PROCTER & GAMBLE CO
Form 10-Q
October 28, 2003

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 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 [ ]

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 1,296,726,604 shares of Common Stock outstanding as of September 30, 2003.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The Consolidated Statement of Earnings of The Procter & Gamble Company and subsidiaries for the three months ended September 30, 2003 and 2002, the Consolidated Balance Sheet as of September 30, 2003 and June 30, 2003, and the Consolidated Statement of Cash Flows for the three months ended September 30, 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 September 30	
	2003	2002
NET SALES	$12,195	$10,796
Cost of products sold	5,879	5,489
Marketing, research, administrative and other expense	3,673	3,128
OPERATING INCOME	2,643	2,179
Interest expense	141	144
Other non-operating income, net	40	103
EARNINGS BEFORE INCOME TAXES	2,542	2,138
Income taxes	781	674
NET EARNINGS	$ 1,761	$ 1,464
PER COMMON SHARE:		
Basic net earnings	$ 1.33	$ 1.10
Diluted net earnings	$ 1.26	$ 1.04
Dividends	$ 0.46	$ 0.41
AVERAGE COMMON SHARES OUTSTANDING - DILUTED	1,398.9	1,407.3

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

Amounts in millions

ASSETS	September 30 2003	June 30 2003
CURRENT ASSETS		
Cash and cash equivalents	$ 4,049	$ 5,912
Investment securities	330	300
Accounts receivable	4,134	3,038
Inventories		
Materials and supplies	1,275	1,095
Work in process	358	291
Finished goods	2,903	2,254
Total Inventories	4,536	3,640
Deferred income taxes	876	843
Prepaid expenses and other receivables	1,748	1,487

TOTAL CURRENT ASSETS		15,673	15,220
PROPERTY, PLANT AND EQUIPMENT			
Buildings		5,065	4,729
Machinery and equipment		18,642	18,222
Land		611	591
		24,318	23,542
Accumulated depreciation		(10,664)	(10,438)
NET PROPERTY, PLANT AND EQUIPMENT		13,654	13,104
NET GOODWILL AND OTHER INTANGIBLE ASSETS			
Goodwill		15,222	11,132
Trademarks and other intangible assets		4,066	2,375
NET GOODWILL AND OTHER INTANGIBLE ASSETS		19,288	13,507
OTHER NON-CURRENT ASSETS		1,881	1,875
TOTAL ASSETS		$ 50,496	$ 43,706
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		$ 2,957	$ 2,795
Accrued and other liabilities		5,986	5,512
Taxes payable		2,583	1,879
Debt due within one year		5,286	2,172
TOTAL CURRENT LIABILITIES		16,812	12,358
LONG-TERM DEBT		11,993	11,475
DEFERRED INCOME TAXES		1,370	1,396
OTHER NON-CURRENT LIABILITIES		2,950	2,291
TOTAL LIABILITIES		33,125	27,520
SHAREHOLDERS' EQUITY			
Preferred stock		1,567	1,580
Common stock - shares outstanding Sept 30	1,296.7	1,297	
June 30	1,297.2		1,297
Additional paid-in capital		3,070	2,931
Reserve for ESOP debt retirement		(1,293)	(1,308)
Accumulated other comprehensive income		(1,830)	(2,006)
Retained earnings		14,560	13,692
TOTAL SHAREHOLDERS' EQUITY		17,371	16,186
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 50,496	$ 43,706

