformulations and manufacturing plant efficiencies. North America delivered exceptional earnings progress, reflecting disciplined cost management and increased marketing support efficiencies. This earnings progress further expands the segment's strong net earnings margin – to well above the Company average.

In 2001, unit volume decreased 2% due to heavy competitive activity, primarily in Western Europe. Net sales were \$11.66 billion, down 4% versus a strong 2000 base which included new brand introductions. Excluding a 3% unfavorable foreign exchange impact, net sales decreased 1%. Net earnings increased 13% to \$1.64 billion.

Baby, Feminine and Family Care

Baby, feminine and family care delivered strong earnings progress driven by volume growth and extensive cost reduction. Family care and baby care drove a 3% increase in unit volume. Net sales for the year were down 1% to \$11.88 billion. Excluding a 2% negative impact of exchange rates, net sales increased 1%, as commodity driven price declines and pricing adjustments on Luvs and Western European diapers partially offset volume growth.

Net earnings were \$1.17 billion, up 11% behind an ongoing program of product and overhead cost reductions, including benefits from restructuring activities that have streamlined manufacturing operations.

Family care volume grew 7% behind strength in the North America Bounty and Charmin businesses. Net sales increased 1%, as commodity pricing actions largely offset volume growth.

Baby care volume increased 4% behind Pampers growth in North America and Western Europe driven by the Baby Stages of Development product launch. Net sales declined 1% as foreign exchange and targeted pricing adjustments more than offset volume growth.

Feminine care volume declined 3%, stabilizing in the second half, and net sales declined 5%. Nevertheless, net earnings improved mainly due to cost efficiencies.

In 2001, baby, feminine and family care segment unit volume grew 2%, driven by family care and baby care. Net sales were \$11.99 billion, compared to \$12.04 billion in 2000. Excluding a 4% negative impact of exchange rates, net sales increased 4%. Net earnings decreased 2%, to \$1.05 billion, despite progress in family care and feminine care.

Beauty Care

Beauty care delivered strong results behind the Clairol acquisition, completed in the second quarter. Throughout the fiscal year, beauty care's quarterly growth rates for unit volume and net sales increased sequentially – delivering unit volume growth of 19% and net sales of \$8.08 billion, up 11%. Excluding a 2% negative foreign exchange impact, net sales grew 13%. Excluding the impacts of the Clairol acquisition, fiscal year unit volume grew 3%, primarily behind strength in the base hair care business and solid growth in fine fragrances and cosmetics. Net earnings were \$1.18 billion, up 22%, driven by marketing support efficiencies behind growing businesses and a continued focus on cost reductions.

The Clairol integration went according to plan during the year with North America, the largest region, being completed in May. The Clairol acquisition provides a strong presence in the high-margin colorants business and rounds out the Company's hair care offerings.

In 2001, beauty care unit volume was down 1%. Excluding the impact of divestitures, volume was flat. Net sales were \$7.26 billion, down 2%, versus \$7.39 billion in 2000. Excluding a 4% impact of unfavorable exchange rates, primarily in Western Europe and Asia, net sales grew 2%. Net earnings were \$967 million, an 8% improvement behind the successful expansion of high-performance, premium-priced products.

Food and Beverage

Food and beverage delivered solid earnings growth despite top-line challenges. Unit volume declined 6%, including a 4%

impact from divestitures. Volume declines and commodity-related pricing actions in coffee drove an 8% decrease in net sales, to \$3.80 billion. Net earnings grew 16%, to \$384 million, as broad-based cost reductions more than offset declining volumes.

The fourth quarter marked the completion of the Jif and Crisco spin-off. This transaction, which is accounted for similar to a dividend, delivered excellent value to shareholders – equivalent to approximately \$0.60 per share.

In 2001, food and beverage unit volume declined 10%, including a 2% impact from divestitures. Unit volume was negatively affected by reduced trade merchandising and the impact of snacks pricing actions in North America and Western Europe and the divestiture of the institutional shortening and oils business. Net sales were \$4.14 billion, down 11%. Net earnings were \$332 million, down 9% versus 2000.

Corporate

The corporate segment includes both operating and non-operating elements such as financing and investing activities, certain benefit costs, restructuring charges, segment eliminations and other general corporate items.

Corporate includes adjustments from management reporting conventions to conform with accounting principles generally accepted in the United States of America. These primarily affect the treatment of entities over which the Company exerts significant influence but does not control, and income taxes, which are reflected in the business segments using estimated local statutory tax rates.

Corporate results reflect a decrease in one-time gains from the Company's non-strategic divestiture program. Moreover, reduced corporate hedging gains versus 2001 were partially offset by decreased restructuring costs, lower interest expense and the discontinuation of amortizing goodwill and certain indefinite-lived intangibles.

In 2001, corporate results reflect increased restructuring costs, higher benefit costs and certain tax impacts not reflected in the businesses. These were partially offset by one-time gains from the Company's divestiture program, reduced overhead spending and corporate hedging gains.

Critical Accounting Policies

The Company makes various estimates when applying

accounting policies affecting the Consolidated Balance Sheet, Consolidated Statement of Cash Flows and Consolidated Statement of Earnings. Due to the nature of the Company's business, these estimates generally are not considered highly uncertain at the time of estimation – meaning they are not expected to result in a period-to-period change that would materially affect the Company's results of operations or financial condition.

The Company does apply certain key accounting policies as required by accounting principles generally accepted in the United States of America. These key accounting policies govern revenue recognition, restructuring, income taxes and certain employee benefits.

Revenue Recognition

Revenue is recognized when it is realized or realizable and earned. The vast majority of the Company's revenue relates to sale of inventory to customers, and revenue is recognized when title and the risks and rewards of ownership pass to the customer. Given the nature of the Company's business and the applicable rules guiding revenue recognition, the Company's revenue recognition practices do not contain estimates that materially affect results of operations.

Restructuring

Restructuring charges relate to the restructuring program that began in 1999. The Company provides forward-looking information about the overall program, including estimated costs and savings. Such disclosures represent management's best estimate, but do require significant estimates about the program that may change over time. However, the specific reserves recorded in each year under the restructuring program are not considered highly uncertain, see Note 2 to the Consolidated Financial Statements.

Income Taxes

Under SFAS No. 109, "Accounting for Income Taxes," income taxes are recorded based on the current year amounts payable or refundable, as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how those events are treated for tax purposes (see Note 11). The Company bases its estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes.

Changes in existing regulatory tax laws and rates may affect

the Company's ability to successfully manage regulatory matters around the world, and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. The Company's accounting for deferred tax consequences represents management's best estimate of future events that can be appropriately reflected in the accounting estimates. Although certain changes cannot be reasonably assumed in the Company's current estimates, management does not believe such changes would result in a material period-to-period impact on the results of operations or financial condition.

Employee Benefits

Employee benefits include pensions – both defined contribution and defined benefit – and other post-employment benefits (OPEB), with plans and benefits established locally. At the Corporate level, there is an employee stock ownership plan (ESOP) and a stock option plan.

Under the provisions of SFAS No. 87, "Employer's Accounting for Pensions" and SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions," measurement of the obligations under the defined benefit pension plans and OPEB plans are subject to a number of assumptions. These include the rate of return on plan assets, health care cost trend rates and the rate at which the future obligations are discounted to the value of the liability at June 30th of each year presented in the Consolidated Balance Sheet (see Note 10).

Certain defined contribution pension and OPEB benefits in the United States are funded by the ESOP plan (see Note 9). The ESOP plan is accounted for under the provisions of AICPA Statement of Position No. 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans." Series A shares are used to fund a portion of the defined contribution plan and Series B shares are used to fund a portion of retiree health care benefits – a component of OPEB. Changes in estimates and assumptions that are implicit in accounting for the ESOP would not have a material impact on the results of operations.

Under SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to account for stock options under APB Opinion No. 25, "Accounting for Stock Issued to Employees," based on their intrinsic value at the date of grant. Because options generally are granted at market value, there is no intrinsic value and resultant compensation expense. Note 8 provides supplemental information, including

pro forma earnings and earnings per share, as if the Company had accounted for options based on the method prescribed by SFAS No. 123. That methodology yields an estimate of fair value based on a measurement method that contains a number of management estimates, including estimated option life and future volatility. Changes in these assumptions could significantly impact the estimated fair value of the options.

Hedging and Derivative Financial Instruments

As a multinational company with diverse product offerings, the Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage the volatility relating to these exposures, the Company evaluates its exposures on a global basis to take advantage of the netting opportunities that exist. For the remaining exposures, the Company enters into various derivative transactions in accordance with the Company's hedging policies. 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 speculative trading purposes. Note 7 includes a more detailed discussion of the Company's accounting policies for financial instruments.

Derivative positions are monitored using techniques including market valuation, sensitivity analysis and value at risk modeling. The tests for interest rate and currency rate exposures discussed below are based on a Monte Carlo simulation 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. Estimates of volatility and correlations of market factors are drawn from the RiskMetrics™ dataset as of June 28, 2002. In cases where data is unavailable in RiskMetrics™, 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 of the Company's foreign net investments.

Based on the Company's overall interest rate exposure as of and during the year ended June 30, 2002, including derivative and other instruments sensitive to interest rates, the Company does not believe a near-term change in interest rates, at a 95% confidence level based on historical interest rate movements, would 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 primary purpose of the Company's foreign currency hedging activities is to reduce the risk that the Company's financial position will be adversely affected by short-term changes in exchange rates. Corporate policy prescribes the range of allowable hedging activity. The Company primarily utilizes forward exchange contracts and purchased options with maturities of less than 18 months.

In addition, the Company enters into certain foreign currency swaps with maturities of up to five years to hedge intercompany financing transactions. The Company also utilizes purchased foreign currency options with maturities of generally less than 18 months and forward exchange contracts to hedge against the effect of exchange rate fluctuations on royalties and income from international operations.

Based on the Company's overall currency rate exposure as of and during the year ended June 30, 2002, including derivative and other instruments sensitive to foreign currency movements, the Company does not believe a near-term change in currency rates, at a 95% confidence level based on historical currency rate movements, would 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, options and swap contracts to manage the volatility related to the above exposures. Commodity hedging activity is not considered material to the Company's financial statements.

Restructuring Program

In 1999, concurrent with a reorganization of its operations into product-based global business units, the Company

initiated a multi-year restructuring program. The program is designed to accelerate growth and deliver cost reductions by streamlining management decision-making, manufacturing and other work processes and discontinuing under-performing businesses and initiatives. Technology improvements, as well as standardization of manufacturing and other work processes allow the Company to streamline its operations. This resulted in the consolidation of manufacturing activity and various business processes.

The total cost of the program is expected to be \$5.6 billion before tax (\$4.4 billion after tax). Through 2002, cumulative charges are \$4.1 billion before tax (\$3.3 billion after tax). The remaining charges are expected to continue through fiscal 2004. Given the nature and duration of the program, costs to be incurred in future years are subject to varying degrees of estimation for key assumptions, such as actual timing of execution, currency effects, enrollment impacts and other variables. All restructuring costs are reported in the corporate segment.

Summary of Restructuring Charges

(in millions of dollars)	Years Ended June 30		
	2002	2001	2000
Separations	\$393	\$341	\$153
Accelerated Depreciation	135	276	386
Asset Write-Downs	208	731	64
Other	222	502	211
Total (before tax)	958	1,850	814
Total (after tax)	706	1,475	688

Separations represent the cost of packages offered to employees, which are generally accrued upon employee acceptance. The separation packages, predominantly voluntary, are formula driven based on salary levels and past service. Separation costs are charged to cost of products sold for manufacturing employees and marketing, research, administrative and other for all other employees.

Approximately 16,600 separation packages have been provided for through June 30, 2002: 7,400 in 2002 and 9,200 from 1999 to 2001. While all geographies and businesses are impacted by the enrollment reduction programs, a higher number of United States employees are affected, given the concentration of operations. Net enrollment for the Company may decline by less than the total separations, as terminations will be offset by increased enrollment at remaining sites, acquisitions and other impacts.

Accelerated depreciation relates 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, plant closures or strategic choices to discontinue initiatives. The Company has shortened the estimated useful lives of such assets, resulting in incremental depreciation expense. For segment and management reporting purposes, normal depreciation expense is reported by the business segments, with the incremental accelerated depreciation reported in the corporate segment. Accelerated depreciation and write-downs are charged to cost of products sold for manufacturing assets and marketing, research, administrative and other expense for all other assets.

Asset write-downs relate to establishment of new fair-value bases for assets held for sale or disposal and for assets whose future cash flow expectations have declined significantly as a direct result of restructuring decisions. Assets held for sale or disposal represent excess capacity that is in the process of being removed from service as well as businesses held for sale within the next 12 months. Such assets are written down to the net amount expected to be realized upon sale or disposal. Assets continuing in operation, but whose nominal cash flows are no longer sufficient to recover existing book values, are written down to estimated fair value, generally determined by reference to discounted expected future cash flows. Write-downs of assets that will continue to be used were approximately \$45 million before tax (\$33 million after tax) in 2002, \$160 million before tax (\$133 million after tax) in 2001 and \$0 in 2000. Asset write-downs are not expected to significantly impact future annual depreciation expense.

Other contains charges incurred as a direct result of restructuring decisions including relocation, training, discontinuation of initiatives and the establishment of global business services and the new legal and organization structure. These costs are charged to the applicable income statement line item based on the underlying nature of the charge.

Most restructuring accruals are classified as current liabilities. Reserve balances were \$245 million, \$460 million and \$88 million at June 30, 2002, 2001 and 2000, respectively. During the current year, approximately 60% of restructuring charges were cash compared to 40% in 2001 and 55% in 2000. Going forward, approximately 60% of future charges are expected to be cash – primarily separations.

Savings from the restructuring program are difficult to

estimate, given the nature of the activities, the corollary benefits achieved, timing and the degree of reinvestment. Overall, the program is expected to deliver nearly \$2 billion in after tax annual savings by fiscal 2004. Estimated incremental savings were \$700 million in 2002, \$235 million in 2001 and \$65 million in 2000. Incremental savings in 2003 are estimated to be approximately \$400 to \$500 million after tax.

Forward-Looking Statements

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, financial goals and cost reduction, among others.

These forward-looking statements are based on assumptions and estimates regarding competitive activity, pricing, product introductions, economic conditions, technological innovation, currency movements, governmental action and the development of certain markets. Among the key factors necessary to achieve the Company's goals are: (1) the successful integration of the Company's new organization structure, including achievement of expected cost and tax savings; (2) the ability to achieve business plans, including growing volume profitably, despite high levels of competitive activity, especially with respect to the product categories and geographical markets in which the Company has chosen to focus; (3) the ability to maintain key customer relationships; (4) the achievement of growth in significant developing markets such as China, Turkey, Mexico, the Southern Cone of Latin America, the countries of Central and Eastern Europe and the countries of Southeast Asia; (5) the ability to successfully manage regulatory, tax and legal matters, including resolution of pending matters within current estimates; (6) the successful and timely execution of planned brand divestitures; (7) the ability to successfully implement, achieve and sustain cost improvement plans in manufacturing and overhead areas; (8) the ability to successfully manage currency (including currency issues in Latin America), interest rate and certain commodity cost exposures; and (9) the ability to manage the continued political and/or economic uncertainty in Latin America and the Middle East, as well as any political and/or economic uncertainty due to terrorist activities. 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.

