10-Q 1 l13755ae10vq.txt THE PROCTER & GAMBLE COMPANY 10-Q/QUARTER END 3-31-05 UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-Q (Mark one) [x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended March 31, 2005 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) 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 [ ] Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No[ ] There were 2,494,479,366 shares of Common Stock outstanding as of March 31, 2005. -1- PART I. FINANCIAL INFORMATION Item 1. Financial Statements The Consolidated Statements of Earnings of The Procter & Gamble Company and subsidiaries (the Company) for the three and nine months ended March 31, 2005 and 2004, the Consolidated Balance Sheets as of March 31, 2005 and June 30, 2004, and the Consolidated Statements of Cash Flows for the nine months ended March 31, 2005 and 2004 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 STATEMENTS OF EARNINGS Amounts in millions except per share amounts

Three Months Ended Nine Months Ended March 31 March 31 ---------------------- ---------------------- 2005 2004 2005 2004 -------- -------- -------- --------

~~NET SALES $ 14,287 $ 13,029 $ 42,483 $ 38,445 Cost of products sold 7,033 6,394 20,515 18,597 Selling, general and administrative expense 4,566 4,332 13,340 12,160 -------- -------- -------- -------- OPERATING INCOME 2,688 2,303 8,628 7,688 Interest expense 222 164 603 454 Other non-operating income, net 60 67 297 136 -------- -------- -------- -------- EARNINGS BEFORE INCOME TAXES 2,526 2,206 8,322 7,370 Income taxes 806 678 2,562 2,263 -------- -------- ------~~

~~-- --------- NET EARNINGS $ 1,720 $ 1,528 $ 5,760 $ 5,107~~
~~=========~~
~~=========~~
~~=========~~
~~========= PER COMMON SHARE: Basic net earnings $ 0.67 $ 0.58 $ 2.24 $ 1.94 Diluted net earnings $ 0.63 $ 0.55 $ 2.10 $ 1.83 Dividends $ 0.25 $ 0.23 $ 0.75 $ 0.68 DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING 2,718.7 2,790.1 2,738.6 2,796.2~~

See accompanying Notes to Consolidated Financial Statements -2- THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS Amounts in millions

March 31 June 30 2005 2004 -------- -------- ~~ASSETS CURRENT ASSETS Cash and cash equivalents $ 7,072 $ 4,232 Investment securities 1,706 1,660 Accounts receivable 4,396 4,062 Inventories Materials and supplies 1,541 1,191 Work in process 361 340 Finished goods 3,368 2,869 -------- -------- Total inventories 5,270 4,400 Deferred income taxes 1,304 958 Prepaid expenses and other receivables 1,843 1,803 -------- -------- TOTAL CURRENT ASSETS 21,591 17,115 PROPERTY, PLANT AND EQUIPMENT~~

~~Buildings 5,370~~
~~5,206 Machinery~~
~~and equipment~~
~~20,369 19,456~~
~~Land 650 642 -----~~
~~--- -------- 26,389~~
~~25,304~~
~~Accumulated~~
~~depreciation~~
~~(12,108) (11,196) -~~
~~------- --------~~
~~NET PROPERTY,~~
~~PLANT AND~~
~~EQUIPMENT~~
~~14,281 14,108~~
~~GOODWILL AND~~
~~OTHER~~
~~INTANGIBLE~~
~~ASSETS Goodwill~~
~~20,286 19,610~~
~~Trademarks and~~
~~other intangible~~
~~assets, net 4,616~~
~~4,290 -------- -----~~
~~--- NET~~
~~GOODWILL AND~~
~~OTHER~~
~~INTANGIBLE~~
~~ASSETS 24,902~~
~~23,900 OTHER~~
~~NON-CURRENT~~
~~ASSETS 2,302~~
~~1,925 -------- -----~~
~~--- TOTAL~~
~~ASSETS $ 63,076~~
~~$ 57,048~~
~~========~~
~~========~~
~~LIABILITIES AND~~
~~SHAREHOLDERS'~~
~~EQUITY~~
~~CURRENT~~
~~LIABILITIES~~
~~Accounts payable $~~
~~3,407 $ 3,617~~
~~Accrued and other~~
~~liabilities 7,979~~
~~7,689 Taxes~~
~~payable 2,720~~
~~2,554 Debt due~~
~~within one year~~
~~11,216 8,287 ------~~
~~-- -------- TOTAL~~
~~CURRENT~~
~~LIABILITIES~~
~~25,322 22,147~~
~~LONG-TERM~~
~~DEBT 12,936~~
~~12,554~~
~~DEFERRED~~
~~INCOME TAXES~~

~~2,865 2,261 OTHER NON-CURRENT LIABILITIES 3,223 2,808 --------- --------- TOTAL LIABILITIES 44,346 39,770 SHAREHOLDERS' EQUITY Preferred stock 1,493 1,526 Common stock - shares outstanding - Mar 31 2,494.4 2,494 June 30 2,543.8 2,544 Additional paid-in capital 2,975 2,425 Reserve for ESOP debt retirement (1,255) (1,283) Accumulated other comprehensive income (838) (1,545) Retained earnings 13,861 13,611 -------- -------- TOTAL SHAREHOLDERS' EQUITY 18,730 17,278 -------- -------- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 63,076 $ 57,048~~

See accompanying Notes to Consolidated Financial Statements -3- THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS Amounts in millions

Nine Months Ended March 31 ---------------------- 2005 2004 ------- -------

~~CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD (1) $ 4,232 $ 5,428 OPERATING ACTIVITIES Net earnings 5,760 5,107 Depreciation and amortization 1,403 1,279 Deferred income taxes 500 358 Change in:~~

~~Accounts receivable (197) (150) Inventories (778) (119) Accounts payable, accrued and other liabilities (143) 213 Other operating assets & liabilities (221) 23 Other 300 228 ------- ------- TOTAL OPERATING ACTIVITIES 6,624 6,939 ------- ------- INVESTING ACTIVITIES Capital expenditures (1,386) (1,331) Proceeds from asset sales 368 156 Acquisitions, net of cash acquired (528) (5,398) Change in investment securities (56) (801) ------- ------- TOTAL INVESTING ACTIVITIES (1,602) (7,374) ------- ------- FINANCING ACTIVITIES Dividends to shareholders (1,998) (1,865) Change in short-term debt 1,317 2,068 Additions to long-term debt 3,048 1,963 Reductions of long-term debt (1,583) (1,104) Proceeds from the exercise of stock options and other 371 437 Treasury purchases (3,580) (2,327) ------- ------- TOTAL FINANCING ACTIVITIES (2,425) (828) ------- ------- EFFECT OF~~

~~EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS 243 9 CHANGE IN CASH AND CASH EQUIVALENTS 2,840 (1,254) ------- ------- CASH AND CASH EQUIVALENTS, END OF PERIOD $ 7,072 $ 4,174~~

(1) The Company reclassified its investments in auction rate securities as current investment securities. These auction rate securities, for which interest rates reset in less than 90 days, but the maturity date is greater than 90 days, were included in cash and cash equivalents before the reclassification. See accompanying Notes to Consolidated Financial Statements -4- 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, 2004, the Form 8-K filed on October 22, 2004 reflecting certain changes to the Company's segment information and the Form 8-K filed on March 14, 2005, reflecting the reclassification of certain investments from cash and cash equivalents to investment securities. The results of operations for the three-month and nine-month periods ended March 31, 2005 are not indicative necessarily of annual results. 2. Comprehensive Income - Total comprehensive income is composed 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, 2005 and 2004 was $1,248 million and $1,373 million, respectively. For the nine months ended March 31, 2005 and 2004, total comprehensive income was $6,467 million and $5,739 million, respectively. 3. Segment Information - Following is a summary of segment results, including supplemental data on the Fabric Care and Home Care, Snacks and Coffee, Health Care, and Baby Care and Family Care businesses. SEGMENT INFORMATION Amounts in millions