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in millions	Three Months Ended September 30	
	2003	2002
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 5,912	$ 3,427
OPERATING ACTIVITIES		
Net earnings	1,761	1,464
Depreciation and amortization	407	410
Deferred income taxes	108	142
Change in:		
Accounts receivable	(295)	(44)
Inventories	(174)	(105)
Accounts payable and accruals	(76)	(15)
Other operating assets & liabilities	(57)	65
Other	(68)	93
TOTAL OPERATING ACTIVITIES	1,606	2,010
INVESTING ACTIVITIES		
Capital expenditures	(364)	(281)
Proceeds from asset sales	88	62
Acquisitions	(5,035)	0
Change in investment securities	11	24
TOTAL INVESTING ACTIVITIES	(5,300)	(195)
FINANCING ACTIVITIES		
Dividends to shareholders	(623)	(565)
Change in short-term debt	3,555	(306)
Additions to long-term debt	0	678
Reduction of long-term debt	(788)	(12)
Proceeds from stock options	89	31
Purchase of treasury shares	(274)	(350)
TOTAL FINANCING ACTIVITIES	1,959	(524)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(128)	(15)
CHANGE IN CASH AND CASH EQUIVALENTS	(1,863)	1,276
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,049	$ 4,703

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, 2003. The results of

operations for the three-month period ended September 30, 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 September 30, 2003 and 2002 was $1,937 million and $1,360 million, respectively.

3. Segment Information - 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 September 30	Fabric & Home Care	Baby & Family Care	Beauty Care	Health Care	Snacks & Beverages
Net Sales					
2003	$ 3,393	$ 2,607	$ 3,753	$ 1,728	$ 896
2002	3,132	2,426	3,123	1,410	822
Earnings Before Income Taxes					
2003	832	472	913	406	162
2002	809	400	804	275	122
Net Earnings					
2003	562	295	616	276	109
2002	547	241	548	196	91

4. Acquisitions - In September 2003, the Company completed the acquisition of a controlling interest in Wella AG (Wella). Through a stock purchase agreement with the majority shareholders of Wella and a tender offer made on the remaining shares, the Company acquired a total of 81% of Wella's outstanding shares, including 99% of Wella's outstanding voting class shares, for a total purchase price of 4.67 billion Euros, excluding acquisition costs (approximately $5.1 billion based on actual exchange rates on the date of the transactions). The Wella business consists of professional hair care, retail hair care, and cosmetics and fragrances divisions with over $3 billion in annual net sales. The operating results of the Wella business are reported in the Company's Beauty Care business segment.

The acquisition of Wella's shares has been accounted for as a purchase business combination in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." Accordingly, the Company's consolidated financial statements include the results of Wella

from the date on which the Company acquired control (September 2, 2003).

The Company is in the process of obtaining independent appraisals for the purpose of allocating the purchase price to the individual assets acquired and liabilities assumed. This will result in potential adjustments to the carrying values of Wella's recorded assets and liabilities, the establishment of certain intangible assets, the determination of the useful lives of intangible assets, some of which may have indefinite lives not subject to amortization, and the determination of the amount of any residual value that will be allocated to goodwill. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management and is subject to revision based on final determination of fair values. The Company also is completing its analysis of integration plans that may result in additional purchase price allocation adjustments.

The following table provides pro forma results of operations for the three months ended September 30, 2003 and 2002, as if Wella had been acquired as of the beginning of each fiscal year presented. The pro forma results include certain adjustments, including adjustments to convert Wella's historical financial information from International Accounting Standards (IAS) into accounting principles generally accepted in the United States of America (U.S. GAAP), estimated interest impacts from funding of the acquisition and estimated amortization of identifiable intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of Wella. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

PRO FORMA RESULTS (Amounts in millions)

	Three Months Ended September 30	
	2003	2002
Net Sales	$12,711	$11,572
Net Earnings	1,732	1,463
Diluted net earnings per common share	1.24	1.04

5. Goodwill and Intangible Assets - Goodwill as of September 30, 2003 is allocated by reportable segment as follows (amounts in millions):

	Fabric & Home Care	Baby & Family Care	Beauty Care	Health Care
Goodwill, June 30, 2003	$460	$884	$ 6,600	$2,908
Acquisition (Note 4)	-	-	3,820	-
Translation & Other	-	12	253	5
Goodwill, September 30, 2003	$460	$896	$10,673	$2,913

The increase in goodwill is primarily due to the preliminary allocation of goodwill related to the acquisition of Wella, which is subject to revision based on final determination of fair values.