Independent Auditors' Report

Deloitte & Touche

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

We have audited the accompanying consolidated balance sheet of The Procter & Gamble Company and subsidiaries as of June 30, 2002 and 2001 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2002. 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 auditing standards generally accepted in the United States of America. 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, 2002 and 2001 and the results of its operations and cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

250 East Fifth Street
Cincinnati, Ohio 45202

August 5, 2002

Consolidated Statement of Earnings

Amounts in millions except per share amounts

	Years Ended June 30		
	2002	2001	2000
Net Sales	\$40,238	\$39,244	\$39,951
Cost of products sold	20,989	22,102	21,514
Marketing, research, administrative and other expense	12,571	12,406	12,483
Operating Income	6,678	4,736	5,954
Interest expense	603	794	722
Other non-operating income, net	308	674	304
Earnings Before Income Taxes	6,383	4,616	5,536
Income taxes	2,031	1,694	1,994
Net Earnings	\$4,352	\$2,922	\$3,542
Basic Net Earnings Per Common Share	\$3.26	\$2.15	\$2.61
Diluted Net Earnings Per Common Share	\$3.09	\$2.07	\$2.47
Dividends Per Common Share	\$1.52	\$1.40	\$1.28

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

Amounts in millions

	June 30	
	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$3,427	\$2,306
Investment securities	196	212
Accounts receivable	3,090	2,931
Inventories		
Materials and supplies	1,031	1,096
Work in process	323	373
Finished goods	2,102	1,915
Total Inventories	3,456	3,384
Deferred income taxes	521	397
Prepaid expenses and other receivables	1,476	1,659
Total Current Assets	12,166	10,889
Property, Plant and Equipment		
Buildings	4,532	4,148
Machinery and equipment	17,963	18,165
Land	575	508
	23,070	22,821
Accumulated depreciation	(9,721)	(9,726)
Net Property, Plant and Equipment	13,349	13,095
Goodwill and Other Intangible Assets		
Goodwill	10,966	7,429
Trademarks and other intangible assets, net	2,464	871
Net Goodwill and Other Intangible Assets	13,430	8,300
Other Non-Current Assets	1,831	2,103
Total Assets	\$40,776	\$34,387

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

Amounts in millions

	June 30	
	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$2,205	\$2,075
Accrued and other liabilities	5,330	4,631
Taxes payable	1,438	907
Debt due within one year	3,731	2,233
Total Current Liabilities	12,704	9,846
Long-Term Debt	11,201	9,792
Deferred Income Taxes	1,077	894
Other Non-Current Liabilities	2,088	1,845
Total Liabilities	27,070	22,377
Shareholders' Equity		
Convertible Class A preferred stock, stated value \$1 per share (600 shares authorized)	1,634	1,701
Non-Voting Class B preferred stock, stated value \$1 per share (200 shares authorized)	-	-
Common stock, stated value \$1 per share (5,000 shares authorized; shares outstanding: 2002 – 1,300.8, 2001 – 1,295.7)	1,301	1,296
Additional paid-in capital	2,490	2,057
Reserve for ESOP debt retirement	(1,339)	(1,375)
Accumulated other comprehensive income	(2,360)	(2,120)
Retained earnings	11,980	10,451
Total Shareholders' Equity	13,706	12,010
Total Liabilities and Shareholders' Equity	\$40,776	\$34,387

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement 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, 1999	1,319,754	\$1,320	\$1,781	\$1,337	\$(1,552)	\$(1,606)	\$10,778	\$12,058	
Net earnings							3,542	3,542	\$3,542
Other comprehensive income:									
Financial statement translation						(449)		(449)	(449)
Net investment hedges, net of \$88 tax						150		150	150
Other, net of tax						63		63	63
Total comprehensive income									\$3,306
Dividends to shareholders:									
Common							(1,681)	(1,681)	
Preferred, net of tax benefit							(115)	(115)	
Treasury purchases	(24,296)	(24)		72 ⁽¹⁾			(1,814)	(1,766)	
Employee plan issuances	7,592	7		344				351	
Preferred stock conversions	2,817	3	(44)	41				—	
ESOP debt guarantee reduction					134			134	
Balance June 30, 2000	1,305,867	1,306	1,737	1,794	(1,418)	(1,842)	10,710	12,287	
Net earnings							2,922	2,922	\$2,922
Other comprehensive income:									
Financial statement translation						(715)		(715)	(715)
Net investment hedges, net of \$276 tax						460		460	460
Other, net of tax benefit						(23)		(23)	(23)
Total comprehensive income									\$2,644
Dividends to shareholders:									
Common							(1,822)	(1,822)	
Preferred, net of tax benefit							(121)	(121)	
Treasury purchases	(18,238)	(18)		6 ⁽¹⁾			(1,238)	(1,250)	
Employee plan issuances	5,924	6		223				229	
Preferred stock conversions	2,185	2	(36)	34				—	
ESOP debt guarantee reduction					43			43	
Balance June 30, 2001	1,295,738	1,296	1,701	2,057	(1,375)	(2,120)	10,451	12,010	
Net earnings							4,352	4,352	\$4,352
Other comprehensive income:									
Financial statement translation						263		263	263
Net investment hedges, net of \$238 tax benefit						(397)		(397)	(397)
Other, net of tax benefit						(106)		(106)	(106)
Total comprehensive income									\$4,112
Dividends to shareholders:									
Common							(1,971)	(1,971)	
Preferred, net of tax benefit							(124)	(124)	
Spin-off of Jif and Crisco							(150)	(150)	
Treasury purchases	(7,681)	(8)		18 ⁽¹⁾			(578)	(568)	
Employee plan issuances	8,323	9		352				361	
Preferred stock conversions	4,390	4	(67)	63				—	
ESOP debt guarantee reduction					36			36	
Balance June 30, 2002	1,300,770	\$1,301	\$1,634	\$2,490	\$(1,339)	\$(2,360)	\$11,980	\$13,706	

⁽¹⁾ Premium on equity put options.

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

Amounts in millions

	Years Ended June 30		
	2002	2001	2000
Cash and Cash Equivalents, Beginning of Year	\$2,306	\$1,415	\$2,294
Operating Activities			
Net earnings	4,352	2,922	3,542
Depreciation and amortization	1,693	2,271	2,191
Deferred income taxes	389	(102)	463
Change in accounts receivable	96	(122)	64
Change in inventories	159	(67)	(176)
Change in accounts payable, accrued and other liabilities	684	801	(883)
Change in other operating assets and liabilities	(98)	57	(404)
Other	467	44	(122)
Total Operating Activities	7,742	5,804	4,675
Investing Activities			
Capital expenditures	(1,679)	(2,486)	(3,018)
Proceeds from asset sales	227	788	419
Acquisitions	(5,471)	(138)	(2,967)
Change in investment securities	88	(7)	221
Total Investing Activities	(6,835)	(1,843)	(5,345)
Financing Activities			
Dividends to shareholders	(2,095)	(1,943)	(1,796)
Change in short-term debt	1,394	(1,092)	243
Additions to long-term debt	1,690	1,356	4,196
Reductions of long-term debt	(461)	(226)	(1,409)
Proceeds from the exercise of stock options	237	141	336
Treasury purchases	(568)	(1,250)	(1,766)
Total Financing Activities	197	(3,014)	(196)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	17	(56)	(13)
Change in Cash and Cash Equivalents	1,121	891	(879)
Cash and Cash Equivalents, End of Year	\$3,427	\$2,306	\$1,415
Supplemental Disclosure			
Cash payments for:			
Interest	\$629	\$735	\$700
Income taxes	941	1,701	1,712
Non-cash spin-off of Jif and Crisco	150	–	–
Liabilities assumed in acquisitions	571	108	236

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The consolidated financial statements include The Procter & Gamble Company and its controlled subsidiaries (the Company). Intercompany transactions are eliminated in consolidation. Investments in companies over which the Company exerts significant influence, but does not control the financial and operating decisions, are accounted for using the equity method. These investments are managed as integral parts of the Company's business units, and segment reporting reflects such investments as consolidated subsidiaries with applicable adjustments to comply with U.S. GAAP in the corporate segment.

Use of Estimates: Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, although management does not believe such changes will materially affect the financial statements in any individual year.

New Pronouncements: On July 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets."

SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001. This Statement eliminates the pooling-of-interests method of accounting and further clarifies the criteria for recognition of intangible assets separately from goodwill.

SFAS No. 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with determinable useful lives will continue to be amortized. Beginning July 1, 2001, the Company ceased amortizing goodwill and indefinite-lived intangible assets. At that time, management performed an impairment test of existing goodwill and concluded there was no goodwill impairment.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company will adopt both SFAS No. 143 and SFAS No. 144

on July 1, 2002, and does not expect these Statements to materially impact the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This pronouncement is effective for exit or disposal activities that are initiated after December 31, 2002, and requires these costs to be recognized when the liability is incurred and not at project initiation. The Company is reviewing the provisions of this Statement, but does not expect it to have a material impact on the Company's financial statements.

Revenue Recognition: Sales are recognized when revenue is realized or realizable and has been earned. Most revenue transactions represent sales of inventory. In general, revenue is recognized when risk and title to the product transfers to the customer. A provision for discounts and other allowances is taken as a reduction in sales within the same period the revenue is recognized.

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 at the balance sheet date are recorded in other comprehensive income. 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.

Cash Equivalents: Highly liquid investments with maturities of three months or less when purchased are considered cash equivalents and recorded at cost, which approximates fair value.

Investment Securities: Investment securities consist of short-term readily marketable instruments that mature within one year. These securities are reported at fair value and classified as available for sale, with unrealized gains or losses recorded net of tax in other comprehensive income.

Inventory Valuation: Inventories are valued at cost, which is not in excess of current market prices. Cost is primarily determined by either the average cost or the first-in, first-out method, with minor amounts maintained on the last-in, first-out method. The replacement cost of last-in, first-out inventories exceeded carrying value by approximately \$27 and \$55 at June 30, 2002 and 2001, respectively.

Goodwill and Other Intangible Assets: The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed, principally on a straight-line basis, over the estimated periods benefited, ranging from 5 to 40 years. Goodwill and

Millions of dollars except per share amounts

indefinite-lived intangibles are evaluated annually for impairment. Beginning in 2002, such determination of fair value is based on valuation models that incorporate expected future cash flows and profitability projections. Prior to 2002, goodwill was amortized over periods not exceeding 40 years.

Property, Plant and Equipment: Property, plant and equipment are recorded at cost reduced by accumulated depreciation. Depreciation expense is recognized over the assets' estimated useful lives using the straight-line method. Estimated useful lives are based on Company averages and range from 3 to 20 years for machinery and equipment and 40 years for buildings. Estimated useful lives are periodically reviewed and, where appropriate, changes are made prospectively.

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, equity and risk management instruments, have been determined using 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 could significantly affect the fair value estimates.

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

Note 2 Restructuring Program

In 1999, concurrent with a reorganization of its operations into product-based global business units, the Company initiated a multi-year restructuring program. The program is designed to accelerate growth and deliver cost reductions by streamlining management decision-making, manufacturing and other work processes and discontinuing under-performing businesses and initiatives. Technology improvements as well as standardization of manufacturing and other work processes allow the Company to streamline operations, resulting in the consolidation of manufacturing activity and various business processes.

Costs to be incurred include separation related costs, asset write-downs, accelerated depreciation and other costs directly related to the restructuring effort.

Due to the nature of the charges and the duration of the program, estimates of the timing and amount of costs and savings require significant judgment and may change over time. Based on current estimates, the overall program is expected to result in total charges of \$5.6 billion (\$4.4 billion after tax) over the six-year period that began in

1999. Through 2002, cumulative charges are \$4.1 billion (\$3.3 billion after tax). Under current accounting rules, many restructuring charges may not be recognized at project initiation, but rather are charged to expense as established criteria for recognition are met. This accounting yields ongoing charges over the entire restructuring period, rather than a large reserve at initiation.

Before-tax restructuring activity was as follows:

	Separations	Asset Write-Downs	Accelerated Depreciation	Other	Total
Reserve balance					
June 30, 1999	\$35	\$ –	\$ –	\$9	\$44
2000:					
Charges	153	64	386	211	814
Cash spent	(100)	–	–	(220)	(320)
Charged against					
assets	–	(64)	(386)	–	(450)
Reserve balance					
June 30, 2000	88	–	–	–	88
2001:					
Charges	341	731	276	502	1,850
Cash spent	(186)	–	–	(199)	(385)
Charged against					
assets	–	(731)	(276)	(86)	(1,093)
Reserve balance					
June 30, 2001	243	–	–	217	460
2002:					
Charges	393	208	135	222	958
Cash spent	(477)	–	–	(336)	(813)
Charged against					
assets	–	(208)	(135)	(17)	(360)
Reserve balance					
June 30, 2002	159	–	–	86	245

Charges for the program are reflected in the corporate segment.

Separation Costs

Employee separation charges relate to severance packages for approximately 7,400 people in 2002, 6000 people in 2001, 2800 people in 2000 and 400 people in 1999. The packages are predominantly voluntary and 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. The current and planned separations span the entire organization, including manufacturing, selling, research and administrative positions.

Millions of dollars except per share amounts

Asset Write-Downs

Asset write-downs relate to the establishment of new carrying values for assets held for sale or disposal. These assets represent excess capacity in the process of being removed from service or disposed as well as businesses held for sale in the next 12 months. These assets were written down to the amounts expected to be realized upon sale or disposal, less minor disposal costs.

Additionally, asset write-downs include certain manufacturing assets that are expected to operate at levels significantly below their planned capacity, primarily capital expansions related to recent initiatives that have not met expectations. The projected cash flows from such assets over their remaining useful lives are no longer estimated to be greater than their current carrying values; therefore, they were written down to estimated fair value, generally determined by reference to discounted expected future cash flows. Such before-tax charges represented approximately \$45 in 2002, \$160 in 2001 and \$0 in 2000.

Accelerated Depreciation

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, plant closures or strategic choices to discontinue initiatives. The Company has shortened the estimated useful lives of such assets, resulting in incremental depreciation expense.

Other Restructuring Charges

Other costs incurred as a direct result of the program include relocation, training, certain costs associated with discontinuation of initiatives and the establishment of global business services and the new legal and organization structure.

Note 3 Acquisitions and Spin-off

Acquisitions

The purchase method of accounting was used for acquisitions in all periods presented. In 2002, acquisitions totaled \$5.5 billion, resulting in additions to goodwill of \$3.6 billion and other intangible assets of \$1.7 billion (see Note 4). These acquisitions consisted primarily of Clairol along with an incremental payment for Dr. John's Spinbrush.

On November 16, 2001, the Company completed the acquisition of the Clairol business from the Bristol-Myers Squibb Company for approximately \$5.0 billion in cash, financed primarily with debt. Total cash paid includes final purchase price adjustments based on a working capital formula. The Clairol business consists of hair care, hair colorants and personal care products, giving the Company entry into the hair

colorant market, while providing potential for significant synergies. The operating results of the Clairol business are reported in the Company's beauty care segment from November 16, 2001.

The following table provides pro forma results of operations for the years ended June 30, 2002, 2001 and 2000, as if Clairol had been acquired as of the beginning of each fiscal year presented. The pro forma results include adjustments for estimated interest expense on acquisition debt and amortization of intangible assets, excluding goodwill and indefinite-lived intangibles. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of Clairol. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had closed on the dates indicated, or that may result in the future.

Pro forma results	Years Ended June 30		
	2002	2001	2000
Net sales	\$40,780	\$40,801	\$41,488
Net earnings	4,406	2,927	3,517
Diluted net earnings per common share	\$3.13	\$2.07	\$2.45

The initial purchase price allocation of the Clairol business resulted in the following condensed balance sheet of assets acquired and liabilities assumed. It is anticipated that there will be changes to the initial allocation as fair values are finalized next quarter, but the Company does not expect these changes to have a material impact on the results of operations or financial condition of the Company in future periods.

	Opening Balance
Current assets	\$487
Property, plant and equipment	184
Intangible assets	1,533
Goodwill ⁽¹⁾	3,300
Other non-current assets	18
Total assets acquired	5,522
Current liabilities	450
Non-current liabilities	47
Total liabilities assumed	497
Net assets acquired	5,025

⁽¹⁾ Approximately \$2.6 billion is expected to be deductible for tax purposes.

The Clairol acquisition resulted in \$1,533 in total intangible assets acquired with \$1,220 allocated to trademarks with indefinite lives. The remaining \$313 of acquired intangibles have determinable useful lives and were assigned to trademarks of \$128, patents and technology of \$146 and other intangible assets of \$39. Total intangible assets acquired with determinable lives have a weighted average useful life of 9 years (11 years for trademarks, 9 years for patents and technology and 5 years for other intangible assets).

Millions of dollars except per share amounts

During 2002, the Company completed a buyout of the purchase price contingency associated with the prior acquisition of Dr. John's Spinbrush. The total adjusted purchase price is approximately \$475, with the incremental payment resulting in additional goodwill.

In 2001, acquisitions totaled \$246 resulting in additions to goodwill and other intangibles of \$208. In 2000, acquisitions consisted of The Iams Company and Affiliates, Recovery Engineering, Inc. and a joint venture ownership increase in China. These acquisitions totaled \$2,967, resulting in additions to goodwill and other intangibles of \$2,508.

Spin-off

On May 31, 2002, the Jif peanut butter and Crisco shortening brands were spun off to the Company's shareholders, and subsequently merged into The J.M. Smucker Company (Smucker). The Company's shareholders received one new common Smucker share for every 50 shares held in the Company, totaling 26 million shares, or approximately \$900 in market value. This transaction was not included in the results of operations, since a spin-off to the Company's shareholders is recorded at net book value, or \$150, in a manner similar to dividends.

Note 4 Goodwill and Intangible Assets

The change in the net carrying amount of goodwill for the year ended June 30, 2002 is allocated by reportable business segment as follows:

	2002
Fabric & Home Care , beginning of year	\$457
Translation & other	(6)
End of year	451
Baby, Feminine & Family Care , beginning of year	2,806
Translation & other	(163)
End of year	2,643
Beauty Care , beginning of year	1,344
Acquisitions	3,330
Translation & other	55
End of year	4,729
Health Care , beginning of year	2,544
Acquisitions	284
Translation & other	38
End of year	2,866
Food & Beverage , beginning of year	278
Translation & other	(1)
End of year	277
Goodwill, Net , beginning of year	7,429
Acquisitions	3,614
Translation & other	(77)
End of year	10,966

Goodwill increased in beauty care primarily due to the Clairol acquisition. The increase in goodwill in health care related to the buyout of the purchase price contingency for Dr. John's Spinbrush.

Identifiable intangible assets as of June 30, 2002 and 2001 are comprised of:

	June 30, 2002		June 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible Assets with Determinable Lives				
Trademarks	\$457	\$48	\$155	\$27
Patents and technology	494	160	333	78
Other	385	173	385	186
	1,336	381	873	291
Trademarks with Indefinite Lives				
	1,678	169	458	169
	3,014	550	1,331	460

The amortization of intangible assets for the years ended June 30, 2002, 2001 and 2000 was \$97, \$80 and \$77, respectively. Estimated amortization expense over the next five years is as follows: 2003–\$85, 2004–\$85, 2005–\$80, 2006–\$80 and 2007–\$50. Such estimates do not reflect the impact of future foreign exchange rate changes.

The following table provides pro forma disclosure of net earnings and earnings per common share for the years ended June 30, 2001 and 2000, as if goodwill and indefinite-lived intangible assets had not been amortized.

Pro forma results	Years Ended June 30	
	2001	2000
Net earnings	\$2,922	\$3,542
Amortization, net of tax ⁽¹⁾	218	212
Adjusted net earnings	3,140	3,754
Basic net earnings per common share	\$2.15	\$2.61
Amortization, net of tax ⁽¹⁾	0.15	0.16
Adjusted basic net earnings per common share	2.30	2.77
Diluted net earnings per common share	2.07	2.47
Amortization, net of tax ⁽¹⁾	0.15	0.15
Adjusted diluted net earnings per common share	2.22	2.62

⁽¹⁾ Amortization of goodwill and indefinite-lived intangible assets.

