

PROCTER & GAMBLE CO  
Form 10-Q  
February 01, 2008

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

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FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended December 31, 2007

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

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(Exact name of registrant as specified in its charter)

Ohio  
(State of Incorporation)

31-0411980  
(I.R.S. Employer Identification No.)

One Procter & Gamble Plaza,  
Cincinnati, Ohio  
(Address of principal executive offices)

45202  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer  Accelerated filer  Non-accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 3,077,498,216 shares of Common Stock outstanding as of December 31, 2007.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

The Consolidated Statements of Earnings of The Procter & Gamble Company and subsidiaries (the “Company”, “we” or “our”) for the three months and six months ended December 31, 2007 and 2006, the Consolidated Balance Sheets as of December 31, 2007 and June 30, 2007, and the Consolidated Statements of Cash Flows for the six months ended December 31, 2007 and 2006 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 necessarily be indicative of annual results.

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

Amounts in millions except per share amounts

Amounts in millions	Three Months Ended December 31		Six Months Ended December 31	
	2007	2006	2007	2006
NET SALES	\$ 21,575	\$ 19,725	\$ 41,774	\$ 38,510
Cost of products sold	10,394	9,287	19,913	18,152
Selling, general and administrative expense	6,467	6,088	12,729	11,954
OPERATING INCOME	4,714	4,350	9,132	8,404
Interest expense	389	339	748	697
Other non-operating income, net	192	79	385	259
EARNINGS BEFORE INCOME TAXES	4,517	4,090	8,769	7,966
Income taxes	1,247	1,228	2,420	2,406
NET EARNINGS	\$ 3,270	\$ 2,862	\$ 6,349	\$ 5,560
<b>PER COMMON SHARE:</b>				
Basic net earnings	\$ 1.04	\$ 0.89	\$ 2.02	\$ 1.73
Diluted net earnings	\$ 0.98	\$ 0.84	\$ 1.90	\$ 1.63
Dividends	\$ 0.35	\$ 0.31	\$ 0.70	\$ 0.62
<b>DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>				
	3,341.5	3,406.5	3,348.2	3,410.1

See accompanying Notes to  
Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

Amounts in Millions	December 31		June 30	
ASSETS	2007		2007	
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$	5,349	\$	5,354
Investment securities		696		202
Accounts receivable		7,688		6,629
<b>Inventories</b>				
Materials and supplies		1,860		1,590
Work in process		619		444
Finished goods		5,211		4,785
Total inventories		7,690		6,819
Deferred income taxes		2,143		1,727
Prepaid expenses and other current assets		3,394		3,300
<b>TOTAL CURRENT ASSETS</b>		<b>26,960</b>		<b>24,031</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Buildings		6,681		6,380
Machinery and equipment		28,513		27,492
Land		865		849
		36,059		34,721
Accumulated depreciation		(16,171)		(15,181)
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>		<b>19,888</b>		<b>19,540</b>
<b>GOODWILL AND OTHER INTANGIBLE ASSETS</b>				
Goodwill		58,216		56,552
Trademarks and other intangible assets, net		34,168		33,626
<b>NET GOODWILL AND OTHER INTANGIBLE ASSETS</b>		<b>92,384</b>		<b>90,178</b>
<b>OTHER NON-CURRENT ASSETS</b>		<b>5,169</b>		<b>4,265</b>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>144,401</b>	<b>\$</b>	<b>138,014</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$	4,829	\$	5,710
Accrued and other liabilities		11,818		9,586
Taxes payable		1,263		3,382
Debt due within one year		13,569		12,039
<b>TOTAL CURRENT LIABILITIES</b>		<b>31,479</b>		<b>30,717</b>

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LONG-TERM DEBT		23,528	23,375
DEFERRED INCOME TAXES		11,579	12,015
OTHER NON-CURRENT LIABILITIES		9,572	5,147
TOTAL LIABILITIES		76,158	71,254
<b>SHAREHOLDERS' EQUITY</b>			
Preferred stock		1,386	1,406
Common stock - shares issued -	Dec		
	31	3,997.8	3,998
	June		
	30	3,989.7	3,990
Additional paid-in capital		59,712	59,030
Reserve for ESOP debt retirement		(1,318)	(1,308)
Accumulated other comprehensive income		2,466	617
Treasury stock		(43,648)	(38,772)
Retained earnings		45,647	41,797
TOTAL SHAREHOLDERS' EQUITY		68,243	66,760
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 144,401	\$ 138,014

See accompanying Notes to Consolidated Financial Statements

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

Amounts in millions	Six Months Ended	
	December 31	
	2007	2006
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 5,354	\$ 6,693
<b>OPERATING ACTIVITIES</b>		
Net earnings	6,349	5,560
Depreciation and amortization	1,503	1,489
Share-based compensation expense	242	289
Deferred income taxes	325	201
Changes in:		
Accounts receivable	(703)	(1,668)
Inventories	(589)	(486)
Accounts payable, accrued and other liabilities	(97)	8
Other operating assets and liabilities	126	(110)
Other	215	120
TOTAL OPERATING ACTIVITIES	7,371	5,403

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<b>INVESTING ACTIVITIES</b>			
Capital expenditures		(1,184)	(1,239)
Proceeds from asset sales		747	135
Acquisitions		24	(139)
Change in investment securities		(502)	620
<b>TOTAL INVESTING ACTIVITIES</b>		<b>(915)</b>	<b>(623)</b>
<b>FINANCING ACTIVITIES</b>			
Dividends to shareholders		(2,267)	(2,045)
Change in short-term debt		1,163	9,873
Additions to long-term debt		5,038	7
Reductions of long-term debt		(6,129)	(12,488)
Impact of stock options and other		979	730
Treasury purchases		(5,481)	(2,713)
<b>TOTAL FINANCING ACTIVITIES</b>		<b>(6,697)</b>	<b>(6,636)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		236	150
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(5)</b>	<b>(1,706)</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$</b>	<b>5,349</b>	<b>\$ 4,987</b>

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, 2007. The results of operations for the three-month and six-month period ended December 31, 2007 are not necessarily indicative 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 investment securities. Total comprehensive income for the three months ended December 31, 2007 and 2006 was \$4,086 million and \$3,513 million, respectively. For the six months ended December 31, 2007 and 2006, total comprehensive income was \$8,199 million and \$6,176 million, respectively.
3. Segment Information - Following is a summary of segment results. In May 2007, we announced a number of changes to our organization structure and certain of our key leadership positions. The changes became effective on July 1, 2007 and resulted in changes to our GBU and reporting segment structure. The businesses that previously comprised the Gillette GBU are now included within the Beauty and Household Care GBUs. The Braun business has been combined with the Blades and Razors business to form the Grooming reportable segment within the Beauty GBU. The Grooming reportable segment also includes all face and shave prep products which were previously reported within the Beauty reportable segment. Duracell was moved to our Household Care GBU and will be reported as part of our Fabric Care and Home Care reportable segment. Finally, our feminine care business, which previously was part of our Beauty GBU and reportable segment, is now part of our Health and Well-Being GBU and will be reported as part of the Health Care reportable segment. The following segment information reflects the new segment reporting structure.