Identifiable intangible assets as of September 30, 2003 are comprised of:

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets	$2,190	$463
Non-amortizable intangible assets	2,508	169
Total identifiable intangible assets	$4,698	$632

Amortizable intangible assets consist principally of patents, technology and trademarks. The non-amortizable intangible assets consist primarily of certain trademarks. Gross amortizable intangible assets increased by $883 million during the three months ended September 30, 2003, primarily due to the estimated value of intangibles from the Wella acquisition. Non-amortizable intangibles increased by $842 million during the three months ended September 30, 2003, primarily due to the estimated value of intangibles from the Wella acquisition. These estimated allocations of the Wella purchase price to specific assets acquired, including identifiable intangibles, are subject to revision based on the final determination of fair values.

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 three months ended September 30, 2003 under stock-based compensation plans approved by shareholders in 2001. In prior years, the majority of grants to key managers were issued in the quarter ended September 30. The Company will issue the fiscal 2004 key manager grants in the quarter ended March 31, 2004. Grants issued since September 2002 are vested after three years and have a ten-year life. Grants issued from 1999 through 2002 are fully exercisable after three years and have a fifteen-year life. The Company also makes other grants to employees, for which vesting terms and option 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 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:

	Three Months Ended September 30	
	2003	2002
Net earnings		
As reported	$ 1,761	$ 1,464
Pro forma adjustments	(82)	(104)
Pro forma	1,679	1,360
Net earnings per common share		
Basic		
As reported	$ 1.33	$ 1.10
Pro forma adjustments	(0.06)	(0.08)
Pro forma	1.27	1.02

Diluted		
As reported	1.26	1.04
Pro forma adjustments	(0.06)	(0.07)
Pro forma	1.20	0.97

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 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.

   The Company has entered into several multi-year service contracts for services estimated at $3.6 billion. The biggest of these went into effect during the quarter ended September 30, 2003, while the remainder will go into effect in future periods.

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. In October 2003, the FASB deferred the effective date of FIN 46 to interim periods ending after December 15, 2003 in order to address a number of interpretation and implementation issues. The Company does not expect the adoption of the final interpretation to have a material impact on its financial statements.

Item 2. Management Discussion and Analysis

RESULTS OF OPERATIONS

For the quarter ended September 30, 2003, the Company had double-digit volume, sales and earnings growth despite strong base period comparisons and heavy competitive activity in certain of the Company's core categories. Going forward, business and market uncertainties could affect results. For a discussion of key factors that could impact and must be managed by the Company, please 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, 2003.

Unit volume increased 12 percent, with all business segments and all geographic regions reporting unit volume growth. Double-digit increases in Health Care, Beauty Care and developing regions helped drive the volume growth. Excluding acquisitions and divestitures, primarily the recently completed acquisition of Wella AG, unit volume increased nine percent.

Net sales increased 13 percent to $12.20 billion. Foreign exchange had a positive impact of three percent, partially offset by mix of one percent and pricing investments of one percent. The foreign exchange impact reflects the strengthening of the Euro, Canadian Dollar and British Pound partially offset by

weakening of the Venezuelan Bolivar and the Mexican Peso. Mix was driven, in part, by higher than expected growth in developing markets, including strong growth in China, and the continued portfolio expansion into mid-tier brands. Pricing investments were directed toward activities to drive top line growth in multiple businesses and to respond to competitive activity on Crest Whitestrips and continued high competitive promotion levels in the bath tissue and kitchen towel categories.

The Company reported net earnings of $1.76 billion, an increase of 20 percent versus the prior year quarter. Earnings growth was primarily driven by volume impacts, the completion of the prior year restructuring program, which had $113 million of after-tax charges in the base period, and lower manufacturing costs, despite inclusion of ongoing costs for restructuring-type activities to maintain a competitive cost structure. These improvements were partially offset by marketing investments to support base business and new product growth.