Millions of dollars except per share amounts

Note 5 Supplemental Financial Information

Selected components of current and non-current liabilities were as follows:

	June 30	
	2002	2001
Accrued and Other Current Liabilities		
Marketing expenses	\$1,658	\$1,271
Compensation expenses	771	576
Restructuring reserves	245	460
Other	2,656	2,324
	5,330	4,631
Other Non-Current Liabilities		
Other postretirement benefits	\$344	\$534
Pension benefits	1,158	925
Other	586	386
	2,088	1,845

Selected Operating Expenses

Research and development costs are charged to earnings as incurred and were \$1,601 in 2002, \$1,769 in 2001 and \$1,899 in 2000. Advertising costs are charged to earnings as incurred and were \$3,773 in 2002, \$3,612 in 2001 and \$3,793 in 2000. Both of these are components of marketing, research, administrative and other expense.

Note 6 Short-Term and Long-Term Debt

	June 30	
	2002	2001
Short-Term Debt		
USD commercial paper	\$2,142	\$675
Non-USD commercial paper	461	559
Current portion of long-term debt	618	414
Other	510	585
	3,731	2,233

The weighted average short-term interest rates were 2.9% and 5.3% as of June 30, 2002 and 2001, respectively.

	2002	2001
Long-Term Debt		
6.00% USD note due March, 2003	\$500	\$500
5.25% USD note due September, 2003	750	750
8.00% USD note due November, 2003	200	200
6.60% USD note due December, 2004	1,000	1,000
8.33% ESOP debentures due 2003-2004	212	306
4.00% USD note due April, 2005	400	—
5.75% EUR note due September, 2005	1,478	1,270
1.50% JPY note due December, 2005	459	441
4.75% USD note due June, 2007	1,000	—
6.13% USD note due May, 2008	500	500
6.88% USD note due September, 2009	1,000	1,000
2.00% JPY note due June, 2010	417	401
9.36% ESOP debentures due 2007-2021	1,000	1,000
8.00% USD note due September, 2024	200	200
6.45% USD note due January, 2026	300	300
6.25% GBP note due January, 2030	763	705
All other long-term debt	1,640	1,633
Current portion of long-term debt	(618)	(414)
	11,201	9,792

Long-term weighted average interest rates were 4.0% and 5.0% as of June 30, 2002 and 2001, respectively, and include the effects of related interest rate swaps discussed in Note 7.

The fair value of the long-term debt was \$11,673 and \$10,164 at June 30, 2002 and 2001, respectively. Long-term debt maturities during the next five fiscal years are as follows: 2003—\$618; 2004—\$1,099; 2005—\$1,475; 2006—\$2,200 and 2007—\$1,006.

Note 7 Risk Management Activities

As a multinational company with diverse product offerings, the Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity pricing. To manage the volatility related to these exposures, the Company evaluates exposures on a consolidated basis to take advantage of logical exposure netting. For the remaining exposures, the Company enters into various derivative transactions in accordance with the Company's policies in areas such as counterparty exposure and hedging practices. Effective July 1, 2000, such derivative transactions are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

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At inception, the Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure. The Company formally assesses, both at inception and at least quarterly on an ongoing basis, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Fluctuations in the derivative value are generally offset by changes in the fair value or cash flows of the exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. Any ineffective portion of an instrument's change in fair value is immediately recognized in earnings.

Credit Risk

The Company has established strict counterparty credit guidelines and enters into transactions only with financial institutions of investment grade or better. Counterparty exposures are monitored daily and downgrades in credit rating are reviewed immediately. 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 contracts with a diverse group of creditworthy counterparties. Therefore, the Company does not expect to incur material credit losses on its risk management or other financial instruments.

Interest Rate Management

The Company's policy is to manage interest cost using a mix of fixed- and variable-rate debt. To manage this risk 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.

Interest rate swaps that meet specific conditions under SFAS No. 133 are accounted for as fair value hedges. Accordingly, the changes in the fair value of these agreements are immediately recorded in earnings. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in the interest expense component of the income statement. The fair value of the Company's interest rate swap agreements was approximately \$231 at June 30, 2002 and \$125 at June 30, 2001. All existing fair value hedges are 100% effective. As a result, there is no impact to earnings due to hedge ineffectiveness.

Foreign Currency 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 purpose of the

Company's foreign currency hedging program is to reduce the risk caused by short-term changes in exchange rates.

The Company primarily utilizes forward exchange contracts and purchased options with maturities of less than 18 months and currency swaps with maturities up to five years. These instruments are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases, intercompany royalties and intercompany loans denominated in foreign currencies. The fair value of these instruments at June 30, 2002 and 2001 were \$60 and \$94 in assets and \$29 and \$101 in liabilities, respectively. The effective portions of the changes in fair value for these contracts, which have been designated as cash flow hedges, are reported in Other Comprehensive Income (OCI) and reclassified in earnings in the same financial statement line item and in the same period or periods during which the hedged transactions affect earnings. The ineffective portion, which is not material for any year presented, is immediately recognized in earnings. Qualifying cash flow hedges currently recorded in OCI are not considered material.

The Company also utilizes the same instruments for purposes that do not meet the requirements for hedge accounting treatment. In these cases, the change in value offsets the foreign currency impact of intercompany financing transactions and income from international operations. The fair value of these instruments at June 30, 2002 and 2001 was \$93 in 2002 and \$126 in 2001 in assets and \$25 in 2002 and \$6 in 2001 in liabilities, respectively. The gain or loss on these instruments is immediately recognized in earnings. The net impact included in marketing, research, administrative and other expense was a \$31 and \$24 after-tax gain in 2002 and 2001, respectively.

Net Investment Hedging

The Company hedges its net investment position in major currencies and generates foreign currency interest payments that offset other transactional exposures in these currencies. To accomplish this, the Company borrows directly in foreign currency and designates a portion of foreign currency debt as a hedge of net investments. In addition, certain foreign currency interest rate swaps are designated as hedges of the Company's related foreign net investments. Under SFAS No. 133, changes in the fair value of these instruments are immediately recognized in OCI, to offset the change in the value of the net investment being hedged. Currency effects of these hedges reflected in OCI were a \$397 after-tax loss in 2002 and a \$460 after-tax gain in 2001. Accumulated net balances were \$180 and \$577 in 2002 and 2001, respectively.

Commodity Price Management

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. To manage the volatility related to

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anticipated inventory purchases, the Company uses futures and options with maturities generally less than one year and swap contracts with maturities up to five years. These market instruments are designated as cash flow hedges under SFAS No. 133. Accordingly, the mark-to-market gain or loss on qualifying hedges is reported in OCI and reclassified into cost of products sold in the same period or periods during which the hedged transaction affects earnings. Qualifying cash flow hedges currently recorded in OCI are not considered material. The mark-to-market gain or loss on non-qualifying, excluded and ineffective portions of hedges is immediately recognized in cost of products sold. Commodity hedging activity was not material to the Company's financial statements for the years ended June 30, 2002 and 2001.

Note 8 Earnings Per Share and Stock Options

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 is calculated to give effect to stock options and convertible preferred stock. The dilutive effect of outstanding employee stock options is reflected by application of the treasury stock method under SFAS No. 128, "Earnings per Share."

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

	Years Ended June 30		
	2002	2001	2000
Net earnings available to common shareholders	\$4,228	\$2,801	\$3,427
Preferred dividends, net of tax benefit	124	121	115
Preferred dividend impact on funding of ESOP (see Note 9)	(12)	(15)	(18)
Diluted net earnings	4,340	2,907	3,524

	Years Ended June 30		
	2002	2001	2000
Shares in millions			
Basic weighted average common shares outstanding	1,297.4	1,300.3	1,313.2
Conversion of preferred shares ⁽¹⁾	88.8	91.9	94.3
Exercise of stock options ⁽²⁾	18.7	13.4	19.7
Diluted weighted average common shares outstanding	1,404.9	1,405.6	1,427.2

⁽¹⁾ Despite being included currently in diluted net earnings per common share, the actual conversion to common stock occurs pursuant to the repayment of the ESOP debt over a period exceeding 20 years.

⁽²⁾ Approximately 36 million in 2002, 38 million in 2001 and 17 million in 2000 of the Company's outstanding stock options were not included in the diluted net earnings per common share calculation because to do so would have been antidilutive (i.e., the exercise price exceeded market value.)

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Stock-Based Compensation

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. Grants were made under stock-based compensation plans approved by shareholders in 1992 and 2001. Grants issued since 1998 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.

Pursuant to SFAS 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," which recognizes expense based on intrinsic value at date of grant. As stock options have been issued with exercise prices equal to grant date fair value, no compensation cost has resulted. Had compensation cost for the plans been determined based on the fair value at grant date consistent with SFAS No. 123, the Company's net earnings and earnings per common share would have been as follows:

	Years Ended June 30		
	2002	2001	2000
Net Earnings			
As reported	\$4,352	\$2,922	\$3,542
Pro forma	3,910	2,612	3,363

Net Earnings Per Common Share

Basic			
As reported	\$3.26	\$2.15	\$2.61
Pro forma	2.92	1.92	2.47
Diluted			
As reported	3.09	2.07	2.47
Pro forma	2.77	1.85	2.34

The fair value of grants issued in 2001 and 2000 was estimated using the binomial options-pricing model. For options granted in 2002, the Company has estimated the fair value of each grant using the more widely recognized Black-Scholes option-pricing model. Assumptions are evaluated annually and revised, as necessary, to reflect market conditions and additional experience. The following assumptions were used:

	Years Ended June 30		
	2002	2001	2000
Options Granted			
Interest rate	5.4%	5.8%	6.0%
Dividend yield	2.2%	2.0%	1.5%
Expected volatility	20%	26%	28%
Expected life in years	12	9	9

The following table summarizes stock option activity during 2002, 2001 and 2000:

Options in thousands	June 30		
	2002	2001	2000
Outstanding, beginning of year	104,196	82,744	76,810
Granted	25,040	28,400	14,360
Jif and Crisco spin-off adjustment	811	—	—
Exercised	(8,149)	(5,709)	(7,401)
Canceled	(1,735)	(1,239)	(1,025)
Outstanding, end of year	120,163	104,196	82,744
Exercisable	46,332	48,805	54,667
Available for grant	114,536	27,994	41,387
Average price			
Outstanding, beginning of year	\$63.64	\$61.73	\$52.11
Granted	70.19	62.20	96.10
Exercised	29.07	24.77	25.21
Outstanding, end of year	66.68	63.64	61.73
Exercisable, end of year	56.99	49.14	46.67
Weighted average fair value of options granted during the year	21.14	22.45	37.21

Stock options outstanding at June 30, 2002 were in the following exercise price ranges:

Range of prices	Outstanding Options		
	Number Outstanding (Thousands)	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life
\$25 to 46	21,331	\$33.81	2.6 years
54 to 64	37,139	61.35	11.2
65 to 75	24,756	69.39	13.7
76 to 106	36,937	89.21	9.1

Stock options exercisable at June 30, 2002 were in the following exercise price ranges:

Range of prices	Exercisable Options	
	Number Exercisable (Thousands)	Weighted Average Exercise Price
\$25 to 46	21,331	\$33.81
54 to 64	8,182	59.75
65 to 75	946	73.14
76 to 106	15,873	85.76

As a component of its treasury share repurchase program, the Company generally repurchases common shares to fund the stock options granted. Additionally, the Company enters into equity put options on its common stock in order to reduce the cash outlay for share repurchases. These agreements typically mature in six months and can be settled on a physical or net-share basis at the Company's option. The premium

received from the sale of the instruments is credited to equity.

The put options entered into during 2002 were equivalent to three million shares at approximately \$81 per share. The last of the equity put option contracts will expire in the second quarter of 2003. The 2001 options were equivalent to one million common shares, at approximately \$74 per share and the options entered into in 2000 were equivalent to 12 million common shares, at prices ranging from \$60 to \$71 per share. The 2001 and 2000 options have expired mostly unexercised. Over the past three years, \$96 of premiums received have been credited to equity.

In limited cases, the Company also issues stock appreciation rights, generally in countries where stock options are not permitted by local governments. The obligations and associated compensation expense are adjusted for changes in intrinsic value. The impact of these adjustments is insignificant.

Note 9 Employee Stock Ownership Plan

The Company maintains The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan (ESOP) to provide funding for certain employee benefits.

The ESOP borrowed \$1,000 in 1989 and 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. Each share is convertible at the option of the holder into one share of the Company's common stock. The liquidation value is \$13.64 per share.

In 1991, the ESOP borrowed an additional \$1,000. The proceeds were used to purchase Series B ESOP Convertible Class A Preferred Stock to fund a portion of retiree health care benefits. These shares are considered plan assets of the other retiree benefits plan as discussed in Note 10. 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 \$25.92 per share.

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The number of preferred shares outstanding were:

Shares in thousands	June 30		
	2002	2001	2000
Outstanding, June 30			
Allocated	33,095	34,459	33,610
Unallocated	17,687	19,761	22,315
Total Series A	50,782	54,220	55,925
Allocated	9,869	9,267	8,661
Unallocated	26,454	27,338	28,424
Total Series B	36,323	36,605	37,085

As permitted by American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," the Company has elected, where applicable, to continue its practices, which are based on Statement of Position 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans." ESOP debt which is guaranteed by the Company is recorded in short- and long-term liabilities (see Note 6). Preferred shares issued to the ESOP are offset by the reserve for ESOP debt retirement in the Consolidated Balance Sheet and the Consolidated Statement of Shareholders' Equity. Interest incurred on the ESOP debt is recorded as interest expense. Dividends on all preferred shares, net of related tax benefits, 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. Diluted net earnings are calculated assuming that all preferred shares are converted to common, and therefore are adjusted to reflect the incremental ESOP funding that would be required due to the difference in dividend rate between preferred and common shares (see Note 8).

Note 10 Postretirement Benefits

The Company offers various postretirement benefits to its employees.

Defined Contribution Retirement Plans

The most significant employee benefit plan offered is the defined contribution plan in the United States, which is fully funded.

Under the defined contribution profit sharing plan, 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 fair value of the ESOP Series A shares serves to reduce the Company's cash contribution required to fund the profit sharing

plan contributions earned. Under SOP 76-3, 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 defined contribution expense pursuant to this plan was \$279, \$303 and \$89 in 2002, 2001 and 2000, respectively.

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 primarily are funded by ESOP Series B shares 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 following table sets forth the aggregate change in benefit obligation for the Company's defined benefit plans:

	Years Ended June 30			
	Pension Benefits		Other Retiree Benefits	
	2002	2001	2002	2001
Change in Benefit Obligation				
Benefit obligation				
at beginning of year	\$2,567	\$2,627	\$1,577	\$1,270
Service cost	114	115	49	40
Interest cost	153	149	116	101
Participants' contributions	7	4	22	18
Amendments	1	(10)	5	—
Actuarial loss	72	86	401	250
Acquisitions/(Divestitures)	40	(14)	32	(5)
Curtailments and settlements	(101)	(22)	(1)	—
Special termination benefits	9	—	37	—
Currency exchange	255	(232)	5	(4)
Benefit payments	(147)	(136)	(108)	(93)
Benefit obligation				
at end of year	2,970	2,567	2,135	1,577

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The following table sets forth the aggregate change in plan assets:

	Years Ended June 30			
	Pension Benefits		Other Retiree Benefits	
	2002	2001	2002	2001
Change in Plan Assets				
Fair value of plan assets				
at beginning of year	\$1,432	\$1,691	\$1,449	\$1,274
Actual return on plan assets	(150)	(88)	947	235
Acquisitions/(Divestitures)	18	(19)	—	—
Employer contributions	116	81	38	14
Participants' contributions	7	4	22	18
Settlements	(22)	(3)	—	—
Currency exchange	78	(98)	(1)	1
Benefit payments	(147)	(136)	(108)	(93)
Fair value of plan assets				
at end of year	1,332	1,432	2,347	1,449

Pension plan assets are comprised of a diversified mix of assets including corporate equities, government securities and corporate debt securities. Other retiree assets are comprised of Company stock, net of Series B ESOP debt, of \$2,243 and \$1,335, as of June 30, 2002 and 2001, respectively.

The accrued pension and other retiree benefit costs recognized in the accompanying Consolidated Balance Sheet are computed as follows:

	Years Ended June 30			
	Pension Benefits		Other Retiree Benefits	
	2002	2001	2002	2001
Funded Status				
Funded status at				
end of year	\$(1,638)	\$(1,135)	\$212	\$(128)
Unrecognized net				
actuarial loss (gain)	571	243	(579)	(418)
Unrecognized transition				
amount	14	17	—	—
Unrecognized prior				
service cost	21	20	(1)	(8)
Net amount recognized	(1,032)	(855)	(368)	(554)
Prepaid benefit cost	94	75	2	2
Accrued benefit cost	(1,250)	(1,006)	(370)	(556)
Intangible asset	18	16	—	—
Accumulated other				
comprehensive income	106	60	—	—
Net liability recognized	(1,032)	(855)	(368)	(554)

The underfunding of pension benefits primarily is a function of the different funding incentives that exist outside of the U.S. In certain countries where the Company has major operations, there are no legal requirements or financial incentives provided to companies for pension fund contributions. In these instances, the associated pension liabilities are typically financed directly from the Company's cash as they become due, rather than via the creation of a separate pension fund. Both the benefit and the financing costs have been reflected in net earnings.

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 \$1,718, \$1,385 and \$276, respectively, as of June 30, 2002, and \$1,414, \$1,124 and \$230, respectively, as of June 30, 2001.

The Company evaluates its actuarial assumptions on an annual basis. These assumptions are revised based on an evaluation of long-term trends and market conditions that may have an impact on the cost of providing retirement benefits.

