10-Q 1 jfm10q03.txt JFM '03 - 10-Q UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended March 31, 2003 Commission file number 1-434 THE PROCTER & GAMBLE COMPANY --- (Exact name of registrant as specified in its charter) Ohio 31-0411980 --- (State of incorporation) (I.R.S. 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 --- Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ] There were 1,294,704,875 shares of Common Stock outstanding as of March 31, 2003. PART I. FINANCIAL INFORMATION Item 1. Financial Statements The Consolidated Statement of Earnings of The Procter & Gamble Company and subsidiaries for the three and nine months ended March 31, 2003 and 2002, the Consolidated Balance Sheet as of March 31, 2003 and June 30, 2002, and the Consolidated Statement of Cash Flows for the nine months ended March 31, 2003 and 2002 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 Nine Months Ended March 31 March 31 ------------------------------- ----------------------------------- 2003 2002 2003 2002 ----------------------------- --------------- ------------ --- ~~NET SALES $ 10,656 $ 9,900 $ 32,457 $ 30,069 Cost of products sold 5,394 5,070 16,373 15,520 Marketing, research, administrative and other expenses 3,305 3,176 9,700 9,269 -------------- --------------- ------------- -------------- OPERATING INCOME 1,957 1,654 6,384 5,280 Interest expense 138 146 425 453 Other non-operating income, net 37 40 214 262 -------------- --------------- ------------- -------------- EARNINGS BEFORE INCOME TAXES 1,856 1,548~~

~~6,173 5,089 Income taxes 583 509 1,942 1,647 --------------- --------------- ------ --------- ------------ --- NET EARNINGS $ 1,273 $ 1,039 $ 4,231 $ 3,442~~

~~PER COMMON SHARE: Basic net earnings $ 0.96 $ 0.78 $ 3.19 $ 2.58 Diluted net earnings $ 0.91 $ 0.74 $ 3.01 $ 2.45 Dividends $ 0.41 $ 0.38 $ 1.23 $ 1.14 AVERAGE COMMON SHARES OUTSTANDING - DILUTED 1,395.8 1,405.7 1,401.9 1,402.5 See accompanying Notes to Consolidated Financial Statements~~

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET Amounts in millions ~~March 31 June 30 ASSETS 2003 2002 ------------------ ------------------ CURRENT ASSETS Cash and cash equivalents $ 5,513 $ 3,427 Investment securities 312 196 Accounts receivable 2,960 3,090 Inventories Materials and supplies 1,054 1,031 Work in process 379 323 Finished goods 2,330 2,102 ------ ------------ ------------------ Total Inventories 3,763 3,456 Deferred income taxes 465 521 Prepaid expenses and other receivables 1,452 1,476 ------------------ ------------------ TOTAL CURRENT ASSETS 14,465 12,166 PROPERTY, PLANT AND EQUIPMENT~~

~~Buildings 4,697 4,532 Machinery and equipment 18,284 17,963 Land 591 575 --------------------- ---------------- 23,572 23,070 Accumulated depreciation (10,494) (9,721) ------------------ ------------------ NET PROPERTY, PLANT AND EQUIPMENT 13,078 13,349 NET GOODWILL AND OTHER INTANGIBLE ASSETS Goodwill 11,075 10,966 Trademarks and other intangible assets 2,390 2,464 ------------------- - ----------------- NET GOODWILL AND OTHER INTANGIBLE ASSETS 13,465 13,430 OTHER NON-CURRENT ASSETS 1,675 1,831 ------------- ----- ------------------ TOTAL ASSETS $ 42,683 $ 40,776~~