Three Months Ended March 31 Nine Months Ended March 31 ----- --------------- --------------- --------------- --------------- ----------- Net Earnings Before Net Net Earnings Before Net Sales Income Taxes Earnings Sales Income Taxes Earnings ------- -------- ------- -------- -------- ------- -------- ------- ----- ~~TOTAL BEAUTY CARE 2005 $ 4,876 $ 1,014 $ 701 $ 14,553 $~~

~~3,188 $ 2,207 2004 4,465 882 571 12,710 2,784 1,824 Health Care 2005 2,000 373 252 5,887 1,220 820 2004 1,719 308 206 5,355 1,189 797 Baby Care & Family Care 2005 3,048 532 339 8,876 1,625 1,019 2004 2,707 357 218 7,987 1,275 793 ------- ------------ -------- -------- - -------- ------ - TOTAL HEALTH, BABY & FAMILY CARE 2005 5,048 905 591 14,763 2,845 1,839 2004 4,426 665 424 13,342 2,464 1,590 Fabric Care & Home Care 2005 3,819 761 508 11,413 2,494 1,674 2004 3,581 826 543 10,381 2,501 1,671 Snacks & Coffee 2005 767 166 105 2,353 482 312 2004 660 88 55 2,201 427 279 -------- --- --------- ------ -- -------- ---- --- ------- TOTAL HOUSEHOLD CARE 2005 4,586 927 613 13,766 2,976 1,986 2004 4,241 914 598 12,582 2,928 1,950 CORPORATE 2005 (223)~~

~~(320) (185)~~
~~(599) (687)~~
~~(272) 2004~~
~~(103) (255)~~
~~(65) (189)~~
~~(806) (257) ---~~
~~---- -----------~~
~~- --------- -----~~
~~--- ------- ----~~
~~--- TOTAL~~
~~2005 $14,287~~
~~$ 2,526 $~~
~~1,720 $~~
~~42,483 $~~
~~8,322 $ 5,760~~
~~2004 13,029~~
~~2,206 1,528~~
~~38,445 7,370~~
~~5,107~~

-5- 4. Goodwill and Other Intangible Assets - Goodwill as of March 31, 2005 is allocated by reportable segment as follows (amounts in millions):

Nine Months Ended March 31, 2005 -----------------

~~TOTAL BEAUTY CARE, BEGINNING OF YEAR $ 14,457~~
~~Acquistions & divestiture 122~~
~~Translation & other 440~~
~~GOODWILL, MARCH 31, 2005 15,019~~
~~HEALTH CARE, BEGINNING OF YEAR 3,315~~
~~Acquistions & divestiture 54~~
~~Translation & other 20~~
~~GOODWILL, MARCH 31, 2005 3,389~~
~~BABY CARE & FAMILY CARE, BEGINNING OF YEAR 941~~
~~Acquistions & divestiture -~~
~~Translation & other 30~~
~~GOODWILL, MARCH 31, 2005 971~~

~~TOTAL HEALTH, BABY & FAMILY CARE, BEGINNING OF YEAR 4,256~~
~~Acquistions & divestiture 54~~
~~Translation & other 50~~
~~GOODWILL, MARCH 31, 2005 4,360~~
~~FABRIC CARE & HOME CARE, BEGINNING OF YEAR 614~~
~~Acquistions & divestiture 27~~
~~Translation & other 6~~
~~GOODWILL, MARCH 31, 2005 647~~
~~SNACKS & COFFEE, BEGINNING OF YEAR 283~~
~~Acquistions & divestiture (25)~~
~~Translation & other 2~~
~~GOODWILL, MARCH 31, 2005 260~~
~~TOTAL HOUSEHOLD CARE, BEGINNING OF YEAR 897~~
~~Acquistions & divestiture 2~~
~~Translation & other 8~~
~~GOODWILL, MARCH 31, 2005 907~~
~~GOODWILL, NET, BEGINNING OF YEAR 19,610~~
~~Acquistions & divestiture 178~~
~~Translation & other 498~~
~~GOODWILL, MARCH 31,~~

~~2005 $ 20,286~~

The increase in goodwill from June 30, 2004 is primarily due to the completed allocation of the purchase price relating to the September 2003 acquisition of Wella AG and translation impacts. The Company finalized the allocation of Wella purchase price to the individual assets acquired and liabilities assumed. In addition, the Company completed its analysis of collaboration plans. -6- Identifiable intangible assets as of March 31, 2005 are comprised of (amounts in millions):

Gross
Carrying
Accumulated
Amount
Amortization

- -----------
-
~~Amortizable intangible assets with determinable lives $ 2,312 $ 723~~
~~Intangible assets with indefinite lives 3,027 -~~
~~------- -----~~
~~Total identifiable intangible assets $ 5,339 $ 723~~

Amortizable intangible assets consist principally of patents, technology and trademarks. The non-amortizable intangible assets consist primarily of certain trademarks. The amortization of intangible assets for the three and nine months ended March 31, 2005 is $51 million and $149 million, respectively. 5. Pro Forma Stock-Based Compensation - The Company has a primary stock-based compensation plan under which stock options are granted annually to key managers and directors with exercise prices equal to the market price of the underlying shares on the date of grant. Grants were made under plans approved by shareholders in 1992, 2001 and 2003. Grants issued since September 2002 are vested after three years and have a ten-year life. Grants issued from July 1998 through August 2002 are vested after three years and have a fifteen-year life, while grants issued prior to July 1998 are vested after one year and have a ten-year life. The Company also makes other minor grants to employees, for which vesting terms and option lives are not substantially different. 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 the market value of the underlying shares on the grant date, 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: -7- Amounts in millions except per share data

THREE
MONTHS
ENDED
NINE
MONTHS
ENDED
MARCH
31
MARCH
31 --------

--- --------

--- 2005
2004 2005
2004 -----
-- ------- -
------ -----
-- ~~Net~~

~~earnings As~~
~~reported $~~
~~1,720 $~~
~~1,528 $~~
~~5,760 $~~
~~5,107 Pro~~
~~forma~~
~~expense~~
~~106 91~~
~~229 238 --~~
~~----- ------~~
~~- ------- --~~
~~----- Pro~~
~~forma $~~
~~1,614 $~~
~~1,437 $~~
~~5,531 $~~
~~4,869 Net~~
~~earnings~~
~~per~~
~~common~~
~~share Basic~~
~~As~~
~~reported $~~
~~0.67 $~~
~~0.58 $~~
~~2.24 $~~
~~1.94 Pro~~
~~forma~~
~~adjustments~~
~~(0.04)~~
~~(0.04)~~
~~(0.09)~~
~~(0.09) ----~~
~~--- -------~~
~~------- ----~~
~~--- Pro~~
~~forma $~~
~~0.63 $~~
~~0.54 $~~
~~2.15 $~~
~~1.85~~
~~Diluted As~~
~~reported $~~
~~0.63 $~~
~~0.55 $~~
~~2.10 $~~
~~1.83 Pro~~
~~forma~~
~~adjustments~~
~~(0.04)~~
~~(0.03)~~
~~(0.09)~~
~~(0.09) ----~~
~~--- -------~~
~~------- ----~~
~~--- Pro~~
~~forma $~~
~~0.59 $~~
~~0.52 $~~
~~2.01 $~~