Assumptions, which are reflected on a weighted average basis of individual country plans, for the postretirement benefit calculations are as follows:

	Years Ended June 30			
	Pension Benefits		Other Retiree Benefits	
	2002	2001	2002	2001
Weighted Average Assumptions				
Discount rate	5.6%	5.9%	7.0%	7.3%
Expected return				
on plan assets	8.6%	8.3%	9.5%	10.0%
Rate of compensation				
increase	3.5%	4.1%	—	—
Initial health care				
cost trend rate ⁽¹⁾	—	—	11.3%	8.8%

⁽¹⁾ Five year trend rate assumption was adjusted in 2002 to reflect market trends. Rate is assumed to decrease to 5.0% by 2009 and remain at that level thereafter. Rate is applied to current plan costs net of Medicare; estimated initial rate for "gross eligible charges" (charges inclusive of Medicare) is 9.1% for 2002 and 8.0% for 2001.

Millions of dollars except per share amounts

Components of the net periodic benefit cost are as follows:

	Years Ended June 30					
	Pension Benefits			Other Retiree Benefits		
	2002	2001	2000	2002	2001	2000
Components of Net Periodic Benefit Cost						
Service cost	\$114	\$115	\$120	\$49	\$40	\$39
Interest cost	153	149	151	116	101	90
Expected return on plan assets	(133)	(127)	(122)	(320)	(317)	(294)
Amortization of prior service cost	4	5	7	(1)	(1)	(2)
Amortization of prior transition amount	3	3	4	—	—	—
Settlement loss (gain)	—	6	(6)	—	—	—
Curtailment loss (gain)	1	(13)	(3)	(1)	—	—
Recognized net actuarial loss (gain)	9	3	4	(64)	(85)	(92)
Gross benefit cost	151	141	155	(221)	(262)	(259)
Dividends on ESOP preferred stock	—	—	—	(76)	(76)	(77)
Net periodic benefit cost	151	141	155	(297)	(338)	(336)

In addition to the net periodic benefit cost, additional expense of \$46 was recognized during the year ended June 30, 2002, for special termination benefits provided as part of early retirement packages in connection with the Company's restructuring program.

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	\$29	\$(23)
Effect on postretirement benefit obligation	291	(239)

Millions of dollars except per share amounts

Note 11 Income Taxes

Under SFAS No. 109, "Accounting for Income Taxes," income taxes are recognized for the following: a) amount of taxes payable for the current year, and b) deferred tax liabilities and assets for future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred tax assets and liabilities are established using the enacted statutory tax rates and adjusted for tax rate changes. Earnings before income taxes consist of the following:

	Years Ended June 30		
	2002	2001	2000
United States	\$4,411	\$3,340	\$3,006
International	1,972	1,276	2,530
	6,383	4,616	5,536

The income tax provision consists of the following:

	Years Ended June 30		
	2002	2001	2000
Current Tax Expense			
U.S. Federal	\$975	\$1,030	\$648
International	551	676	816
U.S. State & Local	116	90	67
	1,642	1,796	1,531
Deferred Tax Expense			
U.S. Federal	571	142	241
International & other	(182)	(244)	222
	389	(102)	463
	2,031	1,694	1,994

The Company's effective income tax rate was 31.8%, 36.7% and 36.0% in 2002, 2001 and 2000, respectively, compared to the U.S. statutory rate of 35.0%. The country mix impacts of foreign operations reduced the Company's effective tax rate to a larger degree than prior years – 3.1% for 2002. Excluding restructuring costs and adjustments to remove amortization of goodwill and indefinite-lived intangibles that is no longer required, and their related tax effects, the effective tax rate was 31.1%, 31.1% and 32.5% in 2002, 2001 and 2000, respectively.

Taxes impacted shareholders' equity with a \$477 credit for the year ended June 30, 2002 and a \$155 charge for the year ended June 30, 2001. These primarily relate to the tax effects of net investment hedges and tax benefits from the exercise of stock options.

Undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely were \$10,698 and \$9,231 at June 30, 2002 and 2001, respectively. If such earnings were repatriated, additional taxes may result.

Realization of certain deferred tax assets is dependent upon generating sufficient taxable income in the appropriate jurisdiction prior to expiration of the carryforward periods. Although realization is not assured, management believes it is more likely than not the deferred tax assets net of applicable valuation allowances will be realized.

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

	June 30	
	2002	2001
Total Deferred Tax Assets		
Other postretirement benefits	\$109	\$196
Loss and other carryforwards	454	516
Other	742	350
Valuation allowances	(106)	(104)
	1,199	958
Total Deferred Tax Liabilities		
Fixed assets	(1,110)	(1,093)
Other	(495)	(362)
	(1,605)	(1,455)

Net operating losses and other tax credit carryforwards were \$1,211 and \$1,220 as of June 30, 2002 and 2001, respectively. If unused, \$711 will expire between 2003 and 2012. The remainder, totaling \$500 at June 30, 2002, may be carried forward indefinitely.

Note 12 Commitments and Contingencies

The Company's business creates a need to enter into commitments with suppliers that could affect liquidity and capital resources. These commitments do not create immediate liabilities for the Company.

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 in excess of current market prices. Additionally, the Company normally commits to some level of marketing related expenditures that extend beyond the fiscal year. These marketing related commitments are necessary in order to maintain a normal course of business and the risk associated with them is limited. It is not expected that these commitments will have a material effect on the Company's financial condition.

At various points from 2007 to 2017, the minority partner in a subsidiary that holds most of the Company's China operations has the right to exercise a put option to require the Company to purchase from half to all of its outstanding 20% interest at a price not greater than fair market value. The impact of this put option is dependent on factors

that can change prior to its exercise. Given the put price cannot exceed fair market value and the Company's current liquidity, the Company does not believe that exercise of the put would materially impact its results of operations or financial condition.

The Company leases certain property and equipment for varying periods under operating leases. Future minimum rental payments with terms in excess of one year total approximately \$500.

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 were \$39 and \$43 at June 30, 2002 and 2001, respectively. In management's opinion, such accruals are appropriate based on existing facts and circumstances. Current year expenditures were not material.

While considerable uncertainty exists, in the opinion of management and Company counsel, the ultimate liabilities resulting from such lawsuits and claims would not materially affect the Company's financial statements.

Millions of dollars except per share amounts

Note 13 Segment Information

The Company is organized by product-based global business units. The segments manufacture and market products as follows:

- Fabric and home care includes laundry, dish, fabric enhancers and hard surface cleaners.
- Baby, feminine and family care includes diapers, wipes, tampons, pads, liners, tissues and towels.
- Beauty care includes cosmetics, hair care, deodorants and fine fragrances.
- Health care includes personal health care, oral care, pharmaceuticals and pet health and nutrition.
- Food and beverage includes coffee, snacks, commercial services, juice, peanut butter and shortening and oil.

The corporate segment includes both operating and non-operating elements such as financing and investing activities, intangible asset amortization, goodwill and indefinite-lived intangible asset amortization prior to SFAS No. 142 adoption on July 1, 2001, certain employee benefit costs, charges related to restructuring, segment eliminations and other general corporate items. The segment eliminations adjust management reporting principles to accounting principles generally accepted in the United States of America and primarily affect the treatment of unconsolidated investees and income taxes, which are reflected in the business segments using estimated local statutory tax rates. Corporate assets primarily include cash, investment securities and goodwill.

The Company had net sales in the United States of \$21,198, \$20,334 and \$20,038 for the years ended June 30, 2002, 2001 and 2000, respectively. Assets in the United States totaled \$23,434 and \$18,318 as of June 30, 2002 and 2001, respectively.

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 17%, 15% and 14% of consolidated net sales in 2002, 2001 and 2000, respectively. These sales occurred primarily in the United States.

		Fabric and Home Care	Baby, Feminine & Family Care	Beauty Care	Health Care	Food and Beverage	Corporate	Total
Net Sales	2002	\$11,618	\$11,877	\$8,079	\$4,979	\$3,801	\$(116)	\$40,238
	2001	11,660	11,991	7,257	4,353	4,139	(156)	39,244
	2000	12,157	12,044	7,389	3,909	4,634	(182)	39,951
Net Earnings	2002	1,831	1,170	1,177	521	384	(731)	4,352
	2001	1,643	1,052	967	390	332	(1,462)	2,922
	2000	1,450	1,069	894	335	364	(570)	3,542
Before-Tax Earnings	2002	2,728	1,961	1,664	795	604	(1,369)	6,383
	2001	2,430	1,745	1,392	584	546	(2,081)	4,616
	2000	2,318	1,817	1,393	540	566	(1,098)	5,536
Depreciation and Amortization	2002	326	621	221	163	135	227	1,693
	2001	328	673	183	159	146	782	2,271
	2000	354	664	194	159	153	667	2,191
Total Assets	2002	5,149	8,771	3,798	2,542	2,091	18,425	40,776
	2001	5,533	8,629	3,371	2,290	2,479	12,085	34,387
Capital Expenditures	2002	368	856	200	158	137	(40)	1,679
	2001	516	1,307	261	231	235	(64)	2,486

Millions of dollars except per share amounts

Note 14 Quarterly Results (Unaudited)

		Quarters Ended				Total Year
		Sept. 30	Dec. 31	Mar. 31	June 30	
Net Sales	2001–2002	\$9,766	\$10,403	\$9,900	\$10,169	\$40,238
	2000–2001	9,969	10,182	9,511	9,582	39,244
Operating Income	2001–2002	1,762	1,864	1,654	1,398	6,678
	2000–2001	1,779	1,711	1,302	(56)	4,736
Net Earnings	2001–2002	1,104	1,299	1,039	910	4,352
	2000–2001	1,155	1,194	893	(320)	2,922
Core Net Earnings ⁽¹⁾	2001–2002	1,342	1,445	1,186	1,085	5,058
	2000–2001	1,293	1,369	1,062	891	4,615
Diluted Net Earnings Per Common Share	2001–2002	0.79	0.93	0.74	0.64	3.09
	2000–2001	0.82	0.84	0.63	(0.23)	2.07
Diluted Core Net Earnings Per Common Share ⁽¹⁾	2001–2002	0.96	1.03	0.84	0.77	3.59
	2000–2001	0.92	0.97	0.75	0.63	3.27

⁽¹⁾ Amounts exclude restructuring costs and amortization of goodwill and indefinite-lived intangibles that is no longer required under accounting rules for 2002.

Millions of dollars except per share amounts

Financial Summary

	2002	2001	2000	1999	1998
Net Sales	\$40,238	\$39,244	\$39,951	\$38,125	\$37,154
Operating Income	6,678	4,736	5,954	6,253	6,055
Net Earnings	4,352	2,922	3,542	3,763	3,780
Core Net Earnings ⁽¹⁾	5,058	4,615	4,442	4,338	3,947
Net Earnings Margin	10.8%	7.4%	8.9%	9.9%	10.2%
Core Net Earnings Margin ⁽¹⁾	12.6%	11.7%	11.1%	11.4%	10.6%
Basic Net Earnings Per Common Share	\$3.26	\$2.15	\$2.61	\$2.75	\$2.74
Diluted Net Earnings Per Common Share	3.09	2.07	2.47	2.59	2.56
Diluted Core Net Earnings Per Common Share ⁽¹⁾	3.59	3.27	3.10	2.98	2.68
Dividends Per Common Share	1.52	1.40	1.28	1.14	1.01
Research and Development Expense	\$1,601	\$1,769	\$1,899	\$1,726	\$1,546
Advertising Expense	3,773	3,612	3,793	3,639	3,801
Total Assets	40,776	34,387	34,366	32,192	31,042
Capital Expenditures	1,679	2,486	3,018	2,828	2,559
Long-Term Debt	11,201	9,792	9,012	6,265	5,774
Shareholders' Equity	13,706	12,010	12,287	12,058	12,236

⁽¹⁾ Amounts exclude restructuring costs for 2002, 2001, 2000 and 1999 and exclude amortization of goodwill and indefinite-lived intangibles for all periods presented, that is no longer required under accounting rules for 2002.

Millions of dollars except per share amounts

APPENDIX III

EXCERPTS FROM THE PROXY STATEMENT ON FORM 14A

FOR THE 2002 ANNUAL MEETING OF SHAREHOLDERS

Committees of the Board

The Board of Directors has seven Committees.

The **Executive Committee** did not meet during the fiscal year ended June 30, 2002. This Committee has the authority to manage Procter & Gamble's business and affairs between meetings of the Board of Directors.

The **Audit Committee** met five times during the fiscal year ended June 30, 2002 with representatives of Deloitte & Touche LLP, our independent auditors, and financial management to review accounting, control, auditing and financial reporting matters. This Committee's responsibilities include:

- reviewing the independence, qualifications, services, fees, and performance of the independent auditors and recommending to the Board the firm of independent auditors to be retained by the Company;
- approving professional services provided by the independent auditors;
- reviewing the scope of the annual audit and reports and recommendations submitted by the independent audit firm;
- overseeing the activities of the Company's Internal Controls organization, including annually reviewing the plans and major audit findings; and
- reviewing the Company's financial reporting and accounting policies, including any significant changes, with management and the independent auditors.

The **Board Organization & Nominating Committee** met three times during the fiscal year ended June 30, 2002. This Committee's responsibilities include:

- establishing the criteria for and reviewing the qualifications of individuals for election as members of the Board;
- recommending a replacement Director to the Board when a vacancy on the Board occurs or is anticipated;
- making recommendations to the Board about exercising the Board's authority to determine the number of its members; and
- reviewing issues of corporate governance and making recommendations to the Board about these issues.

Shareholders who wish to communicate with this Committee concerning potential Director candidates may do so by corresponding with the Secretary of the Company. These communications should include the name and biographical data of the individual who is the subject of the communication.

The **Compensation Committee** met eight times during the fiscal year ended June 30, 2002. This Committee's responsibilities include:

- setting the salary and other compensation of all of the principal officers elected by the Board;
- advising the Chief Executive on policy matters concerning officers' compensation; and

- administering the Company's Stock Plans.

This Committee's authority under the Plans includes selecting employees to participate in the Plans and determining the numbers of stock options and stock appreciation rights and amounts of restricted and unrestricted stock to be awarded to these employees. The Committee is also responsible for the on-going administration and interpretation of the Company's executive compensation plans.

The **Finance Committee** met three times during the fiscal year ended June 30, 2002. This Committee's responsibilities include reviewing and making recommendations to the Board on the following matters:

- annual financing plans;
- global financing objectives and principles, financial strategies and capital structure;
- funding and oversight of pension and benefit plans;
- insurance; and
- the financial implications of major investments, restructurings, joint ventures, acquisitions and divestitures.

The **Public Policy Committee** met twice during the fiscal year ended June 30, 2002. This Committee's responsibilities include reviewing issues of importance to Procter & Gamble and its stakeholders, including employees, consumers, customers, suppliers, shareholders, governments, and local communities. These issues include:

- equal employment opportunity and advancement;
- environmental quality;
- employee safety and health;
- product safety;
- contributions; and
- community relations.

The **Innovation & Technology Committee** met once during the fiscal year ended June 30, 2002. The Committee's responsibilities include providing oversight and counsel on major strategies and subjects relating to the Company's technical projects and commercial innovations.

Additional Information Concerning the Board of Directors

During the fiscal year ended June 30, 2002, the Board of Directors held eight meetings and Committees of the Board held a total of 22 meetings. Average attendance at these meetings by nominees and incumbents serving as Directors during the past year was in excess of 90%. Mr. Ferris was only able to attend 69% of such meetings due to prior commitments.

Directors who are Procter & Gamble employees do not receive Directors' fees. Stock awards made to non-employee Directors are made under The Procter & Gamble 1993 Non-Employee Directors' Stock Plan, as amended December 11, 2001. All stock awards under the plan are made in shares of Procter & Gamble Common Stock. During the fiscal year ended June 30, 2002, Directors who were not employees received the following compensation:

- an annual retainer fee of \$57,500 paid quarterly, which the Directors may elect to receive as Common Stock (effective January 1, 2002, the annual retainer was increased from \$55,000 to \$60,000);
- a grant of restricted stock on the first business day in the calendar year with a value of approximately \$45,000 on the date of grant; and
- a stock option granted on September 24, 2001 with a term of 15 years to purchase 1,866 shares of Common Stock at an exercise price of \$69.67, the fair market value of the Common Stock on the date of grant.

Directors who are not employees also receive insurance coverage in the amount of \$750,000, payable in the event of accidental death or disability occurring while traveling on P&G business. Non-employee Directors are also reimbursed for the expenses of business travel.

If a non-employee Director chooses to come under The Procter & Gamble Deferred Compensation Plan for Directors, fees payable to the Director are credited to the Director's account but not funded. Interest is credited to the account at the end of each month at the prime rate then in effect at Morgan Guaranty Trust Company of New York. This type of deferred compensation account is payable either upon the retirement of the Director or after a term of years specified by the Director.

As part of its overall program of support for charitable institutions and as an aid in attracting and retaining qualified Directors, the Board of Directors has a Charitable Gifts Program funded by life insurance on the lives of the non-employee members of the Board of Directors and the Chairman of the Board and the Chief Executive. Directors receive no financial benefit from the program because the Company receives all insurance proceeds and charitable deductions. Under this program, the Company makes charitable contributions of up to a total of \$1 million following the death of a participant. These contributions are divided among up to five charitable organizations that the participant recommends. The following current and retired Directors are participants in this program: David M. Abshire, Edwin L. Artzt, Norman R. Augustine, Donald R. Beall, Theodore F. Brophy, Richard B. Cheney, Scott D. Cook, Domenico DeSole, Richard J. Ferris, Joseph T. Gorman, Robert A. Hanson, Durk I. Jager, A. G. Lafley, Joshua Lederberg, Charles R. Lee, Lynn M. Martin, John E. Pepper, David M. Roderick, Johnathan A. Rodgers, John G. Smale, John F. Smith, Jr., Ralph Snyderman, Robert D. Storey, Marina v.N. Whitman and Ernesto Zedillo.

