PROCTER & GAMBLE CO
Form 424B5
December 14, 2004

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Filed Pursuant To Rule 424(b)(5)
Registration No. 333-113515

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 5, 2004)

$47,106,000

The Procter & Gamble Company

Floating Rate Notes due 2054

We will pay interest on the notes on March 15, June 15, September 15 and December 15 of each year and on the maturity date. The first interest payment date is March 15, 2005. Interest on each note will be reset on March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 2005, based on the 3-month LIBOR rate less 0.30%. The stated maturity of the notes is December 15, 2054.

We have the right to redeem all or a portion of the notes beginning on December 15, 2034 and at any time thereafter at the redemption prices listed in this prospectus supplement, plus accrued interest on the notes to the date we redeem the notes.

The holders of the notes may require us to repurchase all or a portion of the notes on December 15, 2005, on every December 15 thereafter through and including December 15, 2015, and on December 15 of every subsequent third year, at the redemption prices listed in this prospectus supplement, plus accrued interest on the notes to the date we repurchase the notes.

If there is a tax event, we have the right to shorten the maturity of the notes to the extent needed, so that the interest we pay on the notes will be deductible for United States federal income tax purposes. On the new maturity date, we will pay 100% of the principal amount of the notes, plus accrued interest on the notes to the new maturity date.

	Per Note	**Total**
Public offering price (1)	100%	$47,106,000
Underwriting discount	1%	$ 471,060
Proceeds, before expenses, to Procter & Gamble	99%	$46,634,940

(1) Plus accrued interest from December 15, 2004, if settlement occurs after that date

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about December 15, 2004.

UBS Investment Bank

Citigroup

Morgan Stanley

Merrill Lynch & Co.

The date of this prospectus supplement is December 10, 2004.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add to, update or change the information in the accompanying prospectus. If information in this prospectus supplement, or the information incorporated by reference in this prospectus supplement, is inconsistent with the accompanying prospectus, this prospectus supplement, or the information incorporated by reference in this prospectus supplement, will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to in Incorporation of Documents By Reference in this prospectus supplement.

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement or the accompanying prospectus, nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus supplement or the accompanying prospectus, or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. This prospectus supplement and the accompanying prospectus do not constitute an offer, or an invitation on our behalf or on behalf of the underwriters or any of them, to subscribe to or purchase, any of the notes, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. See Underwriting.

Unless otherwise specified, all references in this prospectus supplement to: (a) Procter & Gamble, the Company, we, us, and our are to The Procter & Gamble Company and its subsidiaries; (b) fiscal followed l specific year are to our fiscal year ended or ending June 30 of that year; and (c) U.S. dollars, dollars, U.S. $ or are to the currency of the United States of America.

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THE COMPANY

The Procter & Gamble Company was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, the Company manufactures and markets a broad range of consumer products in many countries throughout the world. Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983-1100.

Our business is organized into three product-based, reportable segments called Global Business Units. These units are: Household Care; Health, Baby and Family Care; and Beauty Care.

> Household Care includes the Fabric and Home Care business and the Snacks and Coffee business. Fabric and Home Care includes laundry detergents, dish care, fabric enhancers, surface care and air care. Snacks and Coffee includes coffee, snacks and commercial services.

> Health, Baby and Family Care includes the Health Care business and the Baby and Family Care business. Health Care includes oral care, personal health care, pharmaceuticals and pet health and nutrition. Baby and Family Care includes diapers, baby wipes, bath tissue and kitchen towels.

> Beauty Care includes retail and professional hair care, skin care, feminine care, cosmetics, fine fragrances and personal cleansing.

In the most recent fiscal year ended June 30, 2004, Beauty Care accounted for 33% of total net sales (excludes net sales and net earnings in Corporate) and the Household Care segment accounted for 33% of total sales. Health, Baby and Family Care accounted for 34%. In the United States, as of June 30, 2004, the Company owned and operated 37 manufacturing facilities. These facilities were located in 21 different states. In addition, the Company owned and operated 99 manufacturing facilities in 42 other countries. Many of the domestic and international facilities produced products for multiple business segments. Household Care products were produced at 52 of these locations; Health, Baby and Family Care products at 49; and Beauty Care products at 64.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information for the quarters ended September 30, 2004 and September 30, 2003 has been derived from our unaudited consolidated financial statements contained in our Quarterly Report to Shareholders on Form 10-Q for the quarter ended September 30, 2004. The summary consolidated financial information for the fiscal year ended June 30, 2004 has been derived from our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2004, as conformed to organizational and segment measurement changes contained in our Form 8-K filed October 22, 2004. We believe that all adjustments necessary for the fair presentation thereof have been made to the unaudited financial data. The results for the interim period ended September 30, 2004 are not necessarily indicative of the results for the full fiscal year.