~~1.74~~

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience. The Company has estimated the fair value of stock option grants after January 1, 2005 using a lattice-based model. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123(R)). This Statement revises SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and generally requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the "fair-value-based" method). The Company plans to adopt SFAS 123(R) on July 1, 2005 using the modified retrospective method, whereby all prior periods will be adjusted to give effect to the fair-value-based method of accounting for awards granted in fiscal years beginning on or after July 1, 1995. The impact of adopting SFAS 123(R) will be consistent with the impact previously disclosed pursuant to the pro forma disclosure requirements of SFAS No. 123. 6. Postretirement Benefits - The Company offers various postretirement benefits to its employees. Additional information about these benefits is incorporated herein by reference to Note 9, Postretirement Benefits and Employee Stock Ownership Plan, which appears on page 58-63 of the Annual report to Shareholders for the fiscal year ended June 30, 2004. -8- The components of net periodic benefit cost are as follows: Amounts in millions

Pension Benefits Other Retiree Benefits ---- ------------ ------------ --- --------- ------------ ---------- Three Months Ended Three Months Ended March 31 March 31 -- ------------ ------------ ----- ------- ------------ ------------ 2005 2004 2005 2004 ---------- -- -------- ---- ------ ------ ---- ~~Service Cost $ 42 $ 41 $ 17 $ 22 Interest Cost 62 55 37 43 Expected Return on Plan Assets (47) (41) (83) (82) Amortization of Prior Service Cost and Prior Transition Amount 1 1 (6) - Recognized Net~~

~~Actuarial Loss 8 7 - - ---------- -- -------- ---- ------ ------ ---- GROSS BENEFIT COST 66 63 (35) (17) Dividends on ESOP Preferred Stock - - (18) (18) -- -------- ---- ------ ------ ---- -------- -- NET PERIODIC BENEFIT COST $ 66 $ 63 $ (53) $ (35) ----- ----- ------- --- --------- - ----------~~

Amounts in millions

Pension Benefits Other Retiree Benefits ---- ------------ ------------ --- --------- ------------ ---------

Nine Months Ended Nine Months Ended March 31 March 31 -- ------------ ------------ ----- ------- ------------ -----------

2005 2004 2005 2004 ---------- -- -------- ---- ----- ------- --- ~~Service Cost $ 120 $ 116 $ 51 $ 67 Interest Cost 180 156 110~~

~~129 Expected Return on Plan Assets (136) (118) (250) (246) Amortization of Prior Service Cost and Prior Transition Amount 4 2 (17) (1) Recognized Net Actuarial Loss 24 21 - 1 --------- ---------- --------- --- ------- GROSS BENEFIT COST 192 177 (106) (50) Dividends on ESOP Preferred Stock - - (54) (55) -- -------- ---- ------ ------ --- --------- - NET PERIODIC BENEFIT COST $ 192 $ 177 $ (160) $ (105) ------ ---- -------- -- --------- ---------~~

In 2005, the expected return on plan assets is 7.2% and 9.5% for defined benefit and other retiree benefit plans, respectively. -9- 7. Income Taxes - The American Jobs Creation Act of 2004 (the "Act") was passed during the fourth quarter of 2004. The Act permits United States corporations to repatriate earnings of foreign subsidiaries at a special one-time favorable effective federal statutory tax rate of 5.25 percent as compared to the highest corporate tax rate of 35 percent. The maximum amount of P&G's foreign earnings that may qualify for this temporary rate reduction is approximately $10.7 billion. The Company is waiting for proposed technical corrections to the Act to be adopted prior to deciding the amount of earnings, if any, it may repatriate under the Act. Because of the uncertainties relating to the ultimate outcome of these technical corrections, the accompanying financial statements do not reflect any tax expense for repatriation of foreign earnings under the Act. The actual cost to the Company depends on the passage of the clarifying provisions as well as a number of other factors that are currently being analyzed. P&G expects to determine the amounts and sources of foreign earnings to be repatriated, if any, as well as the related one time tax expense, if the statutory language is revised and interpretations are issued. 8. The Gillette Company Acquisition - On January 27, 2005 the Company entered into an agreement to acquire 100% of the Gillette Company. The agreement, which has been approved by the boards of directors of both companies, provides for a stock-for-stock exchange in which 0.975 shares of The Procter & Gamble Company common stock will be issued and exchanged, on a tax-free basis, for each share of The Gillette Company. Under the purchase method of accounting, the total consideration would be approximately $54 billion, determined using the average Company stock prices beginning two days before and ending two days after January 28, 2005, the date the acquisition was announced. The Gillette Company is the world leader in male grooming, a category that includes blades, razors and shaving preparations, and in selected female grooming products. Gillette also holds the number one position worldwide in alkaline batteries and toothbrushes. The acquisition, which is expected to be completed in Fall 2005, is subject to approval by the stockholders of both companies as well as U.S. federal and state and non-U.S. regulatory authorities. In connection with the proposed acquisition, the Company has filed a registration statement on Form S-4 on March 14, 2005, with the Securities and Exchange Commission, containing a preliminary joint proxy statement/prospectus and Amendment No. 1 to the preliminary joint proxy statement/prospectus on April 22, 2005. Investors and security holders are advised to read the definitive joint proxy statement/prospectus when it becomes available, because it will contain important information. The Federal Trade Commission has issued a request for additional information in connection with its review of the proposed acquisition. The Company plans to respond promptly and continues to believe that the transaction will close in Fall 2005. -10- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is organized in the following sections: Overview Results of Operations - Three Months Ended March 31, 2005 Results of Operations - Nine Months Ended March 31, 2005 Business Segment Discussion (three and nine months ended March 31, 2005) Financial Condition Throughout MD&A, we refer to several measures used by management to evaluate performance including unit volume growth, net sales and after-tax profit. We also refer to organic sales growth (net sales excluding the impacts of acquisitions and divestitures and foreign exchange), free cash flow and free cash flow productivity, which are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP). The explanation of these measures at the end of MD&A provides more details. OVERVIEW Our business is focused on providing branded products of superior quality and value to improve the lives of the world's consumers. We believe this will lead to leadership sales, profits and value creation, allowing employees, shareholders and the communities in which we operate to prosper. Procter & Gamble markets approximately 300 consumer products in more than 160 countries. Our products are sold primarily through mass merchandisers, grocery stores, membership club stores and drug stores. We are organized and report our segment results in three global business units: Beauty Care; Health, Baby and Family Care; and Household Care. We have operations in over 80 countries through our Market Development Organization, which leads country business teams to build our brands in local markets and is organized along seven geographic areas: North America, Western Europe, Northeast Asia, Latin America, Central and Eastern Europe/Middle East/Africa, Greater China and ASEAN/Australasia/India. The following table provides the percentage of net sales and net earnings by business segment for the nine months ended March 31, 2005 (excludes net sales and net earnings in Corporate): -11-

	NET SALES	NET EARNINGS
BEAUTY CARE	34%	37%
HEALTH, BABY AND FAMILY CARE:	34%	31%
Health Care	14%	14%
Baby Care and Family Care	20%	17%
HOUSEHOLD CARE:	32%	32%
Fabric Care and Home Care	27%	27%
Snacks and Coffee	5%	5%
TOTAL	100%	100%