SEGMENT INFORMATION

Amounts in millions

		Three Months Ended December 31			Six Months Ended December 31		
		Net Sales	Earnings Before Income Taxes	Net Earnings	Net Sales	Earnings Before Income Taxes	Net Earnings
<b>Beauty GBU</b>							
Beauty	2007	\$ 5,137	\$ 1,120	\$ 883	\$ 9,736	\$ 2,004	\$ 1,572
	2006	4,656	1,027	804	8,980	1,862	1,438
Grooming	2007	2,161	596	429	4,176	1,210	880
	2006	1,976	530	386	3,821	1,057	771
<b>Health &amp; Well-Being GBU</b>							
Health Care	2007	3,772	1,056	715	7,331	2,036	1,363
	2006	3,407	960	648	6,743	1,838	1,241
Snacks, Coffee and Pet Care	2007	1,302	201	127	2,425	385	240
	2006	1,253	232	150	2,316	376	237

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Household Care GBU								
Fabric Care and Home Care	2007	6,074	1,306	882	11,978	2,662	1,798	
	2006	5,511	1,234	834	10,863	2,459	1,665	
Baby Care and Family Care	2007	3,374	652	418	6,794	1,330	848	
	2006	3,119	548	341	6,218	1,148	724	
Corporate	2007	(245)	(414)	(184)	(666)	(858)	(352)	
	2006	(197)	(441)	(301)	(431)	(774)	(516)	
Total	2007	21,575	4,517	3,270	41,774	8,769	6,349	
	2006	19,725	4,090	2,862	38,510	7,966	5,560	

4. The Company acquired the Gillette Company in October 2005. At that time, we recognized an assumed liability for Gillette exit costs of \$1.23 billion, including \$854 million in separations related to approximately 5,500 people, \$55 million in employee relocation costs and \$320 million in other exit costs. These costs are primarily related to the elimination of selling, general and administrative overlap between the two companies in areas like Global Business Services, corporate staff and go-to-market support, as well as redundant manufacturing capacity. As of December 31, 2007, the remaining liability was \$515 million. Total integration plan charges against the assumed liability were \$58 million for the three months ended December 31, 2007 and \$126 million for the six months ended December 31, 2007. We expect such activities to be substantially complete by June 30, 2008.

5. Goodwill and Other Intangible Assets - Goodwill as of December 31, 2007 is allocated by reportable segment and global business unit as follows (amounts in millions):

	Six Months Ended December 31, 2007
<b>BEAUTY GBU</b>	
Beauty, beginning of year	\$ 15,359
Acquisitions and divestitures	(50)
Translation and other	785
Goodwill, December 31, 2007	16,094
Grooming, beginning of year	24,211
Acquisitions and divestitures	(178)
Translation and other	790
Goodwill, December 31, 2007	24,823
<b>HEALTH &amp; WELL-BEING GBU</b>	
Health Care, beginning of year	8,482
Acquisitions and divestitures	(38)
Translation and other	186
Goodwill, December 31, 2007	8,630
Snacks, Coffee and Pet Care, beginning of year	2,407
Acquisitions and divestitures	(3)
Translation and other	20
Goodwill, December 31, 2007	2,424



## HOUSEHOLD CARE GBU

Fabric Care and Home Care, beginning of year	4,470
Acquisitions and divestitures	(29)
Translation and other	135
Goodwill, December 31, 2007	4,576
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Baby Care and Family Care, beginning of year	1,623
Acquisitions and divestitures	(31)
Translation and other	77
Goodwill, December 31, 2007	1,669
<hr/>	
GOODWILL, Net, beginning of year	56,552
Acquisitions and divestitures	(329)
Translation and other	1,993
Goodwill, December 31, 2007	\$ 58,216

The increase in goodwill from June 30, 2007 is primarily due to currency translation.

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Identifiable intangible assets as of December 31, 2007 are comprised of (amounts in millions):

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets with determinable lives	\$ 8,802	\$ 2,299
Intangible assets with indefinite lives	27,665	-
Total identifiable intangible assets	\$ 36,467	\$ 2,299

Amortizable intangible assets consist principally of brands, patents, technology and customer relationships. The non-amortizable intangible assets consist primarily of brands.

The amortization expense of intangible assets for the three months ended December 31, 2007 and 2006 was \$155 million and \$168 million, respectively. For the six months ended December 31, 2007 and 2006, the amortization expense of intangible assets was \$312 million and \$331 million respectively.

6. Pursuant to SFAS 123(R) "Share-Based Payment", companies must 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).

Total share-based compensation for the three months and six months ended December 31, 2007 and 2006 are summarized in the following table (amounts in millions):

	Three Months Ended December 31		Six Months Ended December 31	
	2007	2006	2007	2006
Share-Based Compensation				
SFAS 123(R) Stock Options	\$ 131	\$ 129	\$ 229	\$ 259
Other Share-Based Awards	5	2	13	30
Total Share-Based Compensation	\$ 136	\$ 131	\$ 242	\$ 289

Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience.

7. Postretirement Benefits - The Company offers various postretirement benefits to its employees.

The components of net periodic benefit cost are as follows:

Amounts in millions	Pension Benefits Three Months Ended December 31		Other Retiree Benefits Three Months Ended December 31	
	2007	2006	2007	2006
Service Cost	\$ 69	\$ 67	\$ 24	\$ 21
Interest Cost	136	118	56	51
Expected Return on Plan Assets	(139)	(111)	(107)	(101)
	4	3	-	(6)

Amortization of Deferred Amounts							
Recognized Net Actuarial Loss	5		11		(3)		-
Gross Benefit Cost	75		88		(30)		(35)
Dividends on ESOP Preferred Stock	-		-		(23)		(21)
Net Periodic Benefit Cost (Credit)	\$	75	\$	88	\$	(53)	\$ (56)

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Amounts in millions	Pension Benefits		Other Retiree Benefits	
	Six Months Ended		Six Months Ended	
	December 31		December 31	
	2007	2006	2007	2006
Service Cost	\$ 135	\$ 133	\$ 47	\$ 41
Interest Cost	266	236	112	102
Expected Return on Plan Assets	(273)	(221)	(214)	(203)
Amortization of Deferred Amounts	7	6	-	(11)
Recognized Net Actuarial Loss	12	22	(7)	1
Gross Benefit Cost	\$ 147	\$ 176	\$ (62)	\$ (70)
Dividends on ESOP Preferred Stock	-	-	(46)	(42)
Net Periodic Benefit Cost (Credit)	\$ 147	\$ 176	\$ (108)	\$ (112)

For the year ending June 30, 2008, the expected return on plan assets is 7.4% and 9.3% for defined benefit and other retiree benefit plans, respectively.

#### 8. New Accounting Standards

On July 1, 2007, we adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 addresses the accounting and disclosure of uncertain tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for a position in accordance with FIN 48 and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

The adoption of FIN 48 resulted in a decrease to retained earnings as of July 1, 2007 of \$232 million, which was reflected as a cumulative effect of a change in accounting principle, with a corresponding increase to the net liability for unrecognized tax benefits. The impact primarily reflects the accrual of additional statutory interest and penalties as required by FIN 48, partially offset by adjustments to existing unrecognized tax benefits to comply with FIN 48 measurement principles. The implementation of FIN 48 also resulted in a reduction in our net tax liabilities for uncertain tax positions related to prior acquisitions accounted for under purchase accounting, resulting in an \$80 million decrease to goodwill. Additionally, the Company historically classified unrecognized tax benefits in current taxes payable. As a result of the adoption of FIN 48, unrecognized tax benefits not expected to be paid in the next 12 months were reclassified to other non-current liabilities.