~~LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES Accounts payable $ 2,064 $ 2,205 Accrued and other liabilities 5,654 5,330 Taxes payable 1,818 1,438 Debt due within one year 2,794 3,731 -------- ---------- --------------- -- TOTAL CURRENT LIABILITIES 12,330 12,704 LONG-TERM DEBT 11,333 11,201 DEFERRED INCOME TAXES 1,278 1,077 OTHER NON-CURRENT LIABILITIES 2,217 2,088 ------------- ----- ------------------ TOTAL LIABILITIES 27,158 27,070 SHAREHOLDERS' EQUITY Preferred stock 1,591 1,634 Common stock - shares outstanding - Mar 31 1,294.7 1,295 June 30 1,300.8 1,301 Additional paid-in capital~~

~~2,800 2,490 Reserve for ESOP debt retirement (1,306) (1,339) Accumulated other comprehensive income (2,149) (2,360) Retained earnings 13,294 11,980 -------------------- ---------- -------- TOTAL SHAREHOLDERS' EQUITY 15,525 13,706 ------------------- ---------- ---------- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 42,683 $ 40,776~~

~~See accompanying Notes to Consolidated Financial Statements~~

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS

~~Nine Months Ended Amounts in millions March 31 - ------------------- -------- 2003 2002 ------------ ------- ----- CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD $3,427 $2,306 OPERATING ACTIVITIES Net earnings 4,231 3,442 Depreciation and amortization 1,231 1,188 Deferred income taxes 277 249 Change in: Accounts receivable 183 10 Inventories (221) (226) Accounts payable and accruals 423 1,061 Other operating assets & liabilities 73 (359) Other 542 66 ------------- ---- -------- TOTAL~~

~~OPERATING ACTIVITIES 6,739 5,431 ------------ ------------ INVESTING ACTIVITIES Capital expenditures (967) (1,224) Proceeds from asset sales 122 185 Acquisitions (51) (5,405) Change in investment securities (93) (167) ------------ ------------ TOTAL INVESTING ACTIVITIES (989) (6,611) ------------ ------------ FINANCING ACTIVITIES Dividends to shareholders (1,690) (1,571) Change in short-term debt (1,386) 3,577 Additions to long-term debt 1,227 712 Reduction of long-term debt (749) (527) Proceeds from stock options 170 191 Purchase of treasury shares (1,235) (439) ------------ ------------ TOTAL FINANCING ACTIVITIES (3,663) 1,943 ------------ ------------ EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (1) (8) CHANGE IN CASH AND CASH EQUIVALENTS 2,086 755 ------------ ------------ CASH AND CASH EQUIVALENTS, END OF PERIOD $5,513 $3,061~~

~~See accompanying Notes to Consolidated Financial Statements~~

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002. The results of operations for the three-month and nine-month periods ended March 31, 2003 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 March 31, 2003 and 2002 was $1,299 million and $787 million, respectively. For the nine months ended March 31, 2003 and 2002, total comprehensive income was $4,442 million and $3,095 million, respectively. 3. Segment Information - To reflect 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.

SEGMENT INFORMATION (Amounts in millions) ~~Three Months Ended Fabric & Baby & Beauty Health Snacks & March 31 Home Care Family Care Care Care Beverages Corporate Total~~

~~Net Sales 2003 $ 3,061 $ 2,473 $ 3,026 $ 1,428 $ 756 $ (88) $ 10,656 2002 2,837 2,259 2,748 1,215 751 90 9,900 Earnings Before Income Taxes 2003 752 334 685 227 87 (229) 1,856 2002 716 256 596 188 108 (316) 1,548 Net Earnings~~

~~2003 499 200 463 147 50 (86) 1,273 2002 472 144 388 124 64 (153) 1,039 Nine Months Ended Fabric & Baby & Beauty Health Snacks & March 31 Home Care Family Care Care Care Beverages Corporate Total - ------------------ ------- ---------- ----- ------------ - ------------ ---- -------- --------- ----- ------------ - -------------- Net Sales 2003 $ 9,295 $ 7,425 $ 9,146 $ 4,405 $ 2,459 $ (273) $ 32,457 2002 8,687 6,931 7,930 3,732 2,422 367 30,069 Earnings Before Income Taxes 2003 2,329 1,177 2,220 876 377 (806) 6,173 2002 2,041 1,001 1,852 662 365 (832) 5,089 Net Earnings 2003 1,560 717 1,518 596 251 (411) 4,231 2002 1,359 595 1,275 436 234 (457) 3,442~~