The charitable organizations selected to receive contributions under this program must be tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and donations that we make will be deductible against our federal and other income taxes payable in accordance with the tax laws applicable at the time. Because of such deductions and use of insurance, the program should result in little or no long-term cost to Procter & Gamble under present law.

Report of the Compensation Committee of the Board of Directors on Executive Compensation

Overview

The Compensation Committee of the Board of Directors (the "Committee") consists entirely of independent, non-employee Directors. The Committee establishes and regularly

reviews executive compensation levels and policies, and authorizes short- and long-term awards in the form of cash or stock. All awards are made within the authority of the Additional Remuneration Plan, which dates back to 1949, The Procter & Gamble 1992 Stock Plan (which terminated on July 14, 2002), and The Procter & Gamble 2001 Stock and Incentive Compensation Plan. Both stock plans were approved by the shareholders.

Compensation for executives is based on the principles that compensation must (a) be competitive with other quality companies in order to help attract, motivate and retain the talent needed to lead and grow Procter & Gamble's business; (b) be based on performance of the individual and performance of the business; (c) provide a strong incentive for key managers to achieve the Company's goals; and (d) make prudent use of the Company's resources. Procter & Gamble has an enviable record of recruiting, retaining and developing its executive talent from within – an achievement few other corporations have matched.

Executive compensation is based on performance against a combination of financial and non-financial measures including business results and developing organizational capacity. In addition, executives are expected to uphold the fundamental principles embodied in the Company's Statement of Purpose, Values and Principles plus the Sustainability Report and the Environmental Quality Policy. These include a commitment to integrity, doing the right thing, maximizing the development of each individual, developing a diverse organization, and continually improving the environmental quality of our products and operations. In upholding these objectives, executives not only contribute to their own success, but also help ensure the Company's business, employees, shareholders and the communities in which we live and work will prosper.

Elements of Executive Compensation

It is the Company's long-standing policy that variable, at-risk compensation, both annual and long-term, should make up a significant portion of executive compensation. Depending upon the level of the executive, the Company targets between 75% and 90% of executive compensation to be variable, at-risk elements with the majority based on the long-term success of the Company. When the incentive plans pay awards at target, the executive compensation levels will equal the middle compensation range for a comparative group of companies. This group includes leading consumer products companies and other corporations of size and reputation comparable to Procter & Gamble and companies that Procter & Gamble must compete with in hiring and retaining employees. The composition of this group is updated periodically in order to assure its continued relevance. A number, but not all, of these companies are included in the composite group index shown on the performance graph.

The Committee believes the compensation levels of the Company's executive officers are competitive and in line with those of comparable companies. This conclusion is derived in part from consultations and surveys by independent outside compensation consultants, with whom the Committee meets annually.

Annual Compensation

Annual compensation consists of base salary and the Short-Term Achievement Reward (“STAR”).

Salary ranges are established based on a careful examination of survey data, from a comparative group of companies, gathered by a leading consulting firm specializing in executive compensation. Salary ranges are targeted to be in the middle of this select group of companies. Within the established ranges, the Committee approves changes in amounts of base salary considering the executives' performance evaluations and their time in position.

STAR is the Company's annual incentive program. Under this program, awards are based on a combination of two factors for the fiscal year. One factor is based on the Company's overall results and the other factor is based on each business unit's results. The Company factor is based on total shareholder return relative to a competitive peer group and core earnings per share growth. The business unit factor is based on a retrospective assessment of business unit performance. This assessment takes into account a number of factors including profit, sales, operating cash flow, market share and performance relative to competitors.

Senior management and the Committee believe that differences in performance should result in significantly different levels of annual compensation.

Long-Term Incentives

Long-term incentives consist of stock options and a long-term performance program. Both types of awards serve to focus executive attention on the longer-term performance of the Company. When these incentive plans pay awards at target, the long-term portion of executive compensation will equal the middle range for long-term compensation at the comparative group of companies.

Stock options are awarded under shareholder-approved plans only to employees who have demonstrated a capacity for contributing in a substantial way to the success of the Company. Stock options encourage these managers to act as owners of the business, which helps to further align their interests with the shareholders' interests. The Company makes stock option grants at no less than 100% of the market price on the date of grant. Stock appreciation rights (SARs) are granted instead of options in countries where the holding of foreign stock is restricted. Under the 1992 Stock Plan and current provisions set by the Compensation Committee, stock option grants and SARs are fully exercisable after three years and have a maximum term of 15 years. Under the new 2001 Stock Plan which will be used for future grants, the maximum term for stock options will be 10 years and they will be fully exercisable after three years. The target number of shares to be awarded to an individual is based on the individual's total short-term compensation and the corresponding competitive grant values of our comparator companies. This target amount is then adjusted by as much as plus or minus 50% based on the individual's performance. The number of option shares currently held by each executive is not considered in determining awards. Options have no value unless the price of the Company's stock increases, and they are exercisable only by the employee and cannot be transferred except in case of death.

The Committee approved a long-term performance program, the Business Growth Program ("BGP"), effective July 1, 2001, for its most senior executive officers and assigned each participant a dollar target amount ("Target Award") for the three-year performance period ending June 30, 2004. BGP replaced the Long-term Equity Appreciation Plan ("LEAP") which was discontinued on June 30, 2001. Payments pursuant to BGP are determined based on the Company's performance on two measures – operating total shareholder return and core earnings per share growth. At the end of the performance period, the actual award a participant would be

eligible to receive (less any progress awards) may be larger or smaller than the Target Award, or no award at all, depending on the Company's performance. Progress awards equal to 20% of the anticipated award may be paid at the end of the first and second year if interim goals are achieved. Awards may be paid in the form of cash, three-year restricted stock or retirement restricted stock. Additional information concerning BGP is contained in the table entitled "Long-Term Incentive Plan Awards in Last Fiscal Year" on page 17.

Share Ownership Program

The Company believes the interests of the Company and its employees are inseparable. One of the ways this is demonstrated is through share ownership. To support the Company's desire to increase management's share ownership, the Company has a program for its most senior executive officers. Under this program, participants are to achieve and then retain a multiple of their base salary in shares of Procter & Gamble stock. The Committee approved changes to the program effective January 2002. The Chief Executive's multiple was increased from three times base salary to five times base salary. The multiple for other senior officers was increased from two times base salary to three times base salary. Shares held in executives' retirement accounts are now counted in determining the executive's level of ownership. All officers subject to the program are either in compliance or have plans in place to achieve compliance within the prescribed time frame.

Limitation of Deductions

Section 162(m) of the Internal Revenue Code limits the deductibility of executive compensation paid to the Company's named executive officers to \$1,000,000 per year, but contains an exception for certain performance-based compensation. Grants of retirement restricted stock and stock options and payments pursuant to the BGP under the 1992 Stock Plan and the new 2001 Stock Plan satisfy the requirements for deductible compensation. While the Committee's general policy is to preserve the deductibility of most compensation paid to the Company's named executives, the Committee has authorized payments that may not be deductible if it believes they are in the best interests of both the Company and its shareholders.

Compensation of the Chief Executive

The compensation of A.G. Lafley, Chief Executive, was determined in accordance with the compensation principles and plans discussed in this report. In setting the compensation for the Chief Executive, the Committee considers the total level of compensation resulting from both short-term and long-term compensation elements. The elements of Mr. Lafley's compensation and the performance basis for his compensation are discussed below.

Fiscal Year 2001-02 Performance

Results on several key financial measures are very favorable and trending upward, including: total shareholder return, earnings per share, volume, market share, cash flow, and margin. Throughout the year Mr. Lafley's performance has been exemplary. His leadership has reinforced confidence in the Company, and the stock market reflects the strong financial performance as the Company's stock price has increased appreciably.

Base Salary

The Committee approved a base salary for Mr. Lafley of \$1,600,000, effective July 1, 2002. This is an increase of \$230,000, which puts Mr. Lafley's salary close to the midpoint of the salary range established for his position. In determining the amount of the increase the Committee took into account Mr. Lafley's performance, time in position and the total level of short-term compensation paid to Chief Executive Officers in the Company's compensation peer group.

Annual Incentive Compensation

Under the Company's STAR program, Mr. Lafley's target award is 100% of his March 2002 base salary of \$1,370,000. The STAR program allows for a maximum award of 217% of the target award. On June 11, 2002 the Committee approved a STAR award for Mr. Lafley in the amount of \$2,250,000 which was 164% of his target award. The Committee used its discretion to determine Mr. Lafley's STAR award, taking into account the Company's overall results, Mr. Lafley's individual performance, the award opportunity provided under the STAR program, and the total level of short-term compensation paid to Chief Executive Officers in the Company's compensation peer group.

Mr. Lafley has elected to receive this award in the form of a stock option grant. This grant will be made in September 2002 on the same terms as the grants made to employees generally. The formula for determining the number of shares that will be granted to Mr. Lafley takes into account the Black-Scholes value of such shares. By electing to take his annual incentive award in the form of stock options rather than cash, Mr. Lafley is further linking his compensation to the Company's future growth in shareholder value.

Long-term Incentive Awards

Mr. Lafley's long-term incentive compensation consists of two components, stock options and the Business Growth Program.

On September 24, 2001 the Committee granted a stock option award to Mr. Lafley of 360,197 shares in recognition of his performance in fiscal year 2000-01. These options were granted under the same terms and conditions as awards made to employees generally.

Mr. Lafley's stock option award for his performance in fiscal year 2001-02 will be granted in September 2002 and will be reflected in next year's proxy.

Under the Company's Business Growth Program, the Committee approved a long-term incentive award opportunity for a 3-year performance period beginning on July 1, 2001 and ending on June 30, 2004. Mr. Lafley's target award opportunity for the three-year program is \$8,220,000, which represents six times his July 1, 2001 base salary. A description of the Business Growth Program is included in the Committee's report. The criteria for the award are the Company's operating total shareholder return and the growth in core earnings per share. The Committee has set goals for each of the two criteria, and Mr. Lafley's actual award will be based on the results achieved over the 3-year performance period. Mr. Lafley will receive a progress award of \$1,972,800 based on the Company's performance in fiscal year 2001-02.

In addition, the Committee approved a special award in recognition of Mr. Lafley's extraordinary contributions to the turnaround of Company results. This special award was for 16,719 shares of retirement restricted stock granted on June 11, 2002.

Mr. Lafley's total compensation package is consistent with that of other Chief Executive Officers of similar sized companies with similar performance.

Norman R. Augustine, Chairman *Charles R. Lee*
Scott D. Cook *Marina v.N. Whitman*
Joseph T. Gorman

Executive Compensation Tables

The following tables and notes present the compensation provided by the Company to its Chief Executive, and to each of the Company's four most highly compensated executive officers, other than the Chief Executive, for services rendered in all capacities to the Company for the fiscal years ended June 30, 2002, 2001 and 2000.

SUMMARY COMPENSATION TABLE
(Dollar figures shown in thousands)

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			
		Salary	Bonus ⁽¹⁾	Other Annual Compensation ⁽²⁾	Restricted Stock Awards ⁽³⁾	Securities Underlying Options/ SARs	Long-Term Incentive Plan Payments	All Other Compensation ⁽⁴⁾
A. G. Lafley Chairman of the Board, President and Chief Executive	2001-02	\$1,370.0	\$2,250.0 ⁽⁵⁾	\$19.4	\$1,500.0	360,197	\$1,972.8	\$360.7
	2000-01	1,170.0	549.9 ⁽⁶⁾	0	0	181,695	0	297.4
	1999-00	799.1	475.3 ⁽⁶⁾	0	0	98,084 ⁽⁷⁾	0	255.4
John E. Pepper Retired Chairman of the Board	2001-02	1,100.0	1,662.4	0	0	314,053	801.6	441.4
	2000-01	1,100.0	0	0	0	188,386	0	397.7
	1999-00	345.0	234.8	0	0	11,196 ⁽⁸⁾	0	141.0
Jorge P. Montoya President-Global Snacks & Beverages and Latin America	2001-02	905.0	765.8 ⁽⁹⁾	(\$214.5)	0	130,192	651.6 ⁽⁹⁾	303.8
	2000-01	851.7	450.4 ⁽¹⁰⁾	(177.8)	0	137,066	0	286.0
	1999-00	795.0	416.1 ⁽¹¹⁾	(39.8)	0	92,866 ⁽¹²⁾	0	273.8
R. Kerry Clark Vice Chairman of the Board and President-Global Market Development & Business Operations	2001-02	755.0	799.1 ⁽¹³⁾	104.7	0	137,425	511.2	206.0
	2000-01	680.0	375.5	159.7	0	129,003	0	181.5
	1999-00	576.7	303.0 ⁽¹⁴⁾	(69.5)	0	67,634 ⁽¹⁵⁾	0	388.4
Bruce L. Byrnes Vice Chairman of the Board and President-Global Beauty and Feminine Care and Global Health Care	2001-02	750.0	879.2 ⁽¹⁶⁾	218.6	0	137,425	540.0	206.4
	2000-01	670.0	457.3	(308.5)	0	109,652	0	181.2
	1999-00	610.0	423.1 ⁽¹⁷⁾	(461.3)	0	60,845 ⁽¹⁸⁾	0	163.3

(1) The Short-Term Achievement Reward (“STAR”) awards may be made in the form of cash, restricted stock or stock options as approved by the Compensation Committee. All STAR awards are reported in this column regardless of the form of the award. The STAR award was paid in cash unless otherwise noted.

(2) Amounts shown in this column are tax equalization payments or reimbursements to cover incremental taxes required to be paid to Japan for Messrs. Lafley and Clark, to Venezuela for Mr. Montoya and to Germany for Mr. Byrnes, as paid in accordance with Company policies applicable generally to employees assigned outside their home countries. Any perquisites or other personal benefits received from the Company by any of the named executives were substantially less than the reporting thresholds established by the Securities and Exchange Commission (the lesser of \$50,000 or 10% of the individual’s cash compensation).

(3) All restricted stock awarded to the named executives for 2001-02 will vest on retirement. The number and value (in thousands of dollars) of aggregate restricted stock holdings earned by each of the named executives earned over their careers and still held as of June 30, 2002 was: Mr. Lafley, 37,981 shares (\$3,448.7); Mr. Pepper, 176,099 shares

(\$15,989.8); Mr. Montoya, 42,157 shares (\$3,827.9); Mr. Clark, 7,678 shares (\$697.2); and Mr. Byrnes, 21,119 shares (\$1,917.6). The value of the restricted stock is determined by multiplying the total shares held by each named executive by the average of the high and low prices on the New York Stock Exchange on June 30, 2002 (\$90.80). Dividends are paid on all restricted Common Stock at the same rate as paid on the Company's Common Stock. Upon a change in control, all conditions and restrictions on restricted stock will immediately lapse.

(4) All Other Compensation (in thousands of dollars) -- details for 2001-02:

<u>Name</u>	<u>Profit Sharing and Related Contributions</u>	<u>Flexible Compensation Program Contributions</u>	<u>Imputed Income</u>	<u>International Assignment Equalization Payments</u>	<u>Total All Other Compensation</u>
A. G. Lafley	\$324.7	\$29.5	\$6.5	\$0	\$360.7
John E. Pepper	394.2	31.0	16.2	0	441.4
Jorge P. Montoya	214.7	34.1	2.6	52.4	303.8
R. Kerry Clark	178.9	25.7	1.4	0	206.0
Bruce L. Byrnes	177.7	25.6	3.1	0	206.4

(5) Mr. Lafley's fiscal year 2001-02 STAR award will be paid in the form of stock options on September 13, 2002.

(6) In fiscal years 2000-01 and 1999-00, Mr. Lafley's STAR awards were paid in the form of stock options.

(7) This figure includes Mr. Lafley's LEAP award of 21,720 stock options and his key manager award of 76,364 stock options.

(8) In fiscal year 1999-00, Mr. Pepper's LEAP award was paid in the form of stock options. He was retired at the time of the key manager stock option grant and did not receive an award..

(9) Mr. Montoya's fiscal year 2001-02 STAR award and BGP award will be paid in the form of restricted stock on September 13, 2002.

(10) In fiscal year 2000-01, Mr. Montoya's STAR award was paid in the form of restricted stock.

(11) In fiscal year 1999-00, Mr. Montoya's STAR award was paid in the form of stock options.

(12) This figure includes Mr. Montoya's LEAP award of 21,986 stock options and his key manager award of 70,880 stock options.

(13) Mr. Clark's fiscal year 2001-02 STAR award will be paid in the form of stock options.

(14) In fiscal year 1999-00, Mr. Clark's STAR award was paid in the form of stock options.

- (15) This figure includes Mr. Clark's LEAP award of 16,523 stock options and his key manager award of 51,111 stock options.
- (16) Mr. Byrnes' fiscal year 2001-02 STAR award will be paid in the form of cash (\$246,164) and stock options (\$632,994).
- (17) In fiscal year 1999-00, Mr. Byrnes' STAR award was paid in the form of stock options.
- (18) In fiscal year 1999-00, Mr. Byrnes' LEAP award was paid in the form of stock options. This figure includes Mr. Byrnes' LEAP award of 16,257 stock options and his key manager award of 44,588 stock options.