The total amount of unrecognized tax benefits at July 1, 2007 is \$2,971 million, excluding any related accruals for interest and penalties. Included in the total unrecognized tax benefits is \$1,893 million that, if recognized, would impact the effective tax rate in future periods. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. Accrued interest and penalties as of July 1, 2007 were \$589 million and \$128 million, respectively, on an after tax basis. At this time, we are not able to make a reasonable estimate of the amount of unrecognized tax benefits and related interests and penalties that are expected to be paid in the next 12 months. On an ongoing basis, adjustments will be made to the liability for unrecognized tax benefits to reflect the impact of audit developments, tax law changes, statute expirations, as well as for the accrual of additional current year tax exposures and for interest and penalties on existing liabilities.

P&G files income tax returns in multiple federal, state and local US and foreign jurisdictions. The Company is subject to examination by the taxing authorities in these jurisdictions, with open tax years generally ranging from 1997 and forward. The Company has on-going audits in various stages of completion in several jurisdictions, one or more of which might conclude within the next 12 months. Audit outcomes and the timing of audit settlements are subject to significant uncertainty at this time. Such settlements will involve some or all of the following: the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of unrecognized tax benefits. It is possible that the amount of unrecognized benefit with respect to certain of our uncertain tax positions will significantly increase or decrease within the next twelve months related to the audits described above. At this time, we are not able to make a reasonable estimate of the range of impact on the balance of unrecognized tax benefits or the impact on the effective tax rate related to these items.

The unrecognized tax benefits described above will be included in the Company's annual Form 10-K contractual obligations table to the extent the Company is able to make reliable estimates of the timing of cash settlements with the respective taxing authorities. If not, the total amount of unrecognized tax benefits will be disclosed in a footnote to the contractual obligations table. At this time, the Company can not make a reliable estimate as to the timing of cash settlements.

In December 2007, the FASB issued SFAS 141 (Revised), Business Combinations (SFAS 141R) and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 141R and SFAS 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. SFAS 141R and SFAS 160 will be effective for the company during our fiscal year beginning July 1, 2009.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on the consolidated financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion is to provide an understanding of P&G's financial results and condition by focusing on changes in certain key measures from year to year. Management's Discussion and Analysis (MD&A) is organized in the following sections:

- Overview
- Summary of Results
- Forward-Looking Statements
  - Results of Operations – Three Months Ended December 31, 2007
  - Results of Operations – Six Months Ended December 31, 2007
- Business Segment Discussion – Three Months Ended December 31, 2007
- Business Segment Discussion – Six Months Ended December 31, 2007

- Financial Condition
- Reconciliation of Non-GAAP Measures

Throughout MD&A, we refer to measures used by management to evaluate performance, including unit volume growth, net outside sales and after-tax profit. We also refer to financial measures that are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP), including organic sales growth, free cash flow and free cash flow productivity. The explanation of these measures at the end of MD&A provides more details on the use and the derivation of these measures. Management also uses certain market share and market consumption estimates to evaluate performance relative to competition despite some limitations on the availability and comparability of share information. References to market share and market consumption in MD&A are based on a combination of vendor-reported consumption and market size data, as well as internal estimates.

## OVERVIEW

P&G's business is focused on providing branded consumer goods products. Our goal is to provide products of superior quality and value to improve the lives of the world's consumers. We believe this will result in leadership sales, profits and value creation, allowing employees, shareholders and the communities in which we operate to prosper.

Our products are sold in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores and drug stores. We have also expanded our presence in "high frequency stores," the neighborhood stores which serve many consumers in developing markets. We compete in multiple product categories and have three global business units (GBUs): Beauty; Health and Well-Being; and Household Care. Under U.S. Generally Accepted Accounting Principles, the business units comprising the GBUs are aggregated into six reportable segments: Beauty; Grooming; Health Care; Snacks, Coffee and Pet Care; Fabric Care and Home Care; and Baby Care and Family Care. We have on-the-ground 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 comprised of three developed regions (North America, Western Europe and Northeast Asia) and four developing regions (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 reportable business segment for the three months ended December 31, 2007 (excludes net sales and net earnings in Corporate):

	Net Sales	Net Earnings
Beauty GBU	34%	37%
Beauty	24%	25%
Grooming	10%	12%
Health and Well-Being GBU	23%	25%
Health Care	17%	21%
Snacks, Coffee and Pet Care	6%	4%
Household Care GBU	43%	38%
Fabric Care and Home Care	28%	26%
Baby Care and Family Care	15%	12%

Total	100%	100%
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The following table provides the percentage of net sales and net earnings by reportable business segment for the six months ended December 31, 2007 (excludes net sales and net earnings in Corporate):

	Net Sales	Net Earnings
Beauty GBU	33%	36%
Beauty	23%	23%
Grooming	10%	13%
Health and Well-Being GBU	23%	24%
Health Care	17%	20%
Snacks, Coffee and Pet Care	6%	4%
Household Care GBU	44%	40%
Fabric Care and Home Care	28%	27%
Baby Care and Family Care	16%	13%
Total	100%	100%

## SUMMARY OF RESULTS

Following are highlights of results for the six months ended December 31, 2007:

- Net sales grew eight percent to \$41.8 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, increased five percent.
- Unit volume increased five percent and organic volume grew six percent. Every reportable segment and geographic region posted year-on-year organic volume growth.
  - Net earnings increased 14 percent to \$6.3 billion. Net earnings increased behind sales growth, higher operating profit, a lower tax rate and favorable foreign exchange.
  - Diluted net earnings per share were \$1.90, an increase of 17 percent versus the comparable prior year period.
- Operating cash flow was \$7.4 billion, an increase of 36 percent versus the prior year period. Free cash flow productivity was 97 percent for the fiscal year to date period. Free cash flow productivity is defined as the ratio of operating cash flow less capital expenditures to net earnings.

## FORWARD-LOOKING STATEMENTS

We discuss expectations regarding future performance, events and outcomes, such as our business outlook and objectives, in annual and quarterly reports, press releases and other written and oral communications. All such statements, except for historical and present factual information, are "forward-looking statements," and are based on financial data and our business plans available only as of the time the statements are made, which may become out-of-date or incomplete. We assume no obligation to update any forward-looking statements as a result of new information, future events or other factors. Forward-looking statements are inherently uncertain, and investors must recognize that events could be significantly different from our expectations.

**Ability to Achieve Business Plans.** We are a consumer products company and rely on continued demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to consumers and retail trade customers. Our continued success is dependent on leading-edge innovation with respect to both products

and operations and on the continued positive reputations of our brands. This means we must be able to obtain patents and respond to technological advances and patents granted to competition. Our success is also dependent on effective sales, advertising and marketing programs in an increasingly fragmented media environment. Our ability to innovate and execute in these areas will determine the extent to which we are able to grow existing sales and volume profitably, especially with respect to the product categories and geographic markets (including developing markets) in which we have chosen to focus. There are high levels of competitive activity in the environments in which we operate. To address these challenges, we must respond to competitive factors, including pricing, promotional incentives and trade terms. We must manage each of these factors, as well as maintain mutually beneficial relationships with our key customers, in order to effectively compete and achieve our business plans. Since our goals include a growth component which can be affected by acquisitions and divestitures, we must manage and integrate key company transactions, such as the Gillette and Wella acquisitions, including achieving the cost and growth synergies for those transactions in accordance with stated goals, and the successful separation of the Company's coffee business while continuing to deliver the Company's goals.

**Cost Pressures.** Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, cost of labor, foreign exchange and interest rates. Therefore, our success is dependent, in part, on our continued ability to manage these fluctuations through pricing actions, cost savings projects, sourcing decisions and certain hedging transactions. We also must manage our debt and currency exposure, especially in volatile countries. We need to maintain key manufacturing and supply arrangements, including sole supplier and sole manufacturing plant arrangements. We must implement, achieve and sustain cost improvement plans, including our outsourcing projects and those related to general overhead and workforce rationalization.