Summary of Results. Following are highlights of results for the nine months ended March 31, 2005: - Unit volume increased nine percent. - Net sales increased 11 percent (eight percent excluding the impact of foreign exchange). - Organic sales increased seven percent, which excludes a three percent impact from foreign exchange and one percent impact from acquisitions and divestitures. - Net earnings increased 13 percent. Earnings increased due primarily to top line growth and price increases in several product categories, partially offset by marketing investments and higher commodity costs. - Diluted net earnings per share increased 15 percent versus the comparable prior year period. - Free cash flow productivity was 91 percent. Cash from operating activities was down slightly versus the comparable prior year period due to increases in working capital. Free cash flow productivity for the first nine months of fiscal year 2005 is in line with our long-term target of 90 percent or greater free cash flow productivity. Forward Looking Statements. The markets in which the Company sells its products are highly competitive and comprised of both global and local competitors. Going forward, business and market uncertainties may affect results. Among the key factors that could impact results and must be managed by the Company are: (1) the ability to achieve business plans, including with respect to lower income consumers and growing existing sales and volume profitably despite high levels of competitive activity, especially with respect to the product categories and geographical markets (including developing markets) in which the Company has chosen to focus; (2) the ability to successfully execute, manage and integrate key acquisitions and mergers, including (i) the

Domination and Profit Transfer Agreement with Wella, and (ii) the Company's agreement to merge with The Gillette Company, including obtaining the related required shareholder and regulatory approvals; (3) the ability to manage and maintain key customer relationships; -12- (4) the ability to maintain key manufacturing and supply sources (including sole supplier and plant manufacturing sources); (5) the ability to successfully manage regulatory, tax and legal matters (including product liability, patent, and other intellectual property matters), and to resolve pending matters within current estimates; (6) the ability to successfully implement, achieve and sustain cost improvement plans in manufacturing and overhead areas, including the Company's outsourcing projects; (7) the ability to successfully manage currency (including currency issues in volatile countries), debt (including debt related to the Company's announced plan to repurchase shares of the Company's stock), interest rate and certain commodity cost exposures; (8) the ability to manage the continued global political and/or economic uncertainty and disruptions, especially in the Company's significant geographical markets, as well as any political and/or economic uncertainty and disruptions due to terrorist activities; (9) the ability to successfully manage the pattern of sales, including the variation in sales volume within periods; (10) the ability to successfully manage competitive factors, including prices, promotional incentives and trade terms for products; (11) the ability to obtain patents and respond to technological advances attained by competitors and patents granted to competitors; (12) the ability to successfully manage increases in the prices of raw materials used to make the Company's products; (13) the ability to stay close to consumers in an era of increased media fragmentation; and (14) the ability to stay on the leading edge of innovation. 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 results could vary materially from the forward-looking statements made herein. -13- RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2005 The following discussion provides a review of results for the three months ended March 31, 2005 versus the three months ended March 31, 2004. THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES (AMOUNTS IN MILLIONS EXCEPT PER SHARE) CONSOLIDATED EARNINGS INFORMATION

THREE MONTHS ENDED MARCH 31	2005	2004	% CHG
NET SALES	$ 14,287	$ 13,029	10%
COST OF PRODUCTS SOLD	7,033	6,394	10%
GROSS MARGIN	7,254	6,635	9%
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	4,566	4,332	5%
OPERATING INCOME	2,688	2,303	17%
TOTAL INTEREST EXPENSE	222	164	
OTHER NON-OPERATING INCOME, NET	60	67	
EARNINGS BEFORE INCOME TAXES	2,526	2,206	15%
INCOME TAXES	806	678	
NET EARNINGS	$ 1,720	$ 1,528	13%

~~EFFECTIVE TAX RATE 31.9% 30.7% PER COMMON SHARE: BASIC NET EARNINGS $ 0.67 $ 0.58 16% DILUTED NET EARNINGS $ 0.63 $ 0.55 15% DIVIDENDS $ 0.25 $ 0.23 AVERAGE DILUTED SHARES OUTSTANDING 2,718.7 2,790.1 COMPARISONS AS A % OF NET SALES BASIS PT CHG GROSS MARGIN 50.8% 50.9% (10) SELLING, GENERAL & ADMINISTRATIVE EXPENSE 32.0% 33.2% (120) OPERATING MARGIN 18.8% 17.7% 110 EARNINGS BEFORE INCOME TAXES 17.7% 16.9% NET EARNINGS 12.0% 11.7% 30~~

Unit volume for the January - March quarter increased six percent. Organic volume grew seven percent, which excludes the impact of acquisitions and divestitures - primarily the divestiture of the juice business. Growth continues to be broad-based with all global business units delivering unit volume growth of mid-single digits or greater, led by Health, Baby and Family Care and Beauty Care. Additionally, unit volume increased in all geographic regions led by developing market growth in the mid-teens. -14- Net sales for the quarter increased 10 percent to $14.29 billion. Organic sales increased eight percent, which is above our long-term target of three to five percent. Acquisitions and divestitures reduced sales by one percent. Organic sales exclude the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. Foreign exchange added three percent to net sales growth behind strengthening of the Euro, British pound and Canadian dollar. Pricing added one percent to sales growth primarily behind increases that partially recovered commodity costs in the Family Care, Coffee and Pet Health and Nutrition categories.

	Volume With Acquisitions & Divestitures	Volume Without Acquisitions & Divestitures	FX	Price	Mix/Other	Total Impact	Total Impact Ex-FX
~~BEAUTY CARE~~	~~7%~~	~~7%~~	~~3%~~	~~0%~~	~~-1%~~	~~9%~~	~~6%~~
~~HEALTH, BABY & FAMILY CARE~~							
~~HEALTH CARE~~	~~14%~~	~~13%~~	~~2%~~	~~1%~~	~~-1%~~	~~16%~~	~~14%~~
~~BABY CARE AND FAMILY CARE~~	~~8%~~	~~8%~~	~~3%~~	~~1%~~	~~1%~~	~~13%~~	~~10%~~
~~HOUSEHOLD CARE~~							
~~FABRIC CARE AND HOME CARE~~	~~5%~~	~~4%~~	~~3%~~	~~0%~~	~~-1%~~	~~7%~~	~~4%~~
~~SNACKS AND COFFEE~~	~~6%~~	~~6%~~	~~1%~~	~~9%~~	~~0%~~	~~16%~~	~~15%~~
~~TOTAL COMPANY~~	~~6%~~	~~7%~~	~~3%~~	~~1%~~	~~0%~~	~~10%~~	~~7%~~

NOTE: Sales percentage changes are approximations based on quantitative formulas that are consistently applied. Gross margin declined 10 basis points versus the prior year quarter. The over 100 basis point margin impact of higher commodity costs was partially offset by the scale benefits of volume growth, higher selling prices and cost reduction programs. In addition, a positive gross margin impact of a shift to higher gross margin products, including a higher percentage of sales in the Beauty and Health Care businesses than in the base period, more than offset the negative margin impact of higher developing market growth. Developing markets have lower gross margins than the Company average. Selling, general and administrative expenses (SG&A) increased versus the prior year, but at a lower rate compared to net sales. SG&A as a percentage of net sales declined 120 basis points. Although absolute spending increased, marketing expenses as a percentage of net sales decreased, reflecting continued investments to support the base business and product initiatives, including Olay Quench, the expansion of Olay in Europe and Asia, Pantene Color Expressions, Pampers Feel `n Learn, Pampers Kandoo and Rejoice. Base period SG&A expense also included a higher provision for minority interest than in the current year, with the reduction driven by our purchase of the remaining stake in the China venture from Hutchison Whampoa China Ltd. and completion of a domination and profit transfer agreement with Wella AG. Interest expense in the current quarter increased versus the comparable prior year period due to the increase in the Company's average debt position and higher interest rates. -15- Net earnings increased 13 percent to $1.72 billion and diluted net earnings per share increased 15 percent to $0.63. Earnings growth was primarily driven by volume and the previously discussed price increases, partially offset by higher commodity costs. Diluted net earnings per share grew ahead of net earnings due to the lower number of diluted shares outstanding, which was driven by our share repurchases in the current fiscal year. The tax rate in the current quarter was negatively impacted by approximately 5.7 percentage points to reflect a provision for tax costs on anticipated dividends originating from foreign subsidiaries. This was largely offset by successful resolution of tax audits in certain countries. The effective tax rate for the quarter was also up due to an increase in the estimated annual effective rate, reflecting revised estimates on the overall country mix of taxable income. Separately, as described in Note 7 to the Consolidated Financial Statements, we are still analyzing the American Jobs Creation Act of 2004 (the "Act"), including uncertainties that need clarifying action to determine the amount of earnings we may repatriate, if any, under the Act. The tax rate for the balance of the year could be impacted by our ultimate plans under the Act. Absent the impact of the Act, we continue to expect the full fiscal year tax rate to be below the prior year rate. -16- RESULTS OF OPERATIONS - NINE MONTHS ENDED MARCH 31, 2005 The following discussion provides a review of results for the nine months ended March 31, 2005 versus the nine months ended March 31, 2004. THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES (AMOUNTS IN MILLIONS EXCEPT PER SHARE) CONSOLIDATED EARNINGS INFORMATION