OPTION GRANTS IN LAST FISCAL YEAR
(Dollar figures shown in thousands)

<u>Name</u>	Number of Securities Underlying Options Granted ⁽¹⁾	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price	Expiration Date	Grant Date Present Value ⁽²⁾
A. G. Lafley ⁽³⁾	360,197	1.5%	\$69.1376	9/24/16	\$8,896.9
John E. Pepper	314,053	1.3%	69.1376	9/24/16	7,757.1
Jorge P. Montoya	130,192	0.5%	69.1376	9/24/16	3,215.7
R. Kerry Clark	137,425	0.6%	69.1376	9/24/16	3,394.4
Bruce L. Byrnes	137,425	0.6%	69.1376	9/24/16	3,394.4

- (1) All of these options, which were granted pursuant to The Procter & Gamble 1992 Stock Plan, were non-qualified, were granted at market value on the date of grant, vest on the third anniversary of the date of grant, and have a term of 15 years.
- (2) Although we continue to have concerns about using the standard Black-Scholes option-pricing model to value employee stock options, we have used this model to provide a grant date present value of our option grants pursuant to the rules of the Securities and Exchange Commission. The following assumptions were used in the calculation: options will be held full term; a dividend yield of 2.2%; an interest rate of 5.83%; and expected price volatility of 20%. We have made no adjustments to reflect that these options are non-transferable and subject to forfeiture.
- (3) Mr. Lafley also received an award of 23,864 stock options on September 24, 2001 with an exercise price of \$69.1376 and an expiration date of September 24, 2016 for his Short-Term Achievement Reward earned in fiscal year 2000-01. This option award had a grant date Black-Scholes present value of \$589.4.

**AGGREGATED OPTION/STOCK APPRECIATION RIGHT (SAR)
EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION/SAR VALUES⁽¹⁾
(Dollar figures shown in thousands)**

Name	Shares Acquired on Exercise	Value Realized ⁽²⁾	Number of Securities Underlying Unexercised		Value of Unexercised In-the-Money	
			<u>Options/SARs at FY End</u> Exercisable	<u>Options/SARs at FY End</u> Unexercisable	<u>Options/SARs at FY End</u> ⁽³⁾ Exercisable	<u>Options/SARs at FY End</u> ⁽³⁾ Unexercisable
A. G. Lafley	37,400	\$1,435.0	220,371	703,177	\$5,366.4	\$15,038.1
John E. Pepper	18,210	970.9	926,630	522,660	35,723.7	12,626.2
Jorge P. Montoya	0	0	248,103	380,257	6,637.1	8,133.4
R. Kerry Clark	12,000	677.0	149,449	370,579	4,841.5	7,767.5
Bruce L. Byrnes	55,000	3,035.4	205,979	334,291	6,879.9	7,336.6

(1) Optionees may satisfy the exercise price by submitting currently owned shares and/or cash. Income tax withholding obligations may be satisfied by electing to have the Company withhold shares otherwise issuable under the option/stock appreciation right (SAR) with a fair market value equal to such obligations.

(2) Options/SARs were granted for terms of up to 15 years. The value realized on options/SARs exercised during the last fiscal year represents the total gain over the years the options/SARs were held by the executive. If this total gain is divided by the average number of years the options/SARs were held, a more relevant annualized gain is produced. The annualized gains (in thousands of dollars) on these option/SAR exercises were as follows: Mr. Lafley, \$239.2; Mr. Pepper, \$97.1; Mr. Montoya, \$0; Mr. Clark, \$67.7; and Mr. Byrnes, \$337.3.

(3) Calculated based on the fair market value of the Company's Common Stock on June 30, 2002 (\$90.80 per share) minus the exercise price.

Long-Term Incentive Plans – Awards In Last Fiscal Year

This table provides information concerning award opportunities made under the Business Growth Program (“BGP”) during fiscal year 2001-02 for the 3-year performance period beginning July 1, 2001 and ending June 30, 2004. Payouts under BGP are based on core earnings per share growth and operating total shareholder return over the three-year period. If minimum performance on both measures is not met, no award will be earned. To the extent the Company's performance exceeds the minimum performance on both measures, a varying award up to the maximum will be earned. Progress payments equal to 20% of the anticipated award may be made at the end of the first and second year if interim goals are achieved. Progress payments for the first year are shown in the Summary Compensation Table on page 14. BGP is also discussed in the Executive Compensation Committee Report on page 12.

Name	Number of Shares, Units, or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts		
			Threshold ⁽¹⁾	Target ⁽²⁾	Maximum ⁽³⁾
A. G. Lafley	--	7/01/01–6/30/04	\$328,800	\$8,220,000	\$21,043,200
J. E. Pepper ⁽⁴⁾	--	7/01/01–6/30/04	\$133,600	\$3,340,000	\$8,550,400
J. P. Montoya	--	7/01/01–6/30/04	\$108,600	\$2,715,000	\$6,950,400
R. K. Clark	--	7/01/01–6/30/04	\$85,200	\$2,130,000	\$5,452,800
B. L. Byrnes	--	7/01/01–6/30/04	\$90,000	\$2,250,000	\$5,760,000

- (1) The minimum amount payable under the program is 4% of the target award, payable if the minimum level of performance is achieved on each of the performance criteria. If performance is below the minimum level for either measure, no award is paid.
- (2) The target award is paid if the target goals are achieved on each of the performance measures.
- (3) The maximum amount payable under the program is 256% of target, payable if an exceptional level of performance is achieved on each of the performance measures.
- (4) This award opportunity for Mr. Pepper has been adjusted to reflect his retirement on July 1, 2002. Since Mr. Pepper was active for one year of the three-year performance period his award opportunity has been pro-rated to 1/3 of the original award opportunity established for him at the beginning of the performance period.

RETIREMENT BENEFITS

Retirement benefits for U.S.-based executive officers are provided primarily by The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan. This is a qualified defined contribution plan providing retirement benefits for U.S.-based employees. In addition, executives participating in The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan receive retirement awards in the form of stock restricted (non-transferable and subject to forfeiture) until retirement. These awards make up the difference between the Internal Revenue Code limit on contributions that can be made to that Plan and what would otherwise be contributed by the Company to the executive's retirement account. Under the rules set by the Securities and Exchange Commission, these Company contributions are included in the Summary Compensation Table in the "All Other Compensation" column (see footnote (4) to such Table). Mr. Clark is enrolled in the pension plans of Procter & Gamble Canada, Inc. Messrs. Montoya and Clark are also enrolled in a supplemental retirement plan for U.S.-based managers who previously participated in pension plans of international subsidiaries. These Plans are defined benefit plans funded by book reserves or insurance contracts in order to pay retirement benefits in cash. Given their age and service with the Company, their estimated annual benefit, if payable in the form of a straight annuity upon retirement at age 65, would be \$197,441 for Mr. Montoya and \$258,643 for Mr. Clark.

Security Ownership of Management and Certain Beneficial Owners

The following tables give information concerning the beneficial ownership of the Company's Common and Series A and B ESOP Convertible Class A Preferred Stock by all Directors and nominees, each named executive, all Directors and executive officers as a group, and the owners of more than five percent of the outstanding Series A and B ESOP Convertible Class A Preferred Stock, on July 26, 2002:

COMMON STOCK

<u>Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>			<u>Percent of Class</u>
	<u>Direct (1) and Profit Sharing Plan (2)</u>	<u>Right to Acquire (3)</u>	<u>Trusteeships and Family Holdings(4)</u>	
Norman R. Augustine	15,399.0	9,063	0	(5)
Donald R. Beall	8,187.0	9,063	16,552	(5)
Bruce L. Byrnes	168,216.6	205,979	0	(5)
R. Kerry Clark	44,388.8	162,957	2,312	(5)
Scott D. Cook	1,775.0	0	16,120	(5)
Domenico DeSole	1,066.0	0	0	(5)
Richard J. Ferris	39,613.0	9,063	94,000	(5)
Joseph T. Gorman	12,335.4	9,063	2,032	(5)
A. G. Lafley	135,263.9	229,775	3,205	(5)
Charles R. Lee	19,443.0	9,063	0	(5)
Lynn M. Martin	5,208.0	9,063	0	(5)
Jorge P. Montoya	71,468.3	248,103	77,558	(5)
John E. Pepper	736,694.0	892,530	112,026	(5)
Johnathan A. Rodgers	974.0	0	0	(5)
John F. Smith, Jr.	10,161.0	7,048	0	(5)
Ralph Snyderman	9,011.0	7,048	0	(5)
Robert D. Storey	4,435.0	3,018	0	(5)
Marina v.N. Whitman	7,445.0	9,063	3,600	(5)
Ernesto Zedillo	717.5	0	0	(5)
31 Directors and executive officers, as a group	1,844,792.9	2,980,332	341,334	.397%

- (1) Sole discretion as to voting and investment of shares.
- (2) Shares allocated to personal accounts of executive officers under the Retirement Trust pursuant to The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan. Plan participants have sole discretion as to voting and, within limitations provided by the Plan, investment of shares. Shares are voted by the Trustees of such Trusts in accordance with instructions from participants. If instructions are not received by the Trustees as to the voting of particular shares, shares are to be voted in proportion to instructions actually received from other participants in the Trust.
- (3) If acquired, would have sole discretion as to voting and investment of shares.
- (4) The individuals involved share voting and/or investment powers with other persons.
- (5) Less than .135% for any one Director or executive officer.

SERIES A ESOP CONVERTIBLE CLASS A PREFERRED STOCK

<u>Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>		<u>Percent of Series</u>
	<u>Profit Sharing Plan (1)</u>	<u>Trusteeships</u>	
Norman R. Augustine	-	-	-
Donald R. Beall	-	-	-
Bruce L. Byrnes	8,581.3	-	(2)
R. Kerry Clark	4,382.7	-	(2)
Scott D. Cook	-	-	-
Domenico DeSole	-	-	-
Richard J. Ferris	-	-	-
Joseph T. Gorman	-	-	-
A. G. Lafley	6,905.4	-	(2)
Charles R. Lee	-	-	-
Lynn M. Martin	-	-	-
Jorge P. Montoya	6,938.6	-	(2)
John E. Pepper	93.1	-	(2)
Johnathan A. Rodgers	-	-	-
John F. Smith, Jr.	-	-	-
Ralph Snyderman	-	-	-
Robert D. Storey	-	-	-
Marina v.N. Whitman	-	-	-
Ernesto Zedillo	-	-	-
31 Directors and executive officers, as a group	99,883.3	-	.198%
Employee Stock Ownership Trust of The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan, P.O. Box 599, Cincinnati, Ohio 45201-0599 (G. V. Dirvin, E. H. Eaton, Jr. and C. C. Carroll, Trustees)	--	18,559,565.3 ⁽³⁾	36.8%

- (1) Shares allocated to personal accounts of executive officers under the Employee Stock Ownership Trust pursuant to The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan. Plan participants have sole discretion as to voting and, within limitations provided by the Plan, investment of shares. Shares are voted by the Trustees of such Trust in accordance with instructions from participants. If instructions are not received by the Trustees as to the voting of particular shares, shares are to be voted in proportion to instructions actually received from other participants in the Trust.
- (2) Less than .018% for any one Director or executive officer; by the terms of the stock, only persons who are or have been employees can have beneficial ownership of these shares.

- (3) Unallocated shares. The voting of these shares is governed by the terms of the Plan, which provides that the Trustees shall vote unallocated shares held by them in proportion to instructions received from Trust participants as to voting of allocated shares. The disposition of these shares in connection with a tender offer would be governed by the terms of the Plan, which provides that the Trustees shall dispose of unallocated shares held by them in proportion to instructions received from Trust participants as to the disposition of allocated shares.

SERIES B ESOP CONVERTIBLE CLASS A PREFERRED STOCK

<u>Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>		<u>Percent of Series</u>
	<u>Profit Sharing Plan (1)</u>	<u>Trusteeships</u>	
Norman R. Augustine	-	-	-
Donald R. Beall	-	-	-
Bruce L. Byrnes	-	-	-
R. Kerry Clark	-	-	-
Scott D. Cook	-	-	-
Domenico DeSole	-	-	-
Richard J. Ferris	-	-	-
Joseph T. Gorman	-	-	-
A. G. Lafley	-	-	-
Charles R. Lee	-	-	-
Lynn M. Martin	-	-	-
Jorge P. Montoya	-	-	-
John E. Pepper	684.3	-	(2)
Johnathan A. Rodgers	-	-	-
John F. Smith, Jr.	-	-	-
Ralph Snyderman	-	-	-
Robert D. Storey	-	-	-
Marina v.N. Whitman	-	-	-
Ernesto Zedillo	-	-	-
31 Directors and executive officers, as a group	823.1	-	.0023%
Employee Stock Ownership Trust of The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan, P.O. Box 599, Cincinnati, Ohio 45201-0599 (G. V. Dirvin, E. H. Eaton, Jr. and C. C. Carroll, Trustees)	--	27,543,757.2 ⁽³⁾	75.83%

- (1) Shares allocated to personal accounts of current and former executive officers under the Employee Stock Ownership Trust pursuant to The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan. Plan participants have sole discretion as to voting

and, within limitations provided by the Plan, investment of shares. Shares are voted by the Trustees of such Trust in accordance with instructions from participants. If instructions are not received by the Trustees as to the voting of particular shares, shares are to be voted in proportion to instructions actually received from other participants in the Trust.

- (2) Less than .002% for any one Director or executive officer.
- (3) Unallocated shares. The voting of these shares is governed by the terms of the Plan, which provides that the Trustees shall vote unallocated shares held by them in proportion to instructions received from Trust participants as to voting of allocated shares. The disposition of these shares in connection with a tender offer would be governed by the terms of the Plan, which provides that the Trustees shall dispose of unallocated shares held by them in proportion to instructions received from Trust participants as to the disposition of allocated shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Ownership of and transactions in Company stock by executive officers and Directors of the Company are required to be reported to the Securities and Exchange Commission pursuant to Section 16 of the Securities Exchange Act. Mark D. Ketchum, an executive officer, filed an amended Form 4 for the month ending August, 2001 reporting December, 2000 gifts of stock which were inadvertently omitted from previous filings. Jorge P. Montoya, an executive officer, filed an amended Form 4 for the month ended November, 1999, reporting a transfer of 10,000 shares from his direct holdings to a trust under his control that was inadvertently omitted, and an amended Form 4 for the month of September 2001, reporting an award of 6,465 shares of common stock that was inadvertently reported as a stock option award.

Transactions with Executive Officers, Directors and Others

During the past fiscal year, the Company and its subsidiaries had no transactions in which any Director, or any member of the immediate family of any Director, had a material direct or indirect interest reportable under applicable rules of the Securities and Exchange Commission. In the normal course of business the Company had transactions with other corporations where certain Directors are or were executive officers; and the Company utilized the services of the law firm of Thompson Hine, L.L.P. in which Robert D. Storey, a Director, is a partner. None of the aforementioned matters was material in amount as to the Company, the corporations or the law firm.

During the past fiscal year, the Company and its subsidiaries had no transactions in which any executive officer of the Company, or any member of the immediate family of any such executive officer, had a material direct or indirect interest reportable under applicable rules of the Securities and Exchange Commission.

APPENDIX IV
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002, OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 1-434

THE PROCTER & GAMBLE COMPANY

(Exact name of registrant as specified in its charter)

<u>Ohio</u> (State or other jurisdiction of Incorporation or organization)	<u>31-0411980</u> (IRS Employer Identification No.)
<u>One Procter & Gamble Plaza, Cincinnati, Ohio</u> (Address of principal executive offices)	<u>45202</u> (Zip Code)

(513) 983-1100
(Registrant's telephone number, including area code)

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

There were 1,299,298,686 shares of Common Stock outstanding as of September 30, 2002.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The Consolidated Statement of Earnings of The Procter & Gamble Company and subsidiaries for the three months ended September 30, 2002 and 2001, the Condensed Consolidated Balance Sheet as of September 30, 2002 and June 30, 2002, and the Consolidated Statement of Cash Flows for the three months ended September 30, 2002 and 2001 follow. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not be indicative necessarily of annual results.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS

(Amounts in millions except per share amounts)

	Three Months Ended September 30	
	2002	2001
NET SALES	\$ 10,796	\$ 9,766
Cost of products sold	5,489	5,111
Marketing, research, administrative and other expenses	3,128	2,893
OPERATING INCOME	2,179	1,762
Interest expense	144	157
Other non-operating income, net	103	22
EARNINGS BEFORE INCOME TAXES	2,138	1,627
Income taxes	674	523
NET EARNINGS	\$ 1,464	\$ 1,104
PER COMMON SHARE:		
Basic net earnings	\$ 1.10	\$ 0.83
Diluted net earnings	\$ 1.04	\$ 0.79
Dividends	\$ 0.41	\$ 0.38
AVERAGE COMMON SHARES OUTSTANDING - DILUTED	1,407.3	1,400.8

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Amounts in millions)

	September 30	June 30
	<u>2002</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,703	\$ 3,427
Investment securities	186	196
Accounts receivable	3,110	3,090
Inventories		
Materials and supplies	1,085	1,031
Work in process	338	323
Finished goods	2,136	2,102
Total Inventories	<u>3,559</u>	<u>3,456</u>
Deferred income taxes	434	521
Prepaid expenses and other receivables	<u>1,571</u>	<u>1,476</u>
TOTAL CURRENT ASSETS	13,563	12,166
PROPERTY, PLANT AND EQUIPMENT		
Buildings	4,532	4,532
Machinery and equipment	17,890	17,963
Land	568	575
	<u>22,990</u>	<u>23,070</u>
Accumulated depreciation	<u>(9,941)</u>	<u>(9,721)</u>
NET PROPERTY, PLANT AND EQUIPMENT	13,049	13,349
NET GOODWILL AND OTHER INTANGIBLE ASSETS		
Goodwill	10,958	10,966
Trademarks and other intangible assets	<u>2,437</u>	<u>2,464</u>
NET GOODWILL AND OTHER INTANGIBLE ASSETS	13,395	13,430
OTHER NON-CURRENT ASSETS		
	<u>1,843</u>	<u>1,831</u>
TOTAL ASSETS	<u>\$ 41,850</u>	<u>\$ 40,776</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,015	\$ 2,205
Accrued and other liabilities	4,997	5,330
Taxes payable	1,860	1,438
Debt due within one year	<u>4,199</u>	<u>3,731</u>
TOTAL CURRENT LIABILITIES	13,071	12,704
LONG-TERM DEBT	11,263	11,201
DEFERRED INCOME TAXES	1,239	1,077
OTHER NON-CURRENT LIABILITIES	2,038	2,088
TOTAL LIABILITIES	27,611	27,070
SHAREHOLDERS' EQUITY		
Preferred stock	1,613	1,634
Common stock-shares outstanding - Sept 30	1,299.3	
June 30	1,300.8	1,301
Additional paid-in capital	2,586	2,490
Reserve for ESOP debt retirement	(1,322)	(1,339)
Accumulated other comprehensive income	(2,464)	(2,360)
Retained earnings	<u>12,527</u>	<u>11,980</u>
TOTAL SHAREHOLDERS' EQUITY	14,239	13,706
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 41,850</u>	<u>\$ 40,776</u>