**Global Economic Conditions.** Economic changes, terrorist activity and political unrest may result in business interruption, inflation, deflation or decreased demand for our products. Our success will depend in part on our ability to manage continued global political and/or economic uncertainty, especially in our significant geographic markets, as well as any political or economic disruption due to terrorist and other hostile activities.

**Regulatory Environment.** Changes in laws, regulations and the related interpretations may alter the environment in which we do business. This includes changes in environmental, competitive and product-related laws, as well as changes in accounting standards and taxation requirements. Accordingly, our ability to manage regulatory, tax and legal matters (including product liability, patent and intellectual property matters, as well as those related to the integration of Gillette and its subsidiaries) and to resolve pending matters within current estimates may impact our results.

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## RESULTS OF OPERATIONS – Three Months Ended December 31, 2007

The following discussion provides a review of results for the three months ended December 31, 2007 versus the three months ended December 31, 2006.

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

## Consolidated Earnings Information

	Three Months Ended		
	December 31		% CHG
	2007	2006	
NET SALES	\$ 21,575	\$ 19,725	9%
COST OF PRODUCTS SOLD	10,394	9,287	12%
GROSS MARGIN	11,181	10,438	7%
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	6,467	6,088	6%
OPERATING INCOME	4,714	4,350	8%
TOTAL INTEREST EXPENSE	389	339	
OTHER NON-OPERATING INCOME, NET	192	79	
EARNINGS BEFORE INCOME TAXES	4,517	4,090	10%
INCOME TAXES	1,247	1,228	
NET EARNINGS	3,270	2,862	14%
EFFECTIVE TAX RATE	27.6%	30.0%	
PER COMMON SHARE:			
BASIC NET EARNINGS	\$ 1.04	\$ 0.89	17%
DILUTED NET EARNINGS	\$ 0.98	\$ 0.84	17%
DIVIDENDS	\$ 0.35	\$ 0.31	13%
AVERAGE DILUTED SHARES OUTSTANDING	3,341.5	3,406.5	
COMPARISONS AS A % OF NET SALES			
			Basis Pt Chg
COST OF PRODUCTS SOLD	48.2%	47.1%	110
GROSS MARGIN	51.8%	52.9%	(110)
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	30.0%	30.9%	(90)
OPERATING MARGIN	21.9%	22.1%	(20)
EARNINGS BEFORE INCOME TAXES	20.9%	20.7%	20
NET EARNINGS	15.2%	14.5%	70

Net sales increased nine percent for the quarter to \$21.6 billion. Sales were up behind a five percent increase in unit volume and a five percent favorable foreign exchange impact. These were partially offset by a negative one percent mix impact resulting from disproportionate double-digit volume growth in developing regions, where average selling price is below the company average. Volume growth was broad-based across geographies with each geographic region posting year-on-year organic volume growth. All reportable segments except Snacks, Coffee and Pet Care grew both total and organic volume, led by Fabric Care and Home Care, Baby Care and Family Care, and Grooming. Volume grew primarily behind initiative activity on our key brands and continued developing region expansion. Duracell, Febreze, Fusion, Head & Shoulders, Nice 'N Easy, Pampers, Prilosec and Tide each delivered double-digit volume growth for the quarter. Organic sales were up five percent for the quarter behind six percent organic volume growth.

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Net Sales Change Drivers 2007 vs. 2006 (Three Months Ended Dec. 31)

	Volume with Acquisitions & Divestitures	Volume excluding Acquisitions & Divestitures	Foreign Exchange	Price	Mix/ Other	Net Sales Growth
<b>Beauty GBU</b>						
Beauty	3%	3%	6%	0%	1%	10%
Grooming	7%	8%	7%	0%	-5%	9%
<b>Health and Well-Being GBU</b>						
Health Care	5%	5%	6%	0%	0%	11%
Snacks, Coffee and Pet Care	0%	0%	3%	1%	0%	4%
<b>Household Care GBU</b>						
Fabric Care and Home Care	7%	7%	5%	0%	-2%	10%
Baby Care and Family Care	2%	8%	5%	0%	1%	8%
<b>Total Company</b>	<b>5%</b>	<b>6%</b>	<b>5%</b>	<b>0%</b>	<b>-1%</b>	<b>9%</b>

Sales percentage changes are approximations based on quantitative formulas that are consistently applied.

Gross margin was down 110-basis points for the quarter to 51.8% of net sales. Commodity and energy cost increases had a negative impact on gross margin of over 150-basis points. These were partially offset by scale leverage from volume growth and cost savings projects.

Total selling, general and administrative expenses (SG&A) increased six percent to \$6.5 billion. SG&A as a percentage of net sales was down 90-basis points as lower overhead spending as a percentage of net sales more than offset higher marketing spending as a percentage of net sales. Overhead spending as a percentage of net sales was down primarily due to scale leverage, overhead cost controls and Gillette synergy savings.

Interest expense for the quarter was up \$50 million versus the year-ago period due to a higher interest rate driven by the geographic mix of our short-term borrowings. Other non-operating income increased \$113 million versus the prior year period primarily due to the gain on the sale of our Western European family care business, which closed on October 1, 2007.

Net earnings increased 14 percent for the quarter to \$3.3 billion behind sales growth, higher operating profit, a lower tax rate and favorable foreign exchange. Our tax rate declined from 30.0% to 27.6% primarily due to the favorable settlement of tax audits and a more favorable geographic mix of earnings. Diluted net earnings per share were \$0.98, up 17 percent versus the prior year. Diluted net earnings per share growth exceeded net earnings growth due to share repurchase activity.

**RESULTS OF OPERATIONS – Six Months Ended December 31, 2007**

The following discussion provides a review of results for the six months ended December 31, 2007 versus the six months ended December 31, 2006.

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

(Amounts in Millions Except Per Share Amounts)

**Consolidated Earnings Information**

Six Months Ended

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	December 31		% CHG
	2007	2006	
NET SALES	\$ 41,774	\$ 38,510	8%
COST OF PRODUCTS SOLD	19,913	18,152	10%
GROSS MARGIN	21,861	20,358	7%
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	12,729	11,954	6%
OPERATING INCOME	9,132	8,404	9%
TOTAL INTEREST EXPENSE	748	697	
OTHER NON-OPERATING INCOME, NET	385	259	
EARNINGS BEFORE INCOME TAXES	8,769	7,966	10%
INCOME TAXES	2,420	2,406	
NET EARNINGS	6,349	5,560	14%
EFFECTIVE TAX RATE	27.6%	30.2%	
PER COMMON SHARE:			
BASIC NET EARNINGS	\$ 2.02	\$ 1.73	17%
DILUTED NET EARNINGS	\$ 1.90	\$ 1.63	17%
DIVIDENDS	\$ 0.70	\$ 0.62	13%
AVERAGE DILUTED SHARES OUTSTANDING	3,348.2	3,410.1	
COMPARISONS AS A % OF NET SALES			
			Basis Pt Chg
COST OF PRODUCTS SOLD	47.7%	47.1%	60
GROSS MARGIN	52.3%	52.9%	(60)
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	30.5%	31.0%	(50)
OPERATING MARGIN	21.9%	21.8%	10
EARNINGS BEFORE INCOME TAXES	21.0%	20.7%	30
NET EARNINGS	15.2%	14.4%	80

Net sales for fiscal year to date period were up eight percent to \$41.8 billion behind five percent volume growth and a favorable four percent foreign exchange impact. This was partially offset by a negative one percent mix impact primarily due to disproportionate double-digit growth in developing regions. Volume growth was broad-based across segments and geographic regions. Each reportable segment and geographic region as well as 15 of our top 16 countries delivered year-on-year organic volume growth for the fiscal year to date period. Volume grew behind initiative activity, led by Tide, Downy, Febreze, Fusion, Head & Shoulders, Hugo Boss, Dolce & Gabbana, Naturella, Pampers, Charmin and Pringles, all of which posted high-single digit or higher volume growth to offset declines on Braun, Actonel and in pet care. Organic sales increased five percent for the fiscal year to date period behind six percent organic volume growth.