NINE MONTHS ENDED MARCH 31 -- 2005 2004 % CHG ---------- ----- ------ ------------

~~NET SALES $ 42,483 $ 38,445 11% COST OF PRODUCTS SOLD 20,515 18,597 10% ---------- ---------- ------------ GROSS MARGIN 21,968 19,848 11% SELLING, GENERAL & ADMINISTRATIVE EXPENSE 13,340 12,160 10% ---------- ---------- ------------ OPERATING INCOME 8,628 7,688 12% TOTAL INTEREST EXPENSE 603 454 OTHER NON-OPERATING INCOME, NET 297 136 ---------- ---------- ------------ EARNINGS BEFORE INCOME TAXES 8,322 7,370 13% INCOME TAXES 2,562 2,263 ---------- ---------- ------------ NET EARNINGS $ 5,760 $ 5,107 13%~~

========== ========== ============

~~EFFECTIVE TAX RATE 30.8% 30.7% PER COMMON~~

~~SHARE: BASIC NET EARNINGS $ 2.24 $ 1.94 15% DILUTED NET EARNINGS $ 2.10 $ 1.83 15% DIVIDENDS $ 0.75 $ 0.68 AVERAGE DILUTED SHARES OUTSTANDING 2,738.6 2,796.2 COMPARISONS AS A % OF NET SALES BASIS PT CHG GROSS MARGIN 51.7% 51.6% 10 SELLING, GENERAL & ADMINISTRATIVE EXPENSE 31.4% 31.6% (20) OPERATING MARGIN 20.3% 20.0% 30 EARNINGS BEFORE INCOME TAXES 19.6% 19.2% NET EARNINGS 13.6% 13.3% 30~~

Fiscal year to date, unit volume increased nine percent. All businesses and geographic regions posted unit volume growth. Organic volume, which excludes acquisitions and divestitures, increased eight percent. Additional volume from the acquisition of Wella, which was acquired in September of 2003, was partially offset by the divestiture of the juice business in August of 2004. Unit volume growth was led by Beauty Care, up 13 percent. Developing markets also delivered double-digit volume growth led by Greater China and Central and Eastern Europe/Middle East/Africa. -17- For the first nine months of the fiscal year, net sales increased 11 percent to $42.48 billion. Foreign exchange contributed three percent to sales growth driven primarily by the strength of the Euro, British pound and Japanese yen. The impacts of acquisitions and divestitures added one percent to sales growth, primarily due to the Wella acquisition partially offset by the juice divestiture. Organic sales increased seven percent. Pricing had no net impact on sales growth, as price increases in Family Care, Health Care, the Coffee category and certain laundry markets were offset by price investments, including in Europe to address the growth of hard discounters. Higher relative growth in developing markets, where the average unit sales price is lower than the Company average, resulted in a negative mix impact of one percent on sales.

Volume ---------------------------- With Without Acquisitions Acquisitions Total & & Mix/ Total Impact Divestitures Divestitures FX Price Other Impact Ex-FX ------------ ------------ -- ----- ----- ------ ------

~~BEAUTY CARE 13% 8% 4% -1% -1% 15% 11%~~

~~HEALTH, BABY & FAMILY CARE HEALTH CARE 9% 8% 2% 1% -2% 10% 8% BABY CARE AND FAMILY CARE 7% 7% 3% 1% 0% 11% 8% HOUSEHOLD CARE FABRIC CARE AND HOME CARE 9% 7% 3% -1% -1% 10% 7% SNACKS AND COFFEE 3% 3% 2% 2% 0% 7% 5% TOTAL COMPANY 9% 8% 3% 0% -1% 11% 8%~~

NOTE: Sales percentage changes are approximations based on quantitative formulas that are consistently applied. Gross margin fiscal year to date improved 10 basis points against the comparable base period where gross margin improved 200 basis points (including approximately 60 basis points of improvement as a result of restructuring program charges in the nine months ended March 31, 2003). Gross margin expanded behind the scale benefits of volume growth and cost reduction programs, offset by commodity price increases. Mix was about neutral to gross margin, as the negative margin impact of strong developing market growth was offset by the impact of the Wella acquisition, which has a higher gross margin than the Company average (current fiscal year to date results include a full nine months of Wella versus seven months in the comparable prior year period). Additionally, the sale of the juice business in August, 2004 contributed to gross margin expansion, as the juice business had a lower gross margin than the Company average. We expect higher commodity prices will continue to adversely impact gross margins well into the next fiscal year. Selling, general and administrative expenses (SG&A) decreased by 20 basis points as a percentage of net sales, as absolute spending increased at a lower rate than net sales. The basis point reduction was driven primarily by lower overhead spending as a percentage of sales. SG&A spending was also reduced by lower minority interest expense than in the base period, reflecting our purchase of the remaining stake in the China venture from Hutchison Whampoa China Ltd. and completion of a domination and profit transfer agreement with Wella AG. Spending for marketing as a percentage of sales was essentially flat -18- versus the base period. Marketing investments were made to support the base business and product initiatives, including the expansion of Lenor and Herbal Essences, Febreze, and the Olay brand. Interest expense in the current fiscal year to date increased 33 percent versus the comparable prior year period due to higher debt balances. The increase in other non-operating income compared to the prior year is primarily due to the before-tax gain on the sale of the juice business in the current year. Net earnings increased 13 percent to $5.76 billion. Earnings growth for the fiscal year to date was driven primarily by volume and cost reduction efforts, partially offset by higher commodity costs and the marketing investments discussed above. Diluted net earnings per share increased 15 percent to $2.10 compared to $1.83 in the comparable prior year period. Earnings per share grew ahead of net earnings due to the impact of share repurchases. BUSINESS SEGMENT DISCUSSION The following discussion provides a review of results by business segment. An analysis of the results for the three and nine months ended March 31, 2005 is provided compared to the same period ended March 31, 2004. The primary financial measures used to evaluate segment performance are net sales and net earnings after tax. The table below provides supplemental information on net sales, earnings before income taxes and net earnings by business segment for the three and nine months ended March 31, 2005 versus the comparable prior year period: Three Months Ended March 31, 2005 (amounts in millions)

% Change
Earnings %
Change %
Change Versus
Before Versus
Net Versus
Net Sales Year
Ago Income
Taxes Year
Ago Earnings
Year Ago -----
---- -------- --
---------- -----
--- -------- ---
----- ~~BEAUTY~~
~~CARE $ 4,876~~
~~9% $ 1,014~~
~~15% $ 701~~
~~23% HEALTH~~
~~CARE 2,000~~
~~16% 373 21%~~
~~252 22%~~
~~BABY CARE~~
~~AND~~
~~FAMILY~~
~~CARE 3,048~~
~~13% 532 49%~~
~~339 56% -----~~
~~---- -------- --~~
~~------ --------~~
~~-------- -------~~
~~- HEALTH,~~
~~BABY &~~
~~FAMILY~~
~~CARE 5,048~~
~~14% 905 36%~~
~~591 39%~~
~~FABRIC~~
~~CARE AND~~
~~HOME CARE~~
~~3,819 7% 761~~
~~-8% 508 -6%~~
~~SNACKS~~
~~AND~~
~~COFFEE 767~~
~~16% 166 89%~~
~~105 91% -----~~
~~---- -------- --~~