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 nine months ended March 31, 2002, as if Clairol had been acquired as of July 1, 2001. 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 (Amounts in millions) -------------------------------------- Nine months ended March 31, 2002 --------------------------------- Net Sales $30,611 Net Earnings 3,495 Diluted net earnings per common share 2.49 In March, 2003, the Company entered into an agreement to acquire a controlling interest in Wella AG from the majority shareholders and announced its intent to make a tender offer for the remaining shares of Wella AG. Assuming all of the shares are tendered, the acquisition price will total approximately 5.7 billion Euros. The acquisition is subject to normal regulatory approvals. Wella AG is a beauty care business headquartered in Western Europe. In connection with the agreement to acquire the controlling interest, the Company has represented that it will maintain minimum cash balances in certain designated accounts of approximately 3.3 billion Euros until the closing of the transaction. 5. Goodwill - Goodwill as of March 31, 2003 is allocated by reportable segment as follows (amounts in millions):

~~Fabric &~~
~~Baby &~~
~~Beauty~~
~~Health~~
~~Snacks &~~
~~Home~~
~~Care~~
~~Family~~
~~Care~~
~~Care~~
~~Care~~
~~Beverages~~
~~Total ----~~
~~---- ----~~
~~------- --~~
~~---- -----~~
~~- --------~~
~~- -----~~
~~Goodwill,~~
~~March~~
~~31, 2003~~
~~$451~~
~~$866~~
~~$6,586~~
~~$2,893~~
~~$279~~
~~$11,075~~

6. Pro Forma Stock-Based Compensation - The Company has stock-based compensation plans under which stock options are granted to key managers and directors at the market price on the date of grant. Grants were issued during the nine months ended March 31, 2003 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 1999 through 2002, are fully exercisable after three years and have a fifteen-year life. The Company also makes other minor grants to employees, for which vesting terms and option lives 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 the 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: Three Months Ended Nine Months Ended March 31 March 31 ----------------- ------------------ 2003 2002 2003 2002 ------ ------ ------ ------ Net earnings As reported $1,273 $1,039 $4,231 $3,442 Pro forma expense 100 106 305 336 Pro forma 1,173 933 3,926 3,106 ------ ------ ------ ------ Net earnings per common share Basic As reported $0.96 $0.78 $3.19 $2.58 Pro forma adjustments (0.08) (0.09) (0.24) (0.26) Pro forma 0.88 0.69 2.95 2.32 Diluted As reported 0.91 0.74 3.01 2.45 Pro forma adjustments (0.07) (0.08) (0.21) (0.23) Pro forma 0.84 0.66 2.80 2.22 ------ ------ ------ ------ The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience. 7. Guarantees - In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which elaborates on required disclosures by a guarantor in its financial statements about obligations under certain guarantees that it has issued and clarifies the need for a guarantor to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The provisions of this Interpretation relating to initial recognition and measurement of guarantor liabilities were effective for qualifying guarantees entered into or modified after December 31, 2002. The adoption of these provisions did not have a material impact on the Company's financial statements. The disclosure requirements of the Interpretation, which were effective for the quarter ended December 31, 2002, are included in the following paragraphs. In conjunction with certain transactions, primarily divestitures, the Company may provide routine indemnifications (e.g., retention of previously existing environmental, tax and employee liabilities) whose terms range in duration and often are not explicitly defined. Where appropriate, an obligation for such indemnifications is recorded as a liability. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, historically the Company has not made significant payments for these indemnifications. In certain situations, the Company enters into capital guarantees for suppliers that construct assets to produce materials for sale to P&G. The total amount of guarantees issued under such arrangements is not significant. 8. Other New Pronouncements - In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which addresses consolidation by a business of variable interest entities in which it is the primary beneficiary. The Interpretation is effective immediately for certain disclosure requirements and variable interest entities created after January 31, 2003, and in fiscal 2004 for all other variable interest entities. This interpretation will not have a material impact on the Company's financial statements. Item 2. Management Discussion and Analysis RESULTS OF OPERATIONS --------------------- Despite continuing softness in the global economy and competitive activity within certain of the Company's core categories, the Company delivered strong sales and earnings growth for the quarter ended March 31, 2003. Businesses in Latin America continue to suffer declines in sales and earnings from the economic and political situation in the region, which had a modest dampening effect on the Company.