Net Sales Change Drivers 2007 vs. 2006 (Six Months Ended Dec. 31)

	Volume		Foreign Exchange	Price	Mix/ Other	Net Sales Growth
	Volume with Acquisitions & Divestitures	excluding Acquisitions & Divestitures				
Beauty GBU						

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Beauty	2%	3%	5%	0%	1%	8%
Grooming	6%	7%	6%	1%	-4%	9%
Health and Well-Being GBU						
Health Care	5%	4%	5%	0%	-1%	9%
Snacks, Coffee and Pet Care	1%	1%	3%	0%	1%	5%
Household Care GBU						
Fabric Care and Home Care	8%	8%	4%	0%	-2%	10%
Baby Care and Family Care	5%	9%	4%	0%	0%	9%
Total Company	5%	6%	4%	0%	-1%	8%

Sales percentage changes are approximations based on quantitative formulas that are consistently applied.

Gross margin was down 60-basis points fiscal year to date to 52.3% of net sales. Commodity and energy cost increases had a negative impact on gross margin of over 120-basis points. These were largely offset by scale leverage from volume growth and cost savings projects.

Total selling, general and administrative expenses (SG&A) increased six percent to \$12.7 billion for the fiscal year to date period. SG&A as a percentage of net sales was down 50-basis points primarily behind lower overhead spending as a percentage of net sales. Overhead spending as a percentage of net sales was down primarily due to scale leverage, overhead cost controls and Gillette synergy savings. Marketing spending as a percentage of net sales increased slightly versus the year ago period to support initiative activity on key brands.

Interest expense for the fiscal year to date period was up \$51 million versus the year-ago period due to a higher interest rate driven by the geographic mix of our short-term borrowings. Other non-operating income increased \$126 million primarily due to higher current year divestiture gains, including a gain on the sale of our Western European family care business and our Japanese adult incontinence business. The base period included gains on the sale of Pert in North America and Sure.

Net earnings increased 14 percent to \$6.3 billion behind sales growth, higher operating profit, a lower tax rate and favorable foreign exchange. Our tax rate declined from 30.2% to 27.6% due to a one-time tax benefit resulting from a reduction in the German statutory tax rate, which reduced our deferred tax liabilities related to acquired intangible assets, the favorable settlement of tax audits and a more favorable geographic mix of earnings. Diluted net earnings per share were up 17 percent versus the prior year to \$1.90 per share.

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BUSINESS SEGMENT DISCUSSION— Three and Six Months Ended December 31, 2007

The following discussion provides a review of results by business segment. Analyses of the results for the three and six months ended December 31, 2007 are provided compared to the same three and six month period ended December 31, 2006. The primary financial measures used to evaluate segment performance are net sales and net earnings. The table below provides supplemental information on net sales and net earnings by business segment for the three and six months ended December 31, 2007 versus the comparable prior year period (Amounts in millions):

Three Months Ended December 31, 2007						
	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	Net Earnings	% Change Versus Year Ago
<b>Beauty GBU</b>						
Beauty	\$ 5,137	10%	\$ 1,120	9%	\$ 883	10%
Grooming	2,161	9%	596	12%	429	11%
<b>Health and Well-Being GBU</b>						
Health Care	3,772	11%	1,056	10%	715	10%
Snacks, Coffee and Pet Care	1,302	4%	201	-13%	127	-15%
<b>Household Care GBU</b>						
Fabric Care and Home Care	6,074	10%	1,306	6%	882	6%
Baby Care and Family Care	3,374	8%	652	19%	418	23%
<b>Total Business Segments</b>						
	21,820	10%	4,931	9%	3,454	9%
Corporate	(245)	N/A	(414)	N/A	(184)	N/A
<b>Total Company</b>	<b>21,575</b>	<b>9%</b>	<b>4,517</b>	<b>10%</b>	<b>3,270</b>	<b>14%</b>

Six Months Ended December 31, 2007						
	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	Net Earnings	% Change Versus Year Ago
<b>Beauty GBU</b>						
Beauty	\$ 9,736	8%	\$ 2,004	8%	\$ 1,572	9%
Grooming	4,176	9%	1,210	14%	880	14%
<b>Health and Well-Being GBU</b>						
Health Care	7,331	9%	2,036	11%	1,363	10%
Snacks, Coffee and Pet Care	2,425	5%	385	2%	240	1%
<b>Household Care GBU</b>						
	11,978	10%	2,662	8%	1,798	8%

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Fabric Care and  
Home Care

Baby Care and Family Care	6,794	9%	1,330	16%	848	17%
Total Business Segments	42,440	9%	9,627	10%	6,701	10%
Corporate	(666)	N/A	(858)	N/A	(352)	N/A
Total Company	41,774	8%	8,769	10%	6,349	14%

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## BEAUTY GBU

## Beauty

Beauty net sales increased 10 percent during the quarter to \$5.1 billion. Net sales were up behind three percent volume growth and a favorable six percent foreign exchange impact. Disproportionate growth on premium priced Prestige fragrances and on skin care products drove a favorable one percent mix impact on net sales. Organic sales increased five percent. Skin care volume increased high-single digits behind Olay Definity and Regenerist. Volume in Prestige Fragrances was up mid-single digits with continued growth on Hugo Boss and Dolce & Gabbana. Hair care volume was up low-single digits as double-digit growth on Head & Shoulders and Nice 'N Easy was partially offset by declines in professional hair care and flat volume on Pantene. Net earnings in Beauty were up ten percent to \$883 million. Net earnings margin was down 10-basis points as a reduction in gross margin was largely offset by an improvement in SG&A. Gross margin was down primarily due to higher commodity costs. SG&A as a percentage of net sales was down as higher marketing spending was more than offset by lower overhead spending as a percentage of net sales.

Beauty net sales increased eight percent fiscal year to date to \$9.7 billion. Sales increased behind two percent volume growth, a one percent positive product mix impact from disproportionate growth in prestige fragrances and five points of favorable foreign exchange. Prestige Fragrances volume was up mid-single digits behind growth on Dolce & Gabbana, Hugo Boss and Lacoste. In skin care, volume was up mid-single digits behind growth on Olay behind Definity and Regenerist. Hair care volume was up low-single digits as growth in developing markets was partially offset by a volume decline in North America. Head & Shoulders volume was up double-digits globally. Pantene volume grew low-single digits globally as high-single digits growth in developing markets was largely offset by softness in North America. Volume in deodorants was down mid-single digits. Net earnings in Beauty increased nine percent to \$1.6 billion primarily behind higher sales growth. Net earnings margin was up 10-basis points as lower gross margin was more than offset by improved SG&A as a percentage of net sales and a lower tax rate. Gross margin was down due to higher commodity costs. SG&A improved as lower overhead spending as a percentage of net sales was partially offset by increased marketing investment.