	Three Months Ended September 30,	
	2004	**2003**
	(Amounts in Millions Except Per Share Amounts)	
NET SALES	$ 13,744	$ 12,195
Cost of products sold	6,611	5,879
Selling, general and administrative expense	4,263	3,673
OPERATING INCOME	2,870	2,643
Interest expense	181	141
Other non-operating income, net	182	40
EARNINGS BEFORE INCOME TAXES	2,871	2,542
Income taxes	870	781
NET EARNINGS	$ 2,001	$ 1,761
PER COMMON SHARE:		
Basic net earnings	$ 0.77	$ 0.67
Diluted net earnings	$ 0.73	$ 0.63
Dividends	$ 0.25	$ 0.23
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	2,756.0	2,797.7

	As of September 30, 2004	**As of June 30, 2004**
	(Amounts in Millions)	
WORKING CAPITAL	$ (3,186)	$ (5,032)

TOTAL ASSETS	$	59,203	$	57,048
LONG-TERM DEBT	$	13,731	$	12,554
SHAREHOLDERS EQUITY	$	18,359	$	17,278

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is organized in the following sections:

Overview

Results of Operations - Three Months Ended September 30, 2004

Business Segment Discussion - Three Months Ended September 30, 2004

Financial Condition

Throughout MD&A, we refer to several measures used by management to evaluate performance including unit volume growth, net sales and after-tax profit. We also refer to organic sales growth (net sales excluding the impacts of acquisitions and divestitures and foreign exchange), free cash flow and free cash flow productivity, which are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP). The explanation of these measures at the end of MD&A provides more details.

Overview

Our business is focused on providing branded products of superior quality and value to improve the lives of the world s consumers. We believe this will lead to leadership sales, profits and value creation, allowing employees, shareholders and the communities in which we operate to prosper.

Procter & Gamble markets approximately 300 consumer products in more than 160 countries. Our products are sold primarily through mass merchandisers, grocery stores, membership club stores and drug stores. We compete in three global business units: Beauty Care; Health, Baby and Family Care; and Household Care. We have operations in over 80 countries through our Market Development Organization, which leads country business teams to build our brands in local markets and is organized along seven geographic areas: North America, Western Europe, Northeast Asia, Latin America, Central and Eastern Europe/Middle East/Africa, Greater China and ASEAN/Australasia/India.

The following table provides the percentage of net sales and net earnings by business segment for the three months ended September 30, 2004 (excludes net sales and net earnings in Corporate):

	Net Sales	Net Earnings
Beauty Care	34%	36%
Health, Baby and Family Care:	34%	29%
Health Care	13%	13%
Baby and Family Care	21%	16%
Household Care:	32%	35%
Fabric and Home Care	27%	31%
Snacks and Coffee	5%	4%
Total	100%	100%

Summary of Results

For the quarter ended September 30, 2004, the Company delivered sales and earnings growth above long-term targets.

Net sales increased 13 percent (10 percent excluding the impact of foreign exchange). Unit volume increased 12 percent.

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Net earnings increased 14 percent. Earnings growth was due primarily to strong top line growth, as well as the juice business divestiture completed in August.

Diluted net earnings per share increased 16 percent to $0.73.

Free cash flow productivity was 75 percent. Operating cash flow increased by 19 percent versus the comparable prior year period. While first quarter results for free cash flow productivity are below the long-term target, our objective for the fiscal year remains at 90 percent free cash flow productivity.