Going forward, uncertainties in markets such as Latin America and the Middle East could affect results. 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 $1.27 billion or $0.91 diluted net earnings per share for the quarter ended March 31, 2003. Results included a $66 million after-tax restructuring charge related to the Company's program to streamline operations and its business portfolio. Net earnings in the year ago quarter were $1.04 billion or $0.74 per share, including a $147 million after-tax restructuring charge. Net sales were $10.66 billion, up eight percent versus the year-ago quarter. Unit volume grew seven percent versus the prior year quarter behind double-digit growth in the health care business and nine percent growth in both the fabric and home care and the beauty care businesses. Double-digit volume increases in Asia and Central and Eastern Europe helped drive the volume growth. Excluding acquisitions and divestitures, unit volume increased eight percent. Sales growth included a positive foreign exchange impact of three percent, which was partially offset by pricing. Acquisitions and divestitures had a negative two percent impact on sales. The foreign exchange impact represents the benefits of the Euro and British Pound, partially offset by Latin American devaluations. The pricing impacts were directed towards activities to drive top line growth, including expanding the Company's mid-tier and developing market businesses, improving in-store presence and merchandising activities in Western Europe and to achieve competitive pricing on shelf. Examples include the following: the re-launch of a number of beauty and fabric care brands into mid-tier product positionings, pricing adjustments on Crest Whitestrips following competitive entry, price adjustments on baby care to maintain shelf parity versus a key competitor, and promotional investments on coffee and family care to match key competitors' levels of merchandising and remain competitive on shelf. Gross margin was 49.4 percent for the quarter ended March 31, 2003, compared to 48.8 percent in the same quarter of the prior year. This represents an increase of 60 basis points versus a base period that delivered a 320 basis point improvement. The current year increase was driven by a reduction in cost of products sold for charges related to the restructuring program, which totaled $46 million before tax in the current quarter and $107 million in the prior year quarter. Other base business and restructuring savings in the current quarter were reinvested in pricing activities to stimulate growth as discussed in the preceding paragraph, leading to lower margin expansion. Marketing, Research, Administrative, and Other costs (MRA&O), as a percent of sales, decreased from 32.1 percent in the prior year quarter to 31.0 percent in the current year quarter, an improvement of 110 basis points. This improvement was caused by a reduction in restructuring costs, from $99 million in the prior year to $41 million in the current year, a base period that included Clairol transition costs, and lower overhead spending which more than offset increased marketing investments, particularly in fabric and home care, health care and beauty care. Operating margin increased 170 basis points to 18.4 percent for the quarter, compared to 16.7 percent in the same quarter a year ago. This improvement was caused by lower restructuring charges, which declined from $191 million in the prior year quarter to $87 million in the current quarter, along with the other MRA&O improvements discussed in the preceding paragraph. FABRIC & HOME CARE ------------------ Fabric and home care unit volume grew nine percent and was broad-based, led by North America home care and Asia and Central and Eastern Europe. Net sales were up eight percent to $3.06 billion. This includes a positive two percent foreign exchange impact partially offset by mix impacts from growth in mid-tier brands and developing markets. Additionally, pricing investments behind mid-tier growth in North America and increased spending to improve in store presence and merchandising activities in Western Europe contributed to sales growth lagging volume growth. Net earnings increased six percent to $499 million, as volume growth was partially offset by the funding of increased initiative spending and in-store marketing investments, including the launch of Mr. Proper in Germany and Bold in Japan. BABY & FAMILY CARE ------------------ Baby and family care delivered unit volume growth of seven percent behind continued strength in baby care, driven primarily by Pampers Baby Stages of Development, and solid results in North America and Western Europe family care. Net sales increased nine percent to $2.47 billion, including a positive four percent foreign exchange impact. Positive mix behind growth in premium tier diapers was more than offset by temporary pricing adjustments in North America to reach shelf unit price parity with key competition in baby care and retain competitive pricing in family care. Earnings increased 39 percent to $200 million reflecting