## Grooming

Grooming net sales increased nine percent for the quarter to \$2.2 billion behind seven percent volume growth. Net sales benefited from a favorable seven percent foreign exchange impact, partially offset by a negative five percent mix impact primarily due to disproportionate double-digit growth in developing regions, where average selling prices are below the segment average. Blades and razors volume was up double-digits behind developing region volume growth of approximately 20% driven by the expansion of Fusion. In developed regions, high-single digit growth in North America driven by Fusion and Venus Breeze more than offset reductions in several Western European markets from the impact of pipeline volume in the base period related to the Fusion launch. In Braun, mid-single digit volume growth in male and female hair removers was more than offset by reductions in home appliances resulting from supply constraints at our contract manufacturer, a de-emphasis of the home appliances business in the U.S. and the divestiture of thermometer and blood pressure devices. Net earnings in Grooming were up 11 percent for the quarter to \$429 million. Net earnings margin improved 30-basis points for the quarter as lower gross margins were more than offset by lower SG&A as a percentage of net sales. Gross margin declined primarily due to higher costs incurred at our contract manufacturer on the Braun home appliance business. SG&A improved as higher marketing spending as a percentage of net sales was more than offset by lower overhead spending.

Grooming net sales increased nine percent to \$4.2 billion fiscal year to date. Sales were up behind six percent volume growth, a six percent favorable foreign exchange impact and a one percent positive pricing impact from carryover price increases. These were partially offset by a negative four percent mix impact as positive product mix from growth on the premium-priced Fusion brand was more than offset by disproportionate growth in developing regions. Blades and razors volume increased high-single digits behind volume growth of over 20% in developing regions driven primarily by Fusion expansion. In developed regions, blades and razors volume was down low-single

digits due to a base period that included significant pipeline shipments related to the Fusion launch in Western Europe and Japan. Braun volume was down mid-single digits fiscal year to date primarily due to lower home appliances shipments resulting from supply constraints at our contract manufacturer, a de-emphasis of the home appliances business in the U.S. and the divestiture of thermometer and blood pressure devices. Net earnings in Grooming were up 14% fiscal year to date to \$880 million behind sales growth and a 90-basis point earnings margin expansion. Earnings margin improved as a reduction in gross margin was more than offset by improved SG&A as a percentage of net sales. Gross margin declined primarily due to higher costs incurred at our contract manufacturer on the Braun home appliance business. SG&A was down due to lower overhead spending, partially offset by higher marketing investment levels as a percentage of net sales.

## HEALTH AND WELL-BEING GBU

### Health Care

Health Care net sales were up 11 percent during the quarter to \$3.8 billion. Sales grew behind a five percent increase in volume and a six percent favorable foreign exchange impact. Oral care volume was up high-single digits driven by double-digit growth in developing regions behind Crest toothpaste. Oral care volume grew mid-single digits in developed regions behind Oral-B brushes and Crest toothpaste and oral rinse. Feminine care volume was up mid-single digits behind double-digit growth in developing regions, partially offset by the impact of the divestiture of our Japanese adult incontinence business. Volume in pharmaceuticals and personal health was in-line with the year ago period as double-digit growth on Prilosec OTC and the addition of the Swiss Precision Diagnostics joint venture were offset by lower shipment levels on Actonel and Vicks. Net earnings in Health Care were up 10 percent to \$715 million. Net earnings margin was down 10-basis points as reduced gross margin from a less profitable geographic and product mix and higher commodity costs was partially offset by lower overhead and marketing spending as a percentage of net sales.

Health Care net sales increased nine percent fiscal year to date to \$7.3 billion behind a five percent increase in volume. Foreign exchange had a positive five percent impact on net sales. Disproportionate growth in developing regions on feminine care and oral care resulted in a negative one percent mix impact. Oral care volume was up mid-single digits behind initiative-driven growth on Oral-B brushes and Crest toothpaste. Feminine care volume increased mid-single digits behind double-digit growth in developing regions. Volume in pharmaceuticals and personal health was up low-single digits as the impact of adding the Swiss Precision Diagnostics business and mid-single digit growth on Prilosec OTC was largely offset by lower shipments on Actonel and Vicks. Net earnings in Health Care were up 10 percent to \$1.4 billion behind sales growth and a 20-basis point improvement in net earnings margin. Net earnings margin increased behind lower SG&A as a percentage of net sales, partially offset by lower gross margin. Gross margin was down due to a less profitable geographic and product mix and higher commodity costs. SG&A improved primarily behind lower overhead spending as a percentage of net sales.

### Snacks, Coffee and Pet Care

Snacks, Coffee and Pet Care net sales increased four percent for the quarter to \$1.3 billion. Sales benefited from a positive one percent pricing impact from the carryover effect of price increases in coffee and pet care and a three percent favorable foreign exchange impact. Volume for the segment was in-line with the year-ago level as growth in snacks and coffee was offset by a decline in pet care. Snacks volume increased mid-single digits behind the Pringles Minis and Selects initiatives. Coffee volume was up low-single digits behind the recent launches of Dunkin' Donuts, Folgers Black Silk and Folgers House Blend. In pet care, volume was down high-single digits primarily due to continued negative impacts from the voluntary wet pet food recall in the U.S. in March 2007. Net earnings in Snacks, Coffee and Pet Care were down 15 percent to \$127 million for the quarter. Higher sales were more than offset by a 220-basis point decline in net earnings margin. Net earnings margin was down due to a reduction in gross margin partially offset by lower overhead spending as a percentage of net sales. Gross margin was down primarily due to higher commodity costs.



Snacks, Coffee and Pet Care net sales increased five percent to \$2.4 billion fiscal year to date. Sales grew behind a one percent volume increase and a three percent favorable foreign exchange impact. Favorable product mix, primarily from growth in premium priced coffee, added one percent to net sales. Snacks volume was up high-single digits behind the launch of Rice Infusion in Western Europe and continued growth on Pringles Minis and Selects. Coffee volume increased mid-single digits behind the launch of Folgers Black Silk, Folgers House Blend and Dunkin' Donuts coffee. In pet care, volume was down mid-single digits due to continued negative impacts from the voluntary wet pet food recall in the U.S. in March 2007. Net earnings in Snacks, Coffee and Pet Care increased one percent to \$240 million. Net earnings margin was down 30-basis points as a first-quarter insurance recovery related to Hurricane Katrina and lower overhead and marketing spending as a percentage of net sales were more than offset by a reduction in gross margin driven by higher commodity costs.

In January 2008, P&G announced plans to separate its coffee business and create an independent company. The coffee business had net sales of approximately \$1.6 billion and operating income of about \$350 million in fiscal year 2007. Although no decision has been made on the form of the separation, P&G expects to do a spin-off or split-off transaction.

## HOUSEHOLD CARE GBU

### Fabric Care and Home Care

Fabric Care and Home Care net sales increased 10 percent for the quarter to \$6.1 billion behind seven percent volume growth. Favorable foreign exchange added five percent to net sales, but was partially offset by a negative two percent mix impact resulting from disproportionate double-digit growth in developing regions. Fabric Care volume was up high-single digits behind double-digit volume growth in developing regions and initiative activity on Tide, Ariel, Downy and Gain, including continued growth from the expansion of the liquid laundry detergent compaction project in North America. Home Care volume was up low-single digits as growth on initiative activity, including Febreze Candles and the Western Europe Air Care launch, was partially offset by market softness in North America. In batteries, volume was up double-digits in both developed and developing regions behind promotion programs during the holiday period. Net earnings in Fabric Care and Home Care increased six percent to \$882 million for the quarter. Net earnings margin was down 60-basis points primarily due to lower gross margin from increased commodity costs. SG&A was roughly in-line with the year ago period as lower overhead spending as a percentage of net sales was largely offset by higher marketing spending as a percentage of net sales.