Net earnings per share were $1.26, an increase of 21 percent. Net earnings in the prior year quarter were $1.46 billion or $1.04 per share. Wella did not have a significant impact on net earnings.

Gross margin was 51.8 percent for the quarter compared to 49.2 percent for the same quarter of the prior year, an increase of 260 basis points. The increase in gross margin was primarily driven by lower cost of products sold due to the scale effect of volume, the reduction of before-tax charges related to the completed restructuring program of $88 million in the prior year quarter and material cost savings, which more than offset certain commodity price increases. Other base business and restructuring savings in the quarter more than offset the pricing investments discussed previously.

Marketing, Research, Administration and Other Costs (MRA&O) for the quarter increased to 30.1 percent versus 29.0 percent in the prior year quarter. The increase was driven by marketing spending and the impact of the Wella acquisition, which more than offset the reduction in prior year restructuring program charges. Marketing investments were made to drive growth on the base business and in support of initiatives such as Crest Whitestrips and Night Effects, Olay Regenerist, Swiffer and Prilosec OTC. The addition of Wella contributed approximately one third of the basis point increase due to higher MRA&O spending as a percent of sales and initial post-acquisition costs.

Operating margin increased 150 basis points to 21.7 percent for the quarter, compared to 20.2 percent in the same quarter year ago. The improvement was driven by the reduction in prior year restructuring program charges and lower cost of products sold, partially offset by the impact of higher MRA&O spending discussed in the previous paragraph.

The Company entered into several multi-year service contracts for services estimated at $3.6 billion. The biggest of these went into effect during the quarter ended September 30, 2003, while the remainder will go into effect in future periods.

The following provides supplemental information on the underlying drivers of net sales changes:

JULY-SEPTEMBER NET SALES INFORMATION
(Percent Change vs. Year Ago) **

	Volume					
	With Acquisitions/ Divestitures	Without Acquisitions/ Divestitures	FX	Price	Mix/Other	Tot Impa
FABRIC AND HOME CARE	8%	8%	3%	-1%	-2%	
BABY AND FAMILY CARE	6%	6%	3%	-1%	-1%	

BEAUTY CARE	21%	8%	3%	-1%	-3%	2
HEALTH CARE	23%	23%	3%	-2%	-1%	2
SNACKS AND BEVERAGES	3%	3%	3%	1%	2%	
TOTAL COMPANY	12%	9%	3%	-1%	-1%	1

** These sales percentage changes are approximations based on quantitative formulas that are consistently applied.

FABRIC & HOME CARE

Fabric & Home Care volume was up eight percent behind strong growth in global fabric care led by the developing regions and double-digit growth in global home care, with the continued success of the Swiffer WetJet and Duster, Dawn Power Dissolver and Dawn Complete and Febreze Anti-Allergen initiatives. Net sales increased eight percent to $3.39 billion. A three percent positive foreign exchange impact was offset by pricing and mix effects. Pricing reflects the continuation of pricing investments taken on select fabric care segments in North America, markets in Western Europe and on the Swiffer brand. Mix reduced sales by two percent driven by double-digit growth in developing geographies, including the expansion of Tide in China, and the expansion of mid-tier brands, including the growth of Bold in Japan. Net earnings increased to $562 million, or three percent versus a strong base period of 22 percent growth. Earnings were impacted by mix effects and increased marketing spending to support product initiatives. Fabric & Home Care earnings growth is expected to improve over the remainder of the fiscal year.

BEAUTY CARE

Beauty Care volume increased 21 percent, including the benefit from acquisitions and divestitures, primarily Wella. Excluding acquisitions and divestitures, Beauty Care volume increased eight percent despite heavy competitive activity in North America. Net sales increased 20 percent to $3.75 billion, including a positive foreign exchange impact of three percent. Negative mix of three percent was driven by the impact of Wella and developing market growth. The solid base business results were driven by continued global strength of the Pantene, Head & Shoulders, Always/Whisper and Olay brands. Net earnings for Beauty Care increased 12 percent to $616 million driven by volume growth and lower manufacturing costs, partially offset by increased marketing spending to defend against competitive entries in the hair care and skin care categories. Marketing spending also increased to support initiatives, including Pantene Daily Moisture Renewal in Japan, the expansion of Olay Regenerist and continued support of Tampax Pearl.