volume growth, cost reductions and lower promotional marketing investment versus the base period. BEAUTY CARE ----------- Beauty care unit volume was up nine percent driven by hair care, including continued strength behind Pantene and Head & Shoulders, and feminine care. Sales grew 10 percent, including a positive four percent foreign exchange impact, reaching $3.03 billion. Negative pricing and mix impacts, driven by the repositioning of the Company's portfolio of hair care brands such as Pert, Aussie and Renewal 5x into multiple price tiers, partially offset foreign exchange impacts. Net earnings were $463 million, up 19 percent driven by volume and continued reductions in cost of products sold, partially offset by increased marketing investments. HEALTH CARE ----------- Health care delivered double-digit unit volume, sales and earnings growth this quarter. Unit volume increased 18 percent driven by strong results in oral care and continued strength in pharmaceuticals. Net sales were $1.43 billion, up 18 percent, including a three percent positive foreign exchange impact that was offset by lower Crest Whitestrips pricing versus year ago. Crest and Actonel led the volume and sales growth. Health care's net earnings increased 19 percent to $147 million primarily behind volume. Progress in health care's gross margin was re-invested in marketing, primarily in oral care. SNACKS & BEVERAGES ------------------ Snacks and beverages unit volume was down one percent as improved snacks results in North America and Western Europe were offset by soft beverage results. Sales grew one percent to $756 million, including a positive four percent foreign exchange impact. Net earnings declined 22 percent to $50 million. This partly reflects the response to competitive promotional spending in the U.S. coffee market, which has escalated at a rate in excess of that justified by commodity price declines, resulting in increased promotional spending to defend share. CORPORATE --------- The corporate segment contains both operating and non-operating items that are not included in the business results. Current quarter results primarily reflect lower restructuring costs. FINANCIAL CONDITION ------------------- For the nine months ended March 31, 2003, cash generated from operating activities totaled $6.74 billion, compared to $5.43 billion in the prior year. Earnings adjusted for non-cash items including depreciation, amortization and deferred income taxes accounted for $5.7 billion of the current year cash flow and $0.9 billion of the $1.31 billion current year improvement. The inventory, accounts receivable and accounts payable and accruals components of working capital changed slightly from June 30, providing $0.4 billion of operating cash flow. Inventories increased as compared to June 30, 2002, while receivables declined. However, both receivables days sales outstanding and inventory days on hand improved versus the year ago period. Accounts payable and other accruals increased as compared to June 30, providing operating cash flows, due to timing differences for payments of other accruals, primarily taxes. Working capital changes during the nine months ended March 31, 2002 provided a higher amount of operating cash flows than the current year due to abnormally low tax payments in the year ago period. Current year activity reflects a return to historical levels. Investing activities used $989 million of cash year to date, compared to $6.61 billion used in the comparable prior year period, which included the Clairol acquisition during the October-December quarter. There has been no significant acquisition activity in the current year. This difference in acquisition activity generated $5.35 billion of the year over year change in investing cash flows. Divestiture proceeds in the current year include the Vicks throat drop business in Japan, certain Clairol small brands and a family care divestiture in China. Prior year divestitures included Comet and PUR Outdoor. Capital spending was also reduced in the current year as compared to the prior year. The Company anticipates that this capital spending rate may increase through the year, but the fiscal year average will be below the Company's revised target of less than five percent of sales. The Company's pending acquisition of Wella AG is discussed in Note 4 to the Consolidated Financial Statements. Financing activities used $3.66 billion of cash for the current fiscal year versus a source of $1.94 billion in the first nine months of the prior year. The largest driver of this $5.6 billion difference is the prior year issuance of short-term debt to finance the Clairol acquisition. In addition, treasury share purchases used more cash in the current year, reflecting lower repurchase activity in the prior year base period driven by cash needs for the Clairol acquisition. 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 was 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 March 31, 2003, the Company recorded charges totaling $87 million before tax ($66 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.