~~------ --------~~
~~-------- -------~~
~~-~~
~~HOUSEHOLD~~
~~CARE 4,586~~
~~8% 927 1%~~
~~613 3%~~
~~TOTAL~~
~~BUSINESS~~
~~SEGMENT~~
~~14,510 10%~~
~~2,846 16%~~
~~1,905 20%~~
~~CORPORATE~~
~~(223) N/A~~
~~(320) N/A~~
~~(185) N/A ----~~
~~----- --------- -~~
~~-------- --------~~
~~-------- -------~~
~~- TOTAL~~
~~COMPANY $~~
~~14,287 10% $~~
~~2,526 15% $~~
~~1,720 13%~~
-19- Nine Months Ended March 31, 2005 (amounts in millions)
% Change
Earnings %
Change %
Change Versus
Before Versus
Net Versus
Net Sales Year
Ago Income
Taxes Year
Ago Earnings
Year Ago -----
---- -------- --
---------- -----
--- -------- ---
----- ~~BEAUTY~~
~~CARE $~~
~~14,553 15% $~~
~~3,188 15% $~~
~~2,207 21%~~
~~HEALTH~~
~~CARE 5,887~~
~~10% 1,220 3%~~
~~820 3% BABY~~
~~CARE AND~~
~~FAMILY~~
~~CARE 8,876~~
~~11% 1,625~~
~~27% 1,019~~
~~28% ---------~~
~~-------- -------~~
~~- -------- -----~~
~~--- --------~~
~~HEALTH,~~
~~BABY &~~
~~FAMILY~~

~~CARE 14,763~~
~~11% 2,845~~
~~15% 1,839~~
~~16% FABRIC~~
~~CARE AND~~
~~HOME CARE~~
~~11,413 10%~~
~~2,494 0%~~
~~1,674 0%~~
~~SNACKS~~
~~AND~~
~~COFFEE~~
~~2,353 7% 482~~
~~13% 312 12%~~
~~--------- ------~~
~~-- --------- ----~~
~~---- --------- --~~
~~------~~
~~HOUSEHOLD~~
~~CARE 13,766~~
~~9% 2,976 2%~~
~~1,986 2%~~
~~TOTAL~~
~~BUSINESS~~
~~SEGMENT~~
~~43,082 12%~~
~~9,009 10%~~
~~6,032 12%~~
~~CORPORATE~~
~~(599) N/A~~
~~(687) N/A~~
~~(272) N/A ----~~
~~----- --------- -~~
~~-------- ---------~~
~~--------- --------~~
~~- TOTAL~~
~~COMPANY $~~
~~42,483 11% $~~
~~8,322 13% $~~
~~5,760 13%~~