BABY AND FAMILY CARE

Baby and Family Care unit volume increased six percent. Baby care volume growth was primarily driven by continued momentum in the Baby Stages of Development line in Western Europe and North America, growth in Japan and the broadening of the diaper product line in Latin America. Net sales grew seven percent to $2.61 billion, including a positive foreign exchange impact of three percent, partially offset by pricing investments of one percent and mix of one percent. Pricing was driven by continued high competitive promotional activity in North America family care. Earnings increased 22 percent to $295 million, due to strong volume growth and lower costs including the scale effects of volume.

HEALTH CARE

Health Care delivered volume growth of 23 percent driven by the Prilosec OTC launch in September, the continued success of Actonel, Crest Whitestrips and Night Effects tooth whitening products and base business strength. Net sales increased 23 percent to $1.73 billion, as a positive three percent foreign

exchange impact was offset by mix and pricing, primarily the actions on Crest Whitestrips taken in November 2002. Although Prilosec OTC was an important contributor to the quarter results, even without the launch, Health Care delivered double-digit volume, sales and earnings growth. Net earnings increased 41 percent to $276 million as strong volume, sales and lower product costs funded marketing investments behind base business growth and new product introductions. While double-digit top line growth is expected for the fiscal year, results in the remaining quarters are expected to return to consumption levels following the one-time pipeline impact from Prilosec OTC. Additionally, although Prilosec OTC volume was particularly strong with the launch, associated marketing expenses will continue throughout the year.

SNACKS AND BEVERAGES

Snacks & Beverages volume was up three percent reflecting growth in the Pringles and Folgers brands, partially offset by volume declines in the juice category. Net sales were $896 million, an increase of nine percent, reflecting the benefits of a three percent impact from foreign exchange and three percent from price and mix impacts. Positive pricing includes a partial pass-through of higher commodity costs. For the balance of the fiscal year, the Company expects pricing will have a neutral or slightly negative impact on sales based on the aggressive pricing environment of the coffee category. Net earnings increased 20 percent to $109 million behind volume and sales growth and margin expansion due to base business savings.

CORPORATE

Corporate includes certain operating and non-operating activities, as well as eliminations to adjust management reporting principles to United States Generally Accepted Accounting Principles (U.S. GAAP). Current quarter results primarily reflect lower restructuring program charges partially offset by one-time items in the prior year quarter, including the impact of the Vicks divestiture.

FINANCIAL CONDITION

For the three months ended September 30, 2003, cash generated from operating activities totaled $1.61 billion compared to $2.01 billion in the comparable prior year period. The decrease in cash from operations is due to increases in working capital, as well as base period impacts due to dividends received from a joint venture. Accounts receivable grew slightly ahead of sales since June 30, 2003. The year-over-year accounts receivable increase of $0.3 billion is attributed to sales growth, particularly the timing of the Prilosec OTC launch in September, offset to some extent by an underlying improvement in days sales outstanding. These trends follow a two-day improvement in receivables days outstanding in the prior year period. Inventory increased primarily due to initiative-related activity, shipment trends and capacity utilization planning. The slight increase in inventory days on hand (approximately two days, excluding inventory acquired from Wella) compares to a seven day decrease in the prior year period.

Investing activities used $5.30 billion of cash year-to-date compared to $0.20 billion used in the prior year period. The acquisition of Wella is the key driver accounting for approximately $5.10 billion. The Company's acquisition of Wella is discussed in Note 4 of the financial statements. There was no acquisition activity in the comparable prior year period. Capital spending increased to $364 million in the current year versus $281 million in the comparable prior year period. Capital spending as a percent of net sales was three percent, one percentage point below target.