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in millions)

	Three Months Ended	
	September 30	
	<u>2002</u>	<u>2001</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 3,427	\$ 2,306
OPERATING ACTIVITIES		
Net earnings	1,464	1,104
Depreciation and amortization	410	382
Deferred income taxes	142	78
Change in:		
Accounts receivable	(44)	(96)
Inventories	(105)	(273)
Accounts payable and accruals	(15)	269
Other operating assets & liabilities	65	(342)
Other	<u>93</u>	<u>207</u>
TOTAL OPERATING ACTIVITIES	<u>2,010</u>	<u>1,329</u>
INVESTING ACTIVITIES		
Capital expenditures	(281)	(352)
Proceeds from asset sales	62	9
Acquisitions	-	(74)
Change in investment securities	<u>24</u>	<u>55</u>
TOTAL INVESTING ACTIVITIES	<u>(195)</u>	<u>(362)</u>
FINANCING ACTIVITIES		
Dividends to shareholders	(565)	(525)
Change in short-term debt	(306)	619
Additions to long-term debt	678	-
Reduction of long-term debt	(12)	(351)
Proceeds from stock options	31	36
Purchase of treasury shares	<u>(350)</u>	<u>(168)</u>
TOTAL FINANCING ACTIVITIES	<u>(524)</u>	<u>(389)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(15)	9
CHANGE IN CASH AND CASH EQUIVALENTS	<u>1,276</u>	<u>587</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 4,703</u></u>	<u><u>\$ 2,893</u></u>

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN MILLIONS)

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, 2002. During the quarter ended September 30, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The adoption of these Statements did not have a material impact on the Company's financial statements. The results of operations for the three-month period ended September 30, 2002 are not indicative necessarily of annual results.
2. Comprehensive Income - Total comprehensive income is comprised primarily of net earnings, net currency translation gains and losses, impacts of net investment and cash flow hedges and net unrealized gains and losses on securities. Total comprehensive income for the three months ended September 30, 2002 and 2001 was \$1,360 million and \$1,040 million, respectively.
3. Segment Information – To reflect recent management and business changes, the Company has realigned its reporting segments. Effective July 1, 2002, the feminine care business, which had been managed within the baby, feminine and family care segment, is included in the beauty care segment, with the baby, feminine and family care segment renamed the baby and family care segment. In addition, the food and beverage segment was renamed snacks and beverages to reflect its remaining businesses. The historical results for the elements of the former food and beverage segment that have been divested or spun-off (i.e., Jif, Crisco and commercial shortening and oils) are now reflected in corporate. As required by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," prior year operating information in the following table has been restated to conform with the current year presentation. In conjunction with the realignments, approximately \$1.8 billion in segment assets related to the feminine care business are now part of the beauty care reporting segment.

The basis for presenting segment results generally is consistent with overall Company reporting. The primary difference relates to partially-owned operations, where segment reporting reflects such investments as consolidated subsidiaries with applicable adjustments to comply with U.S. GAAP in the corporate segment. The corporate segment also includes both operating and non-operating elements such as financing and investment activities, certain employee benefit costs, intangible asset amortization, certain restructuring charges, segment eliminations, prior year results of certain divested businesses and other general corporate items. Additionally, for interim periods certain non-recurring tax impacts are reflected on a discrete basis for management and segment reporting purposes, but are eliminated in corporate to arrive at the Company's effective tax rate for the quarter.

Three Months Ended September 30	Fabric & Home Care	Baby & Family Care	Beauty Care	Health Care	Snacks & Beverages	Corporate	Total
Net Sales							
2002	\$ 3,132	\$ 2,426	\$ 3,123	\$ 1,410	\$ 822	\$ (117)	\$ 10,796
2001	2,883	2,312	2,457	1,176	798	140	9,766
Earnings Before Income Taxes							
2002	809	400	804	275	122	(272)	2,138
2001	665	364	643	210	113	(368)	1,627
Net Earnings							
2002	547	241	548	196	91	(159)	1,464
2001	450	223	445	140	74	(228)	1,104

4. Acquisitions – On November 16, 2001, the Company completed the acquisition of the Clairol business from Bristol-Myers Squibb Company for approximately \$5 billion. The operating results of the Clairol business are reported in the beauty care segment from November 16, 2001. The following table provides pro forma results of operations for the prior year's first quarter, as if Clairol had been acquired at the beginning of fiscal year 2002. The pro forma results do not include any anticipated cost savings or other effects of the planned integration of Clairol. Accordingly, such amounts are not indicative necessarily of the results that would have occurred if the acquisition had been completed on the date indicated or that may result in the future.

Pro Forma Results – The Procter & Gamble Company

	Three months ended September 30, 2001
Net Sales	\$10,154
Net Earnings	1,141
Diluted net earnings per common share	0.81

5. Goodwill – Goodwill as of September 30, 2002, as adjusted for the segment restatement of the feminine care business (See Note 3), is allocated by reportable segment as follows:

	<u>Fabric & Home Care</u>	<u>Baby & Family Care</u>	<u>Beauty Care</u>	<u>Health Care</u>	<u>Snacks & Beverages</u>	<u>Total</u>
Goodwill, September 30, 2002	\$452	\$817	\$6,546	\$2,865	\$278	\$10,958

6. Pro Forma Stock-Based Compensation - 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. Grants were issued in the quarter ended September 30, 2002 under stock-based compensation plans approved by shareholders in 2001. These new grants are fully exercisable after three years and have a ten-year life. Prior grants, issued in fiscal years 1999 through 2002, are fully exercisable after three years and have a fifteen-year life. The Company also makes other grants to employees, for which vesting terms and option life differ.

Pursuant to SFAS 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," which recognizes expense based on intrinsic value at date of grant. As stock options have been issued with exercise prices equal to grant date fair value, no compensation cost has resulted. Had compensation cost for all options granted been determined based on the fair value at grant date consistent with SFAS No. 123, the Company's net earnings and earnings per share would have been as follows:

	<u>Three months ended</u>	
	<u>Sept. 30, 2002</u>	<u>Sept. 30, 2001</u>
Net earnings		
As reported	\$1,464	\$1,104
Pro forma expense	104	113
Pro forma	1,360	991
Net earnings per common share		
Basic		
As reported	\$1.10	\$0.83
Pro forma adjustments	(0.08)	(0.09)
Pro forma	1.02	0.74
Diluted		
As reported	1.04	0.79
Pro forma adjustments	(0.07)	(0.08)
Pro forma	0.97	0.71

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience.

Item 2.MANAGEMENT DISCUSSION AND ANALYSIS

Results Of Operations

Despite continuing softness in the global economy, and in particular in the Latin American region, the Company delivered double-digit volume, sales and earnings growth for the quarter ended September 30, 2002. For a discussion of key factors that could impact and must be managed by the Company, refer to the Management Discussion and Analysis section in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

The Company reported net earnings of \$1.46 billion or \$1.04 diluted net earnings per share for the quarter ended September 30, 2002. Results included a \$113 million after-tax restructuring charge related to the program to streamline the Company's operations and business portfolio. This restructuring program charge included employee separation costs of \$52 million before tax and asset-related charges of \$62 million before tax. Net earnings in the year ago quarter were \$1.10 billion or \$0.79 diluted net earnings per share, including a \$238 million after-tax restructuring charge. The restructuring charge for the year ago quarter include employee separation costs of \$212 million before tax and asset-related charges of \$69 million before tax.

Core net earnings were \$1.58 billion or \$1.12 diluted net earnings per share for the current quarter, compared to \$1.34 billion or \$0.96 core diluted net earnings per share in the year ago quarter. These results exclude restructuring program charges in both periods.

Net sales were \$10.80 billion, up eleven percent versus the year ago quarter. Unit volume grew thirteen percent versus the prior year, led by double-digit growth in the fabric and home care, health care and beauty care businesses. Excluding acquisitions and divestitures, unit volume increased ten percent. Sales trailed volume growth as a three-percent negative pricing and mix impact was partially offset by a positive foreign exchange impact of one percent. The pricing and mix impact was a function of the following primary effects: the pass through of lower commodity costs to consumers in coffee and tissue and structural price adjustments in baby care; negative mix impacts in beauty care, primarily related to Clairol; and continuing strong growth of the Company's developing market businesses which typically have a lower sales rate per unit and growth in mid-tier laundry brands.

Gross margin was 49.2 percent for the quarter ended September 30, 2002, compared to 47.7 percent in the same quarter of the prior year. Cost of products sold includes a \$83 million before-tax charge related to the restructuring program. Excluding restructuring costs, gross margin was 50.0 percent, compared to 48.8 percent in the year ago quarter. This gross margin progress reflects the benefits from improved corporate portfolio mix, ongoing base business and restructuring savings and lower material costs.

Operating margin was 20.2 percent for the quarter, compared to 18.0 percent in the same quarter a year ago. Excluding restructuring charges, core operating margin increased to 21.6 percent from 21.3 percent, as gross margin improvement was offset by increased core marketing, research, administrative and other (MRA&O) costs. Core MRA&O as a percent of sales increased to 28.4 percent from 27.5 percent in the same quarter a year ago, reflecting increased marketing investments and investments in pharmaceuticals for clinical trials for our ongoing feminine testosterone research and milestone payments for our diabetes product

research per our contractual agreements, partially offset by continued progress from the Company's restructuring program.

Non-operating income increased \$81 million, which includes the gain from the divestiture of the non strategic elements of the Company's Vicks business in Japan.

As discussed in Note 3, segments have been restated for recent management and business changes.

Fabric & Home Care

Fabric and home care delivered eleven percent volume growth reflecting innovation across all brands. Net sales were \$3.13 billion, up nine percent, including a positive one percent foreign exchange impact. Sales trailed volume growth primarily due to strong performance on mid-tier brands and in developing markets, which resulted in a negative sales mix impact. Net earnings were \$547 million, up 22 percent, reflecting higher volumes and a strong cost management focus. Operating margin expansion was achieved through lower material prices and a continued focus on base business savings projects, which funded increased marketing costs.

All regions posted double-digit volume increases in fabric care except Latin America, where markets are contracting reflecting the tough economic environment and sharp currency erosion. However, the Company maintained laundry category share leadership in Latin America and shares are up versus prior year.

Baby & Family Care

Baby and family care delivered unit volume growth of six percent behind strength in baby care in North America and Western Europe. Net sales were \$2.43 billion, up five percent, as pricing adjustments to reflect lower commodity costs and improved consumer value on Luvs were partially offset by a positive one percent foreign exchange impact and product mix toward premium tier diapers and pants. Earnings were \$241 million, up eight percent, reflecting sales growth, particularly in premium tier diapers, and manufacturing and restructuring cost savings.

Despite four percent volume growth in family care, shares were down slightly due to aggressive competitive promotional spending – well beyond levels associated with passing on lower pulp prices to consumers. The Company has responded to these actions, but is anticipating a reversal of the spending trends as pulp costs start to increase. Baby care volume grew double-digits in both North America and Western Europe, leading to strong share growth in the quarter driven by the Pampers Baby Stages initiative.

Beauty Care

Beauty care posted double-digit volume, sales and earnings growth. Unit volume increased 32 percent led by the Clairol acquisition. Excluding the impact of acquisitions and divestitures, volume was up ten percent behind strength in hair care and fine fragrances. The hair care business was particularly strong, with North America delivering broad-based volume progress across the hair care portfolio. Western Europe and China hair care were also notably strong, where both Pantene and Head & Shoulders delivered excellent volume

growth. Feminine care volume grew in the high single digits after several quarters of declines, with the U.S. delivering double-digit volume growth. Net sales were \$3.12 billion, up 27 percent including a two percent positive foreign exchange impact. Volume growth was partially offset by mix impacts driven by the Clairol business. Net earnings were \$548 million, up 23 percent versus last year as manufacturing cost reductions were partially offset by increased marketing investments, primarily in advertising.

Health Care

Health care continued to deliver strong results. Unit volume increased 19 percent, driven by strength in pharmaceuticals, behind strong Actonel once-a-week results, and oral care. Net sales grew 20 percent to \$1.41 billion, including a positive one percent foreign exchange impact. Net earnings for health care were \$196 million, up 40 percent, reflecting volume and sales growth of high margin items, such as Crest Whitestrips and Actonel. This growth is after the funding of increased clinical and milestone costs in pharmaceuticals. The oral care business continued to grow strongly in all major tooth care segments: dentifrice, toothbrushes and whitening systems. Crest Whitestrips results have been very strong, with volume double the prior year. Recently, the Company has responded to a competitive entry into the tooth whitening category by announcing a price decline, of approximately 30%, effective in October 2002. Additionally, the expected FDA approval timing on Prilosec OTC has moved to the fall of 2003. This new timeline has no material impact to the Company's expected results for the current fiscal year.

Snacks & Beverages

Snacks and beverages delivered good results as unit volume increased four percent behind strength in the snacks businesses offset by softness in beverages. Net sales grew three percent to \$822 million, including a two percent positive foreign exchange impact. Results reflect the Folgers' pricing response to aggressive competitive pricing activity in the marketplace and continued lower green coffee costs. Snacks delivered double-digit volume growth, with progress in both Pringles and Torengos. Net earnings grew strongly, up 23 percent to \$91 million, driven by volume growth and a continued focus on cost reductions.

Corporate

The corporate segment contains both operating and non-operating items that are not included in the business results. Current year results reflect increased divestiture gains and lower restructuring costs.

Financial Condition

For the quarter ended September 30, 2002, cash generated from operating activities totaled \$2.01 billion. Earnings, adjusted for non-cash charges, are the primary driver of operating cash flow and the \$0.68 billion increase from the first quarter of last year. Working capital increased slightly from June 30. Days sales outstanding improved two days for receivables and seven days for inventory days on hand versus the first quarter of last year. Accounts payable and other accruals decreased, reflecting a reduction in days outstanding for trade payables and normal timing differences for other accruals. The remaining increase versus the prior year was driven by changes in other operating assets and liabilities, including deferred taxes, and a reduction in equity investments for dividends received.

Free cash flow, defined as cash flow from operations less capital expenditures, for the first quarter was \$1.73 billion, representing a \$0.76 billion increase over the same period last year. In addition to earnings growth, this increase reflects reduced capital spending levels in the quarter. The Company anticipates that this capital spending rate will increase through the year, but the fiscal year average will be in line with the revised target of below five percent of sales.

Investing activities used \$195 million of cash in the current year compared to \$362 million in the previous year. This generated a \$167 million net cash increase versus the prior year, primarily attributable to \$53 million higher divestiture proceeds, reduced capital spending of \$71 million and the absence of acquisition activity in the quarter. Divestiture proceeds in the quarter were from the Vicks throat drop business in Japan. The prior year acquisition activity relates primarily to Jean Patou.

Financing activities used \$524 million of cash for the current fiscal year versus a net use of \$389 million in the prior year quarter. The largest driver of this \$135 million difference is increased purchase of treasury shares, reflecting a return of the share repurchase program to historical levels.

We continue negotiations regarding the potential outsourcing of certain administrative and other business support services. At this time, no final decisions have been made.

Restructuring Program Update

In 1999, concurrent with a reorganization of its operations into product-based global business units, the Company initiated a multi-year restructuring program. The program is designed to accelerate growth and deliver cost reductions by streamlining management decision-making, manufacturing and other work processes and discontinuing under-performing businesses and initiatives. Technology improvements as well as standardization of manufacturing and other work processes allow the Company to streamline operations, resulting in the consolidation of manufacturing activity and various business processes.

Costs to be incurred include separation related costs, asset write-downs, accelerated depreciation and other costs directly related to the restructuring efforts.

During the quarter ended September 30, 2002, the Company recorded charges totaling \$151 million before tax (\$113 million after tax) related to its restructuring program, as detailed in the following table. In addition, the Company continues to execute similar projects as part of ongoing operations. Costs for these projects are included in core earnings.

Restructuring Program July - September, 2002 Charges (before tax)

Amounts in millions

	Beginning Reserves <u>6/30/02</u>	Current Quarter <u>Charges</u>	Cash <u>Spent</u>	Applied Against <u>Assets</u>	Ending Reserves <u>9/30/02</u>
Employee separations	\$159	\$ 52	\$87	\$ -	\$124
Asset write-downs	-	25	-	25	-
Accelerated depreciation	-	33	-	33	-
Other	86	41	15	4	108
	245	151	102	62	232

During July - September 2002, restructuring charges against the Company's cost of products sold amounted to \$83 million before tax and charges included in marketing, research and administrative expenses amounted to \$63 million before tax. In addition, the Company had \$5 million of net sales reductions from initiatives being discontinued, which are reflected in corporate.

Employee separation charges in July – September 2002 are associated with severance packages for approximately 900 people. The packages are predominantly voluntary and 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. The current and planned separations span the entire organization, including manufacturing, selling, research and administrative positions.

The charges for accelerated depreciation and asset write-downs, which totaled \$58 million before tax in the quarter ended September 30, 2002, are primarily related to manufacturing operations. 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, plant closures or strategic choices to discontinue initiatives. The Company has shortened the estimated useful lives of such assets, resulting in incremental depreciation expense. Charges for asset write-downs relate to the establishment of new fair value bases for assets held for sale or disposal that represent excess capacity in the process of being removed from service or disposed and businesses held for sale in the next 12 months.