Restructuring Program July, 2002 - March, 2003 Charges (before tax)

-- ~~Amounts in millions Previous Beginning Quarter Current Applied Ending Reserves Charges Quarter Total Cash Against Reserves 6/30/02 Jul-Dec 02 Charges Charges Spent Assets 3/31/03 ---- ----- ---------- -------- ----------- ------ -----~~

~~--- Employee separations $159 $106 $29 $135 ($193) $ - $101 Asset write-downs - 59 38 97 - (97) - Accelerated depreciation - 63 9 72 - (72) - Other 86 55 11 66 (47) (25) 80 --------- --- ------ ----- -- -------- -- --- -------- -------- 245 283 87 370 (240) (194) 181~~

During January-March 2003, restructuring charges included in the Company's cost of products sold amounted to $46 million before tax and charges included in MRA&O amounted to $41 million before tax. Employee separation charges in January-March 2003 are associated with severance packages for approximately 250 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 $47 million before tax in the quarter ended March 31, 2003, 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. Asset write-downs also include certain manufacturing assets that are expected to operate at levels significantly below their planned capacity. The projected cash flows from such assets over their remaining useful lives were no longer estimated to be greater than their current carrying values; therefore, they are written down to estimated fair value, generally determined by reference to discounted expected future cash flows. Other costs incurred as a direct result of the restructuring program amounted to $11 million before tax during January-March 2003. These were primarily for relocation, training, establishment of global business services and results from discontinued initiatives. The Company recently announced its intent to discontinue separate reporting of its current Restructuring Program at the conclusion of the current fiscal year. The Company anticipates an increase in the quarterly restructuring charges in April-June 2003, as many enrollment reductions and consolidation projects are completed. The Company, as part of its on-going operations, will continue to undertake similar projects in future periods to maintain a competitive cost structure, including manufacturing consolidation and work force rationalization. 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, staff 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. Consistent with SEC suggestion, the Company has formed a Disclosure Committee consisting of key Company personnel designed to review the accuracy and completeness of all disclosures made by the Company. 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. Item 6. Exhibits and Reports on Form 8-K (a) Exhibits (2-1) Share Purchase Agreement for Shares of Wella AG (English Translation). (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 January 28, 2003, relating to the announcement of earnings for the October-December 2002 quarter (including unaudited financial information), and dated March 27, 2003, relating to the realignment of the Company's reporting segments as required by FASB Statement No. 131 (including unaudited financial information). The Company also filed Current Reports on Form 8-K containing information pursuant to Item 9 ("Regulation FD Disclosure") dated March 17, 2003, relating to updating previously issued guidance for the January-March 2003 quarter; dated March 18, 2003, relating to the signing of an agreement to purchase a controlling interest in Wella AG; and dated March 20, 2003, relating to the posting of questions and answers regarding the Wella AG acquisition on the Company's website. 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: APRIL 29, 2003 ----------------------- 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: APRIL 29, 2003 -------------------- 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: APRIL 29, 2003 ------------------------ EXHIBIT INDEX Exhibit No. (2-1) Share Purchase Agreement for Shares of Wella AG (English Translation). (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