BEAUTY CARE For the quarter, Beauty Care unit volume increased seven percent with developing markets contributing double-digit growth. Skin Care and Fine Fragrances both grew volume double-digits behind the Olay and Hugo Boss brands, respectively. Hair Care volume increased mid-single digits behind the growth of Pantene, Head & Shoulders, Rejoice and Aussie brands. In Feminine Care, unit volume increased high-single digits behind double-digit growth of the Always/Whisper and Naturella brands. Beauty Care net sales for the quarter increased nine percent to $4.88 billion. Foreign exchange contributed three percent to sales growth, while mix reduced sales by one percent due to strong growth in developing markets. Net earnings increased 23 percent to $701 million driven by robust volume growth, the impact of the Company's increased ownership of the China operation and the domination and profit transfer agreement with Wella. Net earnings were reduced by continued marketing investments to support initiatives including the launch of Olay Quench, the expansion of Olay in Europe and Asia, Herbal Essences in Japan, Rejoice in Greater China and Pantene Pro-Health. For the first nine months of the fiscal year, Beauty Care unit volume is up 13 percent, which includes two additional months of Wella compared to the base period. Organic volume, which excludes the impacts of acquisitions and divestitures, increased eight percent. Net sales increased 15 percent to $14.55 billion. Foreign exchange contributed four percent to sales growth. Pricing reduced sales by one percent, while the mix impact of strong developing market growth reduced sales by one percent. Net earnings increased 21 percent to $2.21 billion. Net earnings increased primarily due to volume growth, cost reduction programs, the impacts of the Company's increased ownership of the China operation and domination and profit transfer agreement with Wella AG, partially offset by marketing spending to support initiatives. -20- HEALTH, BABY AND FAMILY CARE Health Care unit volume increased 14 percent for the quarter behind the growth of Prilosec OTC, Actonel and double-digit growth in developing markets, primarily in Oral Care. Globally, Oral Care posted high single-digit volume growth despite a challenging competitive environment in dentifrice and a declining market for tooth whitening products. Developing market Oral Care volume was up strongly, which more than offset slight volume declines in developed markets. The soft developed market results were mainly due to contraction of the U.S. tooth whitening market. Vicks also contributed to unit volume growth due to the later cough/cold season in North America and Western Europe this year. Net sales increased 16 percent to $2.00 billion aided by a positive two percent foreign exchange impact. Pricing added one percent to sales, while product mix reduced sales by one percent due to the shift of Macrobid branded sales to generic sales and developing market growth. Net earnings were $252 million, an increase of 22 percent, against a base period comparison where earnings grew 48 percent. Earnings growth was driven by increased volume, partially offset by the negative profit impact from the generic sales of Macrobid versus branded Macrobid in the base. Earnings were also lower due to the impacts of the higher royalty expense rate for Prilosec OTC. Fiscal year to date, Health Care unit volume increased nine percent. Net sales grew 10 percent to $5.89 billion. Foreign exchange added two percent to sales growth and price increases in Pharmaceuticals and Pet Health and Nutrition added one percent to sales growth. Net sales were reduced by two percent due to the mix impact of developing market growth, particularly in Greater China, and the shift of Macrobid branded sales to generic sales. Net earnings were $820 million, an increase of three percent. Earnings grew due to higher volume and price increases. Earnings growth trailed sales growth year-over-year due, in part, to product mix impacts of lower volume in Macrobid and Crest Whitestrips. Earnings were also lower due to the impacts of the higher royalty expense rate for Prilosec OTC, higher commodity costs and marketing investments in support of initiatives. For the quarter, Baby Care and Family Care unit volume increased eight percent led by Baby Care behind continued growth of the Baby Stages of Development line. Family Care posted volume growth behind recent initiatives on Charmin in North America. Net sales increased 13 percent to $3.05 billion, with foreign exchange contributing three percent to sales growth. Pricing added one percent to sales growth. Pricing actions in Family Care to recover higher commodity costs were partially offset by targeted pricing investments in select Baby Care markets, primarily in Western Europe in response to competitive activity. Product mix added one percent to sales growth due to higher sales growth in North America. Earnings grew 56 percent to $339 million behind the scale benefits of volume growth and manufacturing cost savings. The impact of pricing actions largely offset the negative affect of higher commodity prices versus the prior year. Through the first three quarters of the fiscal year, Baby Care and Family Care unit volume increased seven percent. Growth was driven behind Baby Care's continued stream of innovation including Feel and Learn training pants in North America, Baby Dry fit upgrade and Baby Stages of Development upgrades in Western Europe and the expansion of Pampers Kandoo, as well as Family Care's recent Bounty and Charmin initiatives. Net sales increased 11 percent to $8.88 billion, including a positive three percent impact from foreign exchange. Pricing added one percent to sales growth driven by a price increase in North America Family Care to recover higher commodity costs, partially offset by targeted pricing investments in Western Europe in response to competitive activity. Net earnings increased 28 percent to $1.02 billion. Earnings increased driven by the scale benefits of volume, pricing in North -21- America Family Care and manufacturing cost savings projects, partly offset by higher commodity costs and marketing investments in support of initiatives. HOUSEHOLD CARE Unit volume increased by five percent in Fabric Care and Home Care driven primarily by double-digit growth in developing markets. Also contributing to volume growth were the continued success of Lenor and Febreze Air Effects and the launches of Tide Coldwater and Mr. Clean Magic Reach. Home Care volume was flat against a base period that includes the impacts of several initiatives. Volume was negatively affected by lower volume in the current quarter for Swiffer cleanings products, due to market size declines, and hand dishwashing liquids, due to heavy competitive merchandising activity. Acquisitions in Europe and Latin America added one percent to volume growth. Net sales increased seven percent to $3.82 billion. Foreign exchange added three percent to sales growth. The mix impact of higher relative growth in developing markets reduced sales by one percent. Net earnings were $508 million, a decrease of six percent. The decrease in earnings is due primarily to higher commodity costs and a one-time charge related to supply chain optimization, which more than offset the scale benefits of volume growth. Additionally, earnings margin was negatively impacted by the mix effect of higher growth rates in developing markets. Fabric Care and Home Care unit volume increased nine percent fiscal year to date behind geographic expansion and growth in multiple price tiers. Acquisitions added two percent to volume versus the prior year. Net sales increased 10 percent to $11.41 billion. Foreign exchange improved sales by three percent. Pricing, primarily in Western Europe, reduced sales by one percent. The mix effect of developing market growth, where the average unit sales price is generally lower than the business average, reduced sales by one percent. Net earnings of $1.67 billion were in line with the comparable prior year period. The benefit of volume growth on earnings was offset by commodity price increases, higher spending to support initiatives and pricing actions. Earnings were also negatively impacted by the mix effect of developing market growth, which has a lower gross margin than the balance of the business. The impacts of higher commodity costs and expansion in developing markets are expected to continue to negatively impact earnings margins. For the quarter, Snacks and Coffee unit volume was up six percent, with the Coffee category up double-digits. Pringles volume grew behind expanded distribution and merchandizing due to customized flavors and Pringles Prints. Net sales increased 16 percent to $767 million. Pricing increased sales nine percent due to the recent action taken on Folgers to recover higher commodity costs. Foreign exchange had a positive one percent effect on sales growth. Net earnings increased 91 percent to $105 million. Current year earnings growth reflects higher volume, pricing and lower merchandising spending versus the base period. Fiscal year to date, Snacks and Coffee volume was up three percent. Net sales increased seven percent to $2.35 billion. Foreign exchange added two percent to sales growth. Pricing increased net sales by two percent behind actions in the coffee category to recover increases in commodity costs. Net earnings were $312 million, an increase of 12 percent, due primarily to the scale benefits of volume growth and higher selling prices, partially offset by increased commodities costs and marketing spending. -22- CORPORATE Corporate includes certain operating and non-operating activities not allocated to specific business units. These include: the incidental businesses managed at the corporate level, financing and investing activities, certain restructuring charges, other general corporate items and the historical results of divested businesses, including the juice business that was divested in August of 2004. Corporate also includes reconciling items to adjust the accounting policies used in the segments to U.S. GAAP. The most significant reconciling items include income taxes (to adjust from statutory rates that are reflected in the segments to the overall Company effective tax rate), adjustments for unconsolidated entities (to eliminate sales, cost of products sold and SG&A for entities that are consolidated in the segments but accounted for using the equity method for U.S. GAAP) and minority interest adjustments for subsidiaries where we do not have 100% ownership. Because both unconsolidated entities and less than 100 percent owned subsidiaries are managed as integral parts of the Company, they are accounted for similar to a wholly-owned subsidiary for management and segment purposes. This means our segment results recognize 100 percent of each income statement component through before-tax earnings in the segments, with eliminations in Corporate. In determining segment net earnings after tax, we apply the statutory tax rates (with adjustments to arrive at the Company's effective tax rate in Corporate) and eliminate the share of earnings applicable to other ownership interests, in a manner similar to minority interest. For the quarter, net sales were -$223 million compared to -$103 million in the prior year period. For the fiscal year to date, net sales were -$599 million versus -$189 million. The decline is primarily due to higher sales from the divested juice business in the base period. Net earnings in the quarter were -$185 million compared to -$65 million in the comparable prior year period. Net earnings were -$272 million in the first nine months of the fiscal year compared to -$257 million in the prior year. Current year net earnings reflect the net impact of the juice divestiture, higher interest expense, and the guaranteed dividend to Wella shareholders under the domination and profit transfer agreement. FINANCIAL CONDITION

Operating Activities Cash generated from operating activities for the nine months ended March 31, 2005 was $6.62 billion versus to $6.94 billion in the comparable prior year period. The cash increase from higher net earnings was offset primarily by an increase in inventory. Inventory levels increased due to higher commodity costs, inventory build-up in preparation for upcoming initiatives and to rebuild inventory levels in product categories that could not meet customer demand. Accounts receivable increased, but days sales are in line with the comparable prior year period. Investing Activities Investing activities in the current year decreased cash by $1.60 billion compared to $7.37 billion in the prior year, which included the cost of the acquisition of Wella AG. Capital expenditures as a percent of net sales were 3.3 percent - slightly lower than the comparable prior year period and below our long-term target of 4 percent of sales. Proceeds from asset sales increased primarily due to the divestiture of the juice business. Acquisitions (net of cash acquired) used $528 million of cash in the current year which includes acquisitions for a pharmaceuticals business in Spain and increased ownership in our Glad joint venture. -23- Financing Activities Total cash used by financing activities was $2.42 billion compared to $828 million in the base period. The Company's long term debt position provided $1.46 billion of net cash, as borrowings exceeded repayments. Short-term debt provided $1.32 billion in cash. Treasury share purchases used $3.58 billion of cash compared to $2.33 billion in the base period reflecting additional repurchases consistent with the announcement in January of 2005 of a share repurchase program in connection with our planned acquisition of The Gillette Company. At June 30, 2004, the Company's current liabilities exceeded current assets by $5.03 billion. The key driver was the use of commercial paper to partially fund the Wella acquisition. At March 31, 2005, this excess has been reduced to $3.73 billion. We anticipate being able to support short-term liquidity needs through cash generated from operations. The Company also has long- and short-term ratings which will enable it to refinance this debt at favorable rates in commercial paper and bond markets. In addition, the Company has agreements with a diverse group of creditworthy financial institutions that, if needed, would provide sufficient credit funding to meet short-term financing requirements. Gillette Acquisition As noted in footnote 8 to the financial statements, the Company entered into an agreement to acquire 100% of The Gillette Company on January 27, 2005. Pursuant to the agreement, the Company will issue 0.975 shares of stock for each share of Gillette common stock. Under the purchase method of accounting, the total consideration would be approximately $54 billion. This is based on the average stock prices of the Company for the period beginning two days before and ending two days after the January 28, 2005 announcement data. In connection with this transaction, the Company also announced a share buyback plan under which it will acquire in open market and/or private transactions approximately $18 billion to $22 billion of Company shares. As of March 31, 2005, approximately $1.58 billion was spent under this plan, financed by a temporary $2.5 billion credit facility. The Company intends to refinance this facility and the remaining treasury share purchases, which are largely expected to be completed by June 30, 2006, by issuing a combination of long-term and short-term debt. Due to the Company's long- and short-term credit ratings, the Company does not anticipate any significant issues in securing the required debt. In addition, the Company does not anticipate any significant impacts on its overall liquidity as a result of the acquisition or share buyback program. MEASURES NOT DEFINED BY U.S. GAAP Our discussion of financial results includes several measures not defined by U.S. GAAP. We believe these measures provide our investors with additional information about the underlying results and trends of the Company, as well as insight to some of the metrics used to evaluate management. When used in MD&A, we have provided the comparable GAAP measure in the discussion. Organic Sales Growth. Organic sales growth is a non-GAAP measure of sales growth excluding the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. We believe this provides investors with a more complete understanding of underlying sales trends by providing sales growth on a consistent basis. Free Cash Flow. Free cash flow is defined as operating cash flow less capital spending. We view free cash flow as an important measure because it is one factor in determining the amount of cash available -24- for dividends and discretionary investment. Free cash flow is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation. Free Cash Flow Productivity. Free cash flow productivity is defined as the ratio of free cash flow to net earnings. The Company's long-term target is to generate free cash at or above 90 percent of net earnings. Free cash flow is also one of the measures used to evaluate senior management. The reconciliation of free cash flow and free cash flow productivity is provided below:

Operating
Capital
Free Net
Free Cash
($MM)
Cash Flow
Spending
Cash Flow
Earnings
Flow
Productivity

--------- --
------ -----
---- -------
- ----------
------- ~~Jul -~~
~~Sep'03~~
~~1,606 364~~
~~1,242~~
~~1,761 71%~~
~~Oct -~~
~~Dec'03~~
~~2,355 446~~

~~1,909~~
~~1,818~~
~~105% Jan -~~
~~Mar'04~~
~~2,978 521~~
~~2,457~~
~~1,528~~
~~161% Apr~~
~~- Jun'04~~
~~2,423 693~~
~~1,730~~
~~1,374~~
~~126% -----~~
~~----- -----~~
~~----- --- Jul~~
~~- Jun'04~~
~~9,362~~
~~2,024~~
~~7,338~~
~~6,481~~
~~113% Jul -~~
~~Sep'04~~
~~1,918 413~~
~~1,505~~
~~2,001 75%~~
~~Oct -~~
~~Dec'04~~
~~2,061 498~~
~~1,563~~
~~2,039 77%~~
~~Jan -~~
~~Mar'05~~
~~2,645 475~~
~~2,170~~
~~1,720~~
~~126% -----~~
~~----- -----~~
~~----- --- Jul~~
~~- Mar'05~~
~~6,624~~
~~1,386~~
~~5,238~~
~~5,760 91%~~

-25- Item 3. Quantitative and Qualitative Disclosures about Market Risk There have been no material changes in the Company's exposure to market risk since June 30, 2004. See Item 7A in the Company's Annual Report on Form 10-K for the year ended June 30, 2004. Item 4. Controls and Procedures The Company's Chairman of the Board, President and Chief Executive, 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 as of the end of the period covered by 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 the SEC's suggestion, the Company has a Disclosure Committee consisting of key Company personnel designed to review the accuracy and completeness of all disclosures made by the Company. In connection with the evaluation described above, no changes in the Company's internal control over financial reporting occurred during the Company's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. -26- PART II. OTHER INFORMATION Item 2. Unregistered Sales of Equity Securities and Use of Proceeds ISSUER PURCHASES OF EQUITY SECURITIES

APPROXIMATE
DOLLAR
TOTAL
NUMBER OF
VALUE OF
SHARES THAT
SHARES
PURCHASED
AS MAY YET
BE
PURCHASED
PART OF
PUBLICLY
UNDER OUR
SHARE TOTAL
NUMBER OF
AVERAGE
PRICE PAID
ANNOUNCED
PLANS OR
REPURCHASE
PROGRAM
PERIOD
SHARES
PURCHASED(1)
PER SHARE(2)
PROGRAMS(3)
($ IN
BILLIONS)(3) --
-------------- ---
---------------- -

- ----------------
----- ~~1/1/05 -~~
~~1/31/05~~
~~6,371,902~~
~~$55.71 0 0~~
~~2/1/05 - 2/28/05~~
~~17,842,343~~
~~$53.01~~
~~17,802,000 21.1~~
~~3/1/05 - 3/31/05~~
~~11,936,910~~
~~$53.21~~
~~11,936,600 20.4~~

(1) All share repurchases were made in open-market transactions. The number of shares purchased other than through a publicly announced repurchase plan were 6,412,555 for the quarter. This table excludes shares withheld from employees to satisfy minimum tax withholding requirements on option exercises and other equity-based transactions. The Company administers employee cashless exercises through an independent, third party broker and does not repurchase stock in connection with cashless exercises. (2) Average price paid per share is calculated on a settlement basis and excludes commission. (3) On January 28, 2005 the Company announced a share buyback plan in connection with its planned acquisition of The Gillette Company. Pursuant to the plan, the Board of Directors authorized the Company and its subsidiaries to acquire in open market and/or private transactions up to $22 billion of shares of Company common stock to be financed by issuing a combination of long-term and short-term debt. The share repurchases are expected to be largely completed by June 30, 2006. Item 6. Exhibits Exhibits (3-1) Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Form 10-Q for the quarter ended September 30, 2004). (3-2) Regulations (Incorporated by reference to Exhibit (3-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 2003). (10-1) The Procter & Gamble 2001 Stock and Incentive Compensation Plan (as amended on March 8, 2005) which was adopted by shareholders at the annual meeting on October 9, 2001. (10-2) The Procter & Gamble Future Shares Plan (as adjusted for the stock split effective May 21, 2004) which was adopted by the Board of Directors on October 14, 1997. (10-3) The Procter & Gamble 2003 Non-Employee Directors' Stock Plan (as adjusted for the stock split effective May 21, 2004) which was adopted by shareholders at the annual meeting on October 14, 2003 (Incorporating by reference the accompanying related correspondence and terms and conditions contained in Exhibit (10-9) of the Company's Annual Report on Form 10-K for the

year ended June 30, 2004). (11) Computation of Earnings per Share. (12) Computation of Ratio of Earnings to Fixed Charges. (31) Rule 13a-14(a)/15d-14(a) Certifications. (32) Section 1350 Certifications. -28- 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 JOHN K. JENSEN ------------------------------- (John K. Jensen) Vice President and Comptroller May 9, 2005 ------------------------------- Date -29- EXHIBIT INDEX Exhibit No. (3-1) Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Form 10-Q for the quarter ended September 30, 2004). (3-2) Regulations (Incorporated by reference to Exhibit (3-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 2003). (10-1) The Procter & Gamble 2001 Stock and Incentive Compensation Plan (as amended on March 8, 2005) which was adopted by shareholders at the annual meeting on October 9, 2001. (10-2) The Procter & Gamble Future Shares Plan (as adjusted for the stock split effective May 21, 2004) which was adopted by the Board of Directors on October 14, 1997. (10-3) The Procter & Gamble 2003 Non-Employee Directors' Stock Plan (as adjusted for the stock split effective May 21, 2004) which was adopted by shareholders at the annual meeting on October 14, 2003 (Incorporating by reference the accompanying related correspondence and terms and conditions contained in Exhibit (10-9) of the Company's Annual Report on Form 10-K for the year ended June 30, 2004). (11) Computation of Earnings per Share. (12) Computation of Ratio of Earnings to Fixed Charges. (31) Rule 13a-14(a)/15d-14(a) Certifications. (32) Section 1350 Certifications.