Other costs incurred as a direct result of the restructuring program amounted to \$41 million before tax during July – September 2002. These were primarily for relocation, training, establishment of global business services and results from discontinued initiatives.

Item 4. Controls And Procedures

The Company's President, Chief Executive, and Chairman of the Board, A.G. Lafley, and the Company's Chief Financial Officer, Clayton C. Daley, Jr., have evaluated the Company's internal controls and disclosure controls systems within 90 days of the filing of this report.

Messrs. Lafley and Daley have concluded that the Company's disclosure controls systems are functioning effectively to provide reasonable assurance that the Company can meet its disclosure obligations. The Company's disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in the world-wide headquarters of the Company in Cincinnati, Ohio. The reporting process is designed to ensure that information required to be disclosed by the Company in the reports that it files or submits with the Commission is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Since Messrs. Lafley's and Daley's most recent review of the Company's internal controls systems, there have been no significant changes in internal controls or in other factors that could significantly affect these controls.

PART II. OTHER INFORMATION**Item 4. Submission Of Matters To A Vote Of Security Holders:**

At the Company's 2002 Annual Meeting of Shareholders held on October 8, 2002, the following actions were taken:

The following Directors were elected for terms of office expiring in 2005:

	Votes For	Votes Withheld	Abstentions*	Broker Non-Votes*
BRUCE L. BYRNES	1,148,767,095	18,103,997	N/A	N/A
SCOTT D. COOK	1,148,999,623	17,781,469	N/A	N/A
DOMENICO DE SOLE	1,104,289,511	62,491,581	N/A	N/A
CHARLES R. LEE	1,103,957,527	62,823,565	N/A	N/A
ERNESTO ZEDILLO	1,143,973,421	22,807,671	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.

In addition, the following Directors continued to serve as Directors after the meeting:

Norman R. Augustine
R. Kerry Clark
Richard J. Ferris
Joseph T. Gorman
A. G. Lafley
Lynn M. Martin

John E. Pepper
Johnathan A. Rodgers
John F. Smith, Jr.
Ralph Snyderman
Robert D. Storey
Marina v.N. Whitman

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, 2003, was approved by the shareholders. The shareholders cast 1,075,572,791 votes in favor of this proposal and 79,896,073 votes against. There were 11,285,235 abstentions.

A shareholder resolution proposed by Evelyn Y. Davis was defeated by the shareholders. The proposal requested that the Board take the necessary steps to provide for cumulative voting in the election of directors. The Board opposed the resolution. The shareholders cast 297,228,260 votes in favor of the resolution and 654,814,803 against. There were 21,501,576 abstentions and 193,236,453 broker non-votes.

A shareholder resolution proposed by Lenore Goldman and four co-sponsors was defeated by the shareholders. The proposal requested that the Board of Directors adopt a policy to identify and label all food products manufactured or sold by the Company that may contain genetically engineered ingredients. The Board opposed the resolution. The shareholders cast 92,942,527 votes in favor of the resolution and 830,924,946 against. There were 49,667,752 abstentions and 193,245,867 broker non-votes.

A shareholder resolution proposed by the New York City Comptroller's Office, as Custodian and Trustee of the New York City Fire Department Pension Fund, the New York City Police Pension Fund, the New York City Employees Retirement System, and the New York City Teachers Retirement System and eight co-sponsors, was defeated by the shareholders. The proposal requested that the Board of Directors amend the Company's buying policy and standard purchase contracts to reflect adoption of the principles defined by the International Labor Organization; establish an independent monitoring process that assesses adherence to these conventions; and report annually on adherence to the amended policy through an independent and transparent process. The Board opposed the resolution. The shareholders cast 107,055,468 votes in favor of the resolution and 805,207,939 against. There were 60,812,520 abstentions and 193,705,165 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.

(99) Certification of Periodic Financial Reports Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

The Company filed Current Reports on Form 8-K containing information pursuant to Item 5 (“Other Events”) dated August 5, 2002, relating to the announcement of earnings for the April-June 2002 quarter; dated September 5, 2002, updating previously issued guidance for the July-September 2002 quarter; dated September 12, 2002, relating to the certification by the CEO and CFO of the registrant of the Annual Report on Form 10-K for the fiscal year ended June 30, 2002; and September 27, 2002, relating to updating previously issued guidance for the July-September 2002 quarter, as amended that same date.

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

/S/ JOHN K. JENSEN

(John K. Jensen)

Vice President and Comptroller

Date: October 31, 2002

I, A.G. Lafley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Procter & Gamble Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the

date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ A.G. LAFLEY
(A.G. Lafley)
Chairman of the Board,
President and Chief Executive

Date: October 31, 2002

I, Clayton C. Daley, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Procter & Gamble Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ CLAYTON C. DALEY, JR.
(Clayton C. Daley, Jr.)
Chief Financial Officer

Date: October 31, 2002

EXHIBIT (11)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

 Computation of Earnings Per Share

(Amounts in millions except per share amounts)

	Three Months Ended September 30	
	2002	2001
<u>BASIC NET EARNINGS PER SHARE</u>		
Net earnings	\$ 1,464	\$ 1,104
Preferred dividends, net of tax benefit	32	32
Net earnings available to common shareholders	<u>\$ 1,432</u>	<u>\$ 1,072</u>
Basic weighted average common shares outstanding	<u>1,300.0</u>	<u>1,296.1</u>
Basic net earnings per common share	<u>\$ 1.10</u>	<u>\$ 0.83</u>
<u>DILUTED NET EARNINGS PER SHARE</u>		
Net earnings	\$ 1,464	\$ 1,104
Deduct preferred dividend impact on funding of ESOP	2	3
Diluted net earnings	<u>\$ 1,462</u>	<u>\$ 1,101</u>
Basic weighted average common shares outstanding	1,300.0	1,296.1
Add potential effect of:		
Conversion of preferred shares	86.3	90.4
Exercise of stock options	<u>21.0</u>	<u>14.3</u>
Diluted weighted average common shares outstanding	<u>1,407.3</u>	<u>1,400.8</u>
Diluted net earnings per common share	<u>\$ 1.04</u>	<u>\$ 0.79</u>

EXHIBIT (12)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

 COMPUTUATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended June 30					Three Months Ended September 30	
	1998	1999	2000	2001	2002	2001	2002
<u>EARNINGS AS DEFINED</u>							
Earnings from operations before income taxes after eliminating undistributed earnings of equity method investees	\$ 5,704	\$ 5,866	\$ 5,474	\$ 4,574	\$ 6,442	\$ 1,598	\$ 2,278
Fixed charges	639	751	811	872	687	177	166
TOTAL EARNINGS, AS DEFINED	<u>\$ 6,343</u>	<u>\$ 6,617</u>	<u>\$ 6,285</u>	<u>\$ 5,446</u>	<u>\$ 7,129</u>	<u>\$ 1,775</u>	<u>\$ 2,444</u>
<u>FIXED CHARGES, AS DEFINED</u>							
Interest expense	\$ 548	\$ 650	\$ 792	\$ 794	\$ 603	\$ 157	\$ 144
1/3 of rental expense	91	101	89	78	84	20	22
TOTAL FIXED CHARGES DEFINED	<u>\$ 639</u>	<u>\$ 751</u>	<u>\$ 881</u>	<u>\$ 872</u>	<u>\$ 687</u>	<u>\$ 177</u>	<u>\$ 166</u>
RATIO OF EARNINGS TO FIXED CHARGES	9.9	8.8	7.1	6.2	10.4	10.0	14.7

APPENDIX V
CURRENT REPORT ON FORM 8-K
DATED NOVEMBER 26, 2002

UNITED STATES
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)

November 26, 2002

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

Ohio	1-434	31-0411980
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)
One Procter & Gamble Plaza, Cincinnati, Ohio		45202
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code (513) 983-1100

ITEM 5. OTHER EVENTS.

As disclosed in its Annual Report on Form 10-K, on May 31, 2002, The Procter & Gamble Company (the "Company") completed its spin-off of the Jif and Crisco brands. In addition, effective July 1, 2002, the Company realigned the management of its feminine care business from Baby, Feminine & Family Care to Beauty Care.

To reflect these management and business changes, the Company has realigned its internal and external reporting segments. Beginning in the first quarter of fiscal year 2003 (July - September 2002), the feminine care business will be included in the Beauty Care segment, and the former Baby, Feminine & Family Care segment will become Baby & Family Care. The former Food & Beverage segment will be renamed Snacks & Beverages, reflecting the remaining businesses.

As required by FASB Statement No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, prior year segment results have been reclassified to reflect these changes and provide comparable current and historical results. The elements of the former Food & Beverage segment that were spun off or divested, including Jif, Crisco and commercial shortening and oils, are now presented as part of Corporate. This change affects only the presentation of segment results and does not affect the consolidated results of The Procter & Gamble Company.

In the Company's Form 8-K filed on October 24, 2002, selected interim segment information for 2002 was presented. In this 8-K filing, additional interim segment information is provided for fiscal 2002 and selected interim segment information is provided for fiscal 2001. Full segment information will be presented in the Company's next annual filing.

P&G is filing this 8-K pursuant to the SEC's Regulation FD.

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

BY: /S/ SHARON E. ABRAMS
Sharon E. Abrams, Secretary
November 26, 2002

Exhibits

- 99.1 Fiscal Year 2002 Business Segment Information, including quarterly impacts of foreign exchange on sales for the Global Business Units
- 99.2 Fiscal Year 2001 Business Segment Information, including quarterly impacts of foreign exchange on sales for the Global Business Units

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions)
Fiscal Year 2002 - Business Segment Earnings Information

	<u>Prior Structure - Segment Information</u>					Total Year	<u>New Structure - Segment Information</u>					Total Year
	Quarters Ended						Quarters Ended					
	Sept. 30	Dec. 31	Mar. 31	June 30		Sept. 30	Dec. 31	Mar. 31	June 30			
Fabric & Home Care						Fabric & Home Care						
Net Sales	2,883	2,967	2,837	2,931	11,618	Net Sales	2,883	2,967	2,837	2,931	11,618	
Earnings Before Income Taxes	665	660	716	687	2,728	Earnings Before Income Taxes	665	660	716	687	2,728	
Net Earnings	450	437	472	472	1,831	Net Earnings	450	437	472	472	1,831	
Baby, Feminine & Family Care						Baby & Family Care						
Volume Index versus Prior Year	104	103	104	103	103	Volume Index versus Prior Year	107	105	106	104	105	
Net Sales	2,997	3,025	2,898	2,957	11,877	Net Sales	2,312	2,360	2,259	2,302	9,233	
Earnings Before Income Taxes	549	553	450	409	1,961	Earnings Before Income Taxes	364	381	256	271	1,272	
Net Earnings	342	335	263	230	1,170	Net Earnings	223	228	144	143	738	
Beauty Care						Beauty Care						
Volume Index versus Prior Year	99	115	128	132	119	Volume Index versus Prior Year	98	110	121	123	113	
Net Sales	1,772	2,060	2,109	2,138	8,079	Net Sales	2,457	2,725	2,748	2,793	10,723	
Earnings Before Income Taxes	458	441	402	363	1,664	Earnings Before Income Taxes	643	613	596	502	2,354	
Net Earnings	326	334	269	248	1,177	Net Earnings	445	442	388	335	1,610	
Health Care						Health Care						
Net Sales	1,176	1,341	1,215	1,247	4,979	Net Sales	1,176	1,341	1,215	1,247	4,979	
Earnings Before Income Taxes	210	264	188	133	795	Earnings Before Income Taxes	210	264	188	133	795	
Net Earnings	140	172	124	85	521	Net Earnings	140	172	124	85	521	
Food & Beverage						Snacks & Beverages						
Volume Index versus Prior Year	93	91	99	94	94	Volume Index versus Prior Year	97	96	99	99	98	
Net Sales	955	1,053	879	914	3,801	Net Sales	798	873	751	827	3,249	
Earnings Before Income Taxes	154	192	132	126	604	Earnings Before Income Taxes	113	144	108	111	476	
Net Earnings	99	126	79	80	384	Net Earnings	74	96	64	69	303	
Corporate						Corporate						
Net Sales	(17)	(43)	(38)	(18)	(116)	Net Sales	140	137	90	69	436	
Earnings Before Income Taxes	(409)	(196)	(340)	(424)	(1,369)	Earnings Before Income Taxes	(368)	(148)	(316)	(410)	(1,242)	
Net Earnings	(253)	(105)	(168)	(205)	(731)	Net Earnings	(228)	(76)	(153)	(194)	(651)	
Total Company						Total Company						
Net Sales	9,766	10,403	9,900	10,169	40,238	Net Sales	9,766	10,403	9,900	10,169	40,238	
Earnings Before Income Taxes	1,627	1,914	1,548	1,294	6,383	Earnings Before Income Taxes	1,627	1,914	1,548	1,294	6,383	
Net Earnings	1,104	1,299	1,039	910	4,352	Net Earnings	1,104	1,299	1,039	910	4,352	

Foreign Exchange Impact on Net Sales Growth Versus Prior Year

Prior Structure - Segment Information

New Structure - Segment Information

	Quarters Ended			
	Sept. 30	Dec. 31	Mar. 31	June 30
Foreign Exchange Impact on Net Sales Growth Versus Prior Year				
Baby, Feminine & Family Care	-3%	0%	-3%	-1%
Beauty Care	-3%	-2%	-3%	0%
Food & Beverage	-1%	0%	-1%	0%

	Quarters Ended			
	Sept. 30	Dec. 31	Mar. 31	June 30
Foreign Exchange Impact on Net Sales Growth Versus Prior Year				
Baby & Family Care	-3%	0%	-3%	-1%
Beauty Care	-3%	-1%	-3%	0%
Snacks & Beverages	-2%	0%	-2%	0%

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions)

Fiscal Year 2001 - Business Segment Earnings Information

	<u>Prior Structure - Segment Information</u>					<u>New Structure - Segment Information</u>					
	Quarters Ended				Total Year	Quarters Ended				Total Year	
	Sept. 30	Dec. 31	Mar. 31	June 30		Sept. 30	Dec. 31	Mar. 31	June 30		
Fabric & Home Care						Fabric & Home Care					
Net Sales	3,075	2,929	2,773	2,883	11,660	Net Sales	3,075	2,929	2,773	2,883	11,660
Earnings Before Income Taxes	736	590	510	594	2,430	Earnings Before Income Taxes	736	590	510	594	2,430
Net Earnings	498	390	348	407	1,643	Net Earnings	498	390	348	407	1,643
Baby, Feminine & Family Care						Baby & Family Care					
Net Sales	3,039	3,047	2,936	2,969	11,991	Net Sales	2,292	2,357	2,273	2,299	9,221
Earnings Before Income Taxes	513	483	403	346	1,745	Earnings Before Income Taxes	301	322	271	225	1,119
Net Earnings	329	295	236	192	1,052	Net Earnings	195	191	158	114	658
Beauty Care						Beauty Care					
Net Sales	1,865	1,858	1,780	1,754	7,257	Net Sales	2,612	2,548	2,443	2,424	10,027
Earnings Before Income Taxes	384	412	356	240	1,392	Earnings Before Income Taxes	595	574	487	361	2,017
Net Earnings	267	286	243	171	967	Net Earnings	401	390	322	248	1,361
Health Care						Health Care					
Net Sales	990	1,150	1,097	1,116	4,353	Net Sales	990	1,150	1,097	1,116	4,353
Earnings Before Income Taxes	117	252	144	71	584	Earnings Before Income Taxes	117	252	144	71	584
Net Earnings	81	164	91	54	390	Net Earnings	81	164	91	54	390
Food & Beverage						Snacks & Beverages					
Net Sales	1,053	1,178	938	970	4,139	Net Sales	869	949	808	834	3,460
Earnings Before Income Taxes	122	195	118	111	546	Earnings Before Income Taxes	86	136	95	84	401
Net Earnings	75	124	67	66	332	Net Earnings	53	87	52	50	242
Corporate						Corporate					
Net Sales	(53)	20	(13)	(110)	(156)	Net Sales	131	249	117	26	523
Earnings Before Income Taxes	(169)	(151)	(206)	(1,555)	(2,081)	Earnings Before Income Taxes	(132)	(93)	(182)	(1,528)	(1,935)
Net Earnings	(95)	(65)	(92)	(1,210)	(1,462)	Net Earnings	(73)	(28)	(78)	(1,193)	(1,372)
Total Company						Total Company					
Net Sales	9,969	10,182	9,511	9,582	39,244	Net Sales	9,969	10,182	9,511	9,582	39,244
Earnings Before Income Taxes	1,703	1,781	1,325	(193)	4,616	Earnings Before Income Taxes	1,703	1,781	1,325	(193)	4,616
Net Earnings	1,155	1,194	893	(320)	2,922	Net Earnings	1,155	1,194	893	(320)	2,922

Foreign Exchange Impact on Net Sales Growth Versus Prior Year

	<u>Prior Structure - Segment Information</u>				<u>New Structure - Segment Information</u>				
	Quarters Ended				Quarters Ended				
	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	
Foreign Exchange Impact on Net Sales Growth Versus Prior Year					Foreign Exchange Impact on Net Sales Growth Versus Prior Year				
Baby, Feminine & Family Care	-4%	-5%	-3%	-4%	Baby & Family Care	-3%	-5%	-3%	-3%
Beauty Care	-3%	-5%	-4%	-4%	Beauty Care	-3%	-6%	-4%	-4%
Food & Beverage	-2%	-3%	-1%	-2%	Snacks & Beverages	-2%	-4%	-2%	-3%

**PRINCIPAL OFFICE OF
The Procter & Gamble Company**
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Cincinnati, Ohio 45202
U.S.A.

**FISCAL AGENT AND
PRINCIPAL PAYING AGENT**

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London EC3A 1AA
United Kingdom

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