Fabric Care and Home Care net sales increased 10 percent to \$12.0 billion fiscal year to date. Volume was up eight percent and favorable foreign exchange added four percent to sales growth. This was partially offset by a negative two percent mix impact primarily from disproportionate double-digit growth in developing regions and on large pack sizes in fabric care. Fabric care volume increased high-single digits behind double-digit developing region growth, the liquid laundry detergent compaction launch in North America and initiative activity on Tide, Gain, Ariel and Downy. Home care volume was up high-single digits behind the Dawn restage in North America, the launch of Febreze Candles and continued expansion of auto-dishwashing products in Western Europe. Batteries volume was up high-single digits behind double-digit growth in developing regions and high-single digit growth in North America behind promotional activity. Net earnings in Fabric Care and Home Care increased eight percent to \$1.8 billion. Earnings margin was down 30-basis points primarily due to lower gross margin. Gross margin was down as volume scale leverage and manufacturing cost savings projects were more than offset by higher commodity costs. SG&A improved as a percentage of net sales as higher marketing spending was more than offset by lower overheads as a percentage of net sales.

### Baby Care and Family Care

Baby Care and Family Care net sales increased eight percent for the quarter to \$3.4 billion, including the impact of the Western European family care divestiture. Sales were up behind two percent volume growth, five points of favorable foreign exchange and a one percent favorable mix impact. Organic volume and organic sales, which exclude the impacts of foreign exchange and the Western European family care divestiture, grew eight percent. Baby care volume

increased double-digits behind double-digit growth in developing regions, driven by the expansion of Pampers, and mid-single digit growth in developed regions, driven by Baby Dry, Swaddlers and Luvs. Family care volume was down high-single digits due to the sale of the Western European business. Family care organic volume was up mid-single digits behind growth on both Charmin and Bounty from recently launched product restages. Net earnings in Baby Care and Family Care were up 23 percent to \$418 million behind sales growth and net earnings margin expansion. Net earnings margin was up 150-basis points behind higher gross margin and lower overhead spending as a percentage of net sales. Gross margin improved due to a more profitable product mix following the Western Europe family care divestiture, volume scale leverage and cost savings projects, partially offset by higher commodity costs.

Baby Care and Family Care net sales increased nine percent fiscal year to date to \$6.8 billion, including the impact of the Western European family care divestiture. Sales grew behind five percent volume growth and a four percent favorable foreign exchange impact. Organic sales, which exclude the impacts of foreign exchange and the Western European family care divestiture, grew eight percent behind nine percent organic volume growth. Organic volume growth was balanced across the segment with high-single digit growth in both baby care and family care. Baby care volume in developed regions was up mid-single digits behind growth on Pampers Baby Stages of Development and on the Baby Dry caterpillar flex initiative. In developing regions, baby care volume was up double-digits, led by growth on Pampers across regions. Family care organic volume was up high-single digits behind the Bounty and Charmin product restages and continued growth on the Basic product tier. Net earnings in Baby Care and Family Care were up 17 percent to \$848 million. Net earnings margin improved 80-basis points primarily behind lower SG&A costs due to lower overhead and marketing as a percentage of net sales. Gross margin was up slightly as a more profitable product mix following the Western Europe family care divestiture, volume scale leverage and cost savings projects were largely offset by higher commodity costs.

## 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 certain divested brands and categories, including certain Gillette brands that were divested as required by the regulatory authorities in relation to the Gillette acquisition. 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. Since both unconsolidated entities and less than 100% 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% of each income statement component through before-tax earnings in the segments, with eliminations for unconsolidated entities in Corporate. In determining segment net earnings, 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.

Net earnings in Corporate increased \$117 million for the quarter primarily due to the gain on the sale of our Western European family care business and a lower tax rate, partially offset by higher interest expense. Our tax rate was down 240-basis points in the current quarter due to favorable settlements of tax audits and a more favorable geographic mix of earnings. Fiscal year to date, net earnings in Corporate increased \$166 million versus the year-ago period. The increase was driven primarily by higher divestiture gains and a lower tax rate, partially offset by higher interest expense. Divestiture gains in the current year period include our Western European family care business and our adult incontinence business in Japan. Our fiscal year to date tax rate was down 260-basis points due to a one-time tax benefit in the first quarter resulting from a change in the statutory tax rate in Germany, tax audit settlements and a more favorable geographic mix.

## FINANCIAL CONDITION

## Operating Activities

Cash generated from operating activities for the fiscal year to date period was \$7.4 billion, an increase of 36 percent versus the comparable prior year period. Operating cash increased due to higher net earnings and an improvement in working capital days versus the base period. Accounts receivable days improved by two days versus the prior year level due to Gillette integration benefits including a temporary increase in the base period due to Gillette integration impacts. Inventory days increased one day and accounts payable days were down one day.

## Investing Activities

Investing activities in the current year used \$915 million, compared to the prior year period cash use of \$623 million. Capital expenditures were \$1.2 billion, or 2.8 percent of net sales. Proceeds from asset sales generated \$747 million in cash primarily from the sale of our Western European family care business and our adult incontinence business in Japan.

## Financing Activities

Total cash used by financing activities was \$6.7 billion this fiscal year to date, versus \$6.6 billion in the comparable prior year period. We repurchased \$5.5 billion of treasury shares under a previously announced share buyback program that started in July 2007. We reduced our debt position by \$72 million during the fiscal year. In the prior year period, we repurchased \$2.7 billion of treasury shares and reduced our debt position by \$2.6 billion.

As of December 31, 2007 the Company's current liabilities exceeded current assets by \$4.5 billion, driven by our short-term debt position. The Company anticipates being able to support its short-term liquidity through cash generated from operations. The Company also has very strong long- and short-term debt ratings which will enable it to continue 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.

## RECONCILIATION OF NON-GAAP MEASURES

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.

The reconciliation of reported sales growth to organic sales for the October - December quarter:

	Total Company	Beauty Care	Baby Care & Family Care
Total Sales Growth	9%	10%	8%
Less: Foreign Exchange Impact	-5%	-6%	-5%
Less: Acquisition/Divestiture Impact	+1%	+1%	+5%
Organic Sales Growth	5%	5%	8%

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The reconciliation of reported sales growth to organic sales for the fiscal year to date period:

	Total Company	Baby Care & Family Care
Total Sales Growth	8%	9%
Less: Foreign Exchange Impact	-4%	-4%
Less: Acquisition/Divestiture Impact	+1%	+3%
Organic Sales Growth	5%	8%

**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 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 (amounts in millions):

	Operating Cash Flow	Capital Spending	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
Jul – Dec '07	7,371	\$ (1,184)	\$ 6,187	\$ 6,349	97%

**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, 2007. Additional information can be found in the section entitled Other Information, which appears on page 47, and Note 6, Risk Management Activities, which appears on pages 59-60 of the Annual Report to Shareholders for the fiscal year ended June 30, 2007 which can be found by reference to Exhibit 13 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

## Item 4. Controls and Procedures.

## Evaluation of Disclosure Controls and Procedures.

The Company's Chairman of the Board and Chief Executive Officer, A. G. Lafley, and the Company's Chief Financial Officer, Clayton C. Daley, Jr., performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) as of the end of the period covered by this report. Messrs. Lafley and Daley have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including Messrs. Lafley and Daley, to allow their timely decisions regarding required disclosure.

## Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1A. Risk Factors.

For a discussion of the Company's risk factors, please refer to Part 1, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate dollar value of shares that may yet be purchased under our share repurchase program (\$ in Billions) (3)
10/1/07-10/31/07	11,002,237	\$ 70.61	10,895,749	26.6
11/1/07-11/30/07	11,346,572	\$ 70.42	11,302,472	25.8
12/1/07-12/31/07	17,720,294	\$ 73.34	17,713,433	24.5

(1)The total number of shares purchased was 40,069,103 for the quarter. All transactions were made in the open market or pursuant to prepaid forward agreements with large financial institutions. Under these agreements, the Company prepaid large financial institutions to deliver shares at a future date in exchange for a discount. The number of shares purchased other than through a publicly announced repurchase plan was 157,449 for the quarter. These shares were acquired by the Company under various compensation and benefit plans. This table excludes shares withheld from employees to satisfy minimum tax withholding requirements on option exercises and other equity-based transactions. The Company administers cashless exercises through an independent, third party broker and does not repurchase stock in connection with cashless exercise.

(2) Average price paid per share is calculated on a settlement basis and excludes commission.

(3) On August 3, 2007, the Company announced a share repurchase plan. Pursuant to the share repurchase plan, the Board of Directors authorized the Company and its subsidiaries to acquire in open market and/or private transactions \$24 to \$30 billion of shares of Company common stock over the next three years to be financed by issuing a combination of long-term and short-term debt. Certain purchases were made prior to announcement of the plan but are considered purchases against the plan. The numbers listed in this column include commissions paid to brokers to execute the transactions.

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Item 6. Exhibits

Exhibit

- 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, 2005).
- 3-2 Regulations (as amended by shareholders at the annual meeting on October 10, 2006) (Incorporated by reference to Exhibit (3-2) of the Company's Form 10-Q for the quarter ended September 30, 2006).
- 10-1 The Procter & Gamble 2001 Stock and Incentive Compensation Plan (as amended on August 14, 2007) which was adopted by shareholders at the annual meeting on October 9, 2001, and related correspondence and terms and conditions.\*
  - 11 Computation of Earnings per Share.
  - 12 Computation of Ratio of Earnings to Fixed Charges.
  - 31.1 Rule 13a-14(a)/15d-14(a) Certification – Chief Executive Officer
  - 31.2 Rule 13a-14(a)/15d-14(a) Certification – Chief Financial Officer
  - 32.1 Section 1350 Certifications – Chief Executive Officer
  - 32.2 Section 1350 Certifications – Chief Financial Officer

\* Compensatory plan or arrangement

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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

February 1, 2008

/s/ VALARIE L. SHEPPARD

Date (Valarie L. Sheppard)

Vice President and Comptroller

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EXHIBIT INDEX

Exhibit

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  - 32.1 Section 1350 Certifications - Chief Executive Officer
  - 32.2 Section 1350 Certifications - Chief Financial Officer
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## EXHIBIT (11)

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

## Computation of Earnings Per Share

Amounts in millions except per share amounts

	Three Months Ended December 31		Six Months Ended December 31	
	2007	2006	2007	2006
<b>BASIC NET EARNINGS PER SHARE</b>				
Net earnings	\$ 3,270	\$ 2,862	\$ 6,349	\$ 5,560
Preferred dividends, net of tax benefit	43	39	85	78
Net earnings available to common shareholders	\$ 3,227	\$ 2,823	\$ 6,264	\$ 5,482
Basic weighted average common shares outstanding	3,094.8	3,161.7	3,106.2	3,168.4
Basic net earnings per common share	\$ 1.04	\$ 0.89	\$ 2.02	\$ 1.73
<b>DILUTED NET EARNINGS PER SHARE</b>				
Diluted net earnings	\$ 3,270	\$ 2,862	\$ 6,349	\$ 5,560
Basic weighted average common shares outstanding	3,094.8	3,161.7	3,106.2	3,168.4
Add potential effect of:				
Conversion of preferred shares	144.9	150.5	145.5	151.0
Exercise of stock options and other Unvested Equity awards	101.8	94.3	96.5	90.7
Diluted weighted average common shares outstanding	3,341.5	3,406.5	3,348.2	3,410.1
Diluted net earnings per common share	\$ 0.98	\$ 0.84	\$ 1.90	\$ 1.63

## EXHIBIT (12)

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Amounts in millions

	Years Ended June 30					Six Months Ended December 31	
	2003	2004	2005	2006	2007	2006	2007
<b>EARNINGS, AS DEFINED</b>							
Earnings from operations before income taxes							
and before adjustments for minority interests							
in consolidated subsidiaries and after eliminating undistributed earnings of equity							
method investees	\$ 7,219	\$ 9,010	\$ 9,954	\$ 12,419	\$ 14,746	\$ 8,041	\$ 8,857
Fixed charges (excluding capitalized interest)	657	719	924	1,242	1,428	777	835
<b>TOTAL EARNINGS, AS DEFINED</b>	<b>\$ 7,876</b>	<b>\$ 9,729</b>	<b>\$ 10,878</b>	<b>\$ 13,661</b>	<b>\$ 16,174</b>	<b>\$ 8,818</b>	<b>\$ 9,692</b>
<b>FIXED CHARGES, AS DEFINED</b>							
Interest expense (including capitalized interest)	\$ 561	\$ 629	\$ 869	\$ 1,153	\$ 1,374	\$ 729	\$ 788
1/3 of rental expense	96	90	90	122	124	63	64
<b>TOTAL FIXED CHARGES, AS DEFINED</b>	<b>\$ 657</b>	<b>\$ 719</b>	<b>\$ 959</b>	<b>\$ 1,275</b>	<b>\$ 1,498</b>	<b>\$ 792</b>	<b>\$ 852</b>

RATIO OF EARNINGS TO FIXED CHARGES	12.0x	13.5x	11.3x	10.7x	10.8x	11.1x	11.4x
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EXHIBIT 31.1

Rule 13a-14(a)/15d-14(a) Certifications

I, A.G. Lafley, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of The Procter & Gamble Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ A.G. LAFLEY  
(A.G. Lafley)

Chairman of the Board  
and Chief Executive Officer

February 1, 2008

Date

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EXHIBIT 31.2

Rule 13a-14(a)/15d-14(a) Certifications

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

- (1) I have reviewed this quarterly report on Form 10-Q of The Procter & Gamble Company;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CLAYTON C. DALEY, JR.

(Clayton C. Daley, Jr.)  
Chief Financial Officer

February 1, 2008  
Date

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EXHIBIT 32.1

Section 1350 Certifications

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Procter & Gamble Company (the “Company”) certifies to his knowledge that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended December 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of the Company.

/s/ A.G. LAFLEY  
(A.G. Lafley)  
Chairman of the Board  
and Chief Executive Officer

February 1, 2008  
Date

A signed original of this written statement required by Section 906 has been provided to The Procter & Gamble Company and will be retained by The Procter & Gamble Company and furnished to the Securities and Exchange Commission or its staff upon request.

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EXHIBIT 32.2

Section 1350 Certifications

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Procter & Gamble Company (the "Company") certifies to his knowledge that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended December 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of the Company.

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

February 1, 2008  
Date

A signed original of this written statement required by Section 906 has been provided to The Procter & Gamble Company and will be retained by The Procter & Gamble Company and furnished to the Securities and Exchange Commission or its staff upon request.