Financing activities provided $1.96 billion in cash for the current fiscal year versus using $0.52 billion in the comparable prior year period. This generated a net cash increase of $2.48 billion driven primarily by short-term debt to

support the Wella acquisition, partially offset by a decrease in long-term debt.

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. This program was substantially complete at the end of 2003. At June 30, 2003, there was a reserve liability balance remaining of $335 million for the program. This liability is expected to be settled by the end of 2004 through cash payments primarily for separations.

The Company continues to undertake projects to maintain a competitive cost structure, including manufacturing consolidations and work force rationalization, as part of its normal operations.

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 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.

In connection with the evaluation described above, no changes in the Company's internal control over financial reporting occurred during the Company's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

At the Company's 2003 Annual Meeting of Shareholders held on October 14, 2003, the following actions were taken:

The following Directors were elected for terms of office expiring in 2006:

	Votes For	Votes Withheld	Abstentions*	Broker Non-Votes*
NORMAN R. AUGUSTINE	1,095,498,571	55,660,156	N/A	N/A
A.G. LAFLEY	1,122,537,182	28,621,545	N/A	N/A
JOHNATHAN A. RODGERS	1,128,107,962	23,050,765	N/A	N/A
JOHN F. SMITH, JR.	1,112,078,976	39,079,751	N/A	N/A

MARGARET C. WHITMAN	1,081,266,138	69,892,589	N/A	N/A

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

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

Bruce L. Byrnes
R. Kerry Clark
Scott D. Cook
Domenico DeSole
Joseph T. Gorman
Charles R. Lee
Lynn M. Martin
W. James McNerney, Jr.
Ralph Snyderman
Robert D. Storey
Ernesto Zedillo

A proposal by the Board of Directors to ratify the appointment of Deloitte & Touche LLP as the Company's independent auditors to conduct the annual audit of the financial statements of the Company and its subsidiaries for the fiscal year ending June 30, 2004, was approved by the shareholders. The shareholders cast 1,093,908,754 votes in favor of this proposal and 44,160,612 votes against. There were 13,088,974 abstentions.

A proposal by the Board of Directors to adopt The Procter & Gamble 2003 Non-Employee Directors' Stock Plan was approved by the shareholders. The shareholders cast 547,793,338 votes in favor of this proposal and 399,273,556 votes against. There were 20,325,540 abstentions and 183,766,292 broker non-votes.

A shareholder resolution proposed by Evelyn Y. Davis was approved by the shareholders. The proposal requested that the Board take the necessary steps to reinstate the election of directors annually. The Board opposed the resolution. The shareholders cast 531,392,175 votes in favor of the resolution and 413,962,786 against. There were 22,037,243 abstentions and 183,766,523 broker non-votes.

A shareholder resolution proposed by Lenore Goldman and four co-sponsors was defeated by the shareholders. The proposal requested that the Board of Directors adopt a policy to identify and label all food products manufactured or sold by the Company that may contain genetically engineered ingredients. The Board opposed the resolution. The shareholders cast 71,424,105 votes in favor of the resolution and 813,263,496 against. There were 82,731,129 abstentions and 183,739,997 broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(3-1) Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 2003).

(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).

(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.

(b) Reports on Form 8-K

During the quarter ended September 30, 2003, the Company did not file any Current Reports on Form 8-K. During the quarter ended September 30, 2003, the Company furnished reports on Form 8-K pursuant to Item 9 ("Regulation FD Disclosure") dated July 16, 2003, relating to the Company's intent to explore strategic alternatives with respect to its Sunny Delight and Punica juice drink brands; and dated September 4, 2003, relating to updating previously issued guidance for the July-September 2003 quarter. The Company also furnished reports on Form 8-K containing information pursuant to Item 12 ("Results of Operations and Financial Condition") dated July 31, 2003, relating to the announcement of earnings for the quarter and fiscal year ended June 30, 2003.

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

October 28, 2003

Date

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