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