Forward Looking Statements

The markets in which the Company sells its products are highly competitive and comprised of both global and local competitors. Going forward, business and market uncertainties may affect results. Among the key factors that could impact results and must be managed by the Company are:

(1) the ability to achieve business plans, including with respect to lower income consumers and growing existing sales and volume profitably despite high levels of competitive activity, especially with respect to the product categories and geographical markets (including developing markets) in which the Company has chosen to focus;

(2) successfully executing, managing and integrating key acquisitions (including the Domination and Profit Transfer Agreement with Wella);

(3) the ability to manage and maintain key customer relationships;

(4) the ability to maintain key manufacturing and supply sources (including sole supplier and plant manufacturing sources);

(5) the ability to successfully manage regulatory, tax and legal matters (including product liability, patent, and other intellectual property matters), and to resolve pending matters within current estimates;

(6) the ability to successfully implement, achieve and sustain cost improvement plans in manufacturing and overhead areas, including the success of the Company s outsourcing projects;

(7) the ability to successfully manage currency (including currency issues in volatile countries), interest rate and certain commodity cost exposures;

(8) the ability to manage the continued global political and/or economic uncertainty and disruptions, especially in the Company s significant geographical markets, as well as any political and/or economic uncertainty and disruptions due to terrorist activities;

(9) the ability to successfully manage increases in the prices of raw materials used to make the Company s products;

(10) the ability to stay close to consumers in an era of increased media fragmentation; and

(11) the ability to stay on the leading edge of innovation.

If the Company s assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of these key factors, then the Company s actual results could vary materially from the forward looking statements made herein.

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Results of Operations

The following discussion provides a review of results for the three months ended September 30, 2004 versus the three months ended September 30, 2003.

The Procter & Gamble Company and Subsidiaries
(Amounts in Millions Except Per Share Amounts)
Consolidated Earnings Information

	Three Months Ended September 30		
	2004	**2003**	**% CHG**
NET SALES	$ 13,744	$ 12,195	13%
Cost of products sold	6,611	5,879	12%
GROSS MARGIN	7,133	6,316	13%
Selling, general and administrative expense	4,263	3,673	16%
OPERATING INCOME	2,870	2,643	9%
Interest expense	181	141	
Other non-operating income, net	182	40	
EARNINGS BEFORE INCOME TAXES	2,871	2,542	13%
Income taxes	870	781	
NET EARNINGS	$ 2,001	$ 1,761	14%
EFFECTIVE TAX RATE	30.3%	30.7%	
PER COMMON SHARE			
Basic net earnings	$ 0.77	$ 0.67	15%
Diluted net earnings	$ 0.73	$ 0.63	16%
Dividends	$ 0.25	$ 0.23	
AVERAGE DILUTED SHARES OUTSTANDING	$ 2,756.0	$ 2,797.7	
COMPARISONS AS A % OF NET SALES			
Gross margin	51.9%	51.8%	10
Selling, general and administrative expense	31.0%	30.1%	90
Operating margin	20.9%	21.7%	(80)
Earnings before income taxes	20.9%	20.8%	10
Net earnings	14.6%	14.4%	20

Unit volume increased 12 percent reflecting the overall strength of the Company s portfolio. Each of the Company s geographic regions grew volume mid-single digits or greater led by developing markets with more than 20 percent volume growth. Beauty care and the fabric and home care business also grew volume double-digits. Health care volume increased mid-single digits against a base period comparison that includes the impact of the Prilosec OTC launch. Organic volume increased eight percent, which excludes the impact of acquisitions and divestitures from year-over-year comparisons.

Net sales increased 13 percent to $13.74 billion. Net sales growth includes a positive foreign exchange impact of three percent driven primarily by continued strength of the Euro, British pound and Japanese yen. Mix effects reduced sales by one percent due mainly to strong growth in developing markets, which generally have a lower average unit sales price than the Company average. Pricing reduced sales by one percent. Price increases in family care and health care were offset primarily by reductions initiated in prior quarters, mainly in Europe to address the growth of hard discounters. Sales growth reflects progress on key brands and countries, with 14 of the

Company s top 16 brands and all of the top 16 countries delivering year-to-year volume growth. Organic sales, which exclude the impacts of acquisitions and divestitures and foreign exchange from year-over-year comparisons, increased six percent.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
JULY-SEPTEMBER NET SALES INFORMATION
(Percent Change vs. Year Ago)**

	Volume With Acquisitions & Divestitures	Volume Without Acquisitions & Divestitures	FX	Price	Mix/Other	Total Impact	Total Ex-FX
Beauty Care	25%	10%	3%	-1%	-3%	24%	21%
Health, Baby & Family Care							
Health Care	6%	4%	2%	1%	-2%	7%	5%
Baby and Family Care	7%	8%	3%	0%	-1%	9%	6%
Household Care							
Fabric and Home Care	11%	10%	3%	-1%	-1%	12%	9%
Snacks and Coffee	-1%	-1%	2%	-1%	1%	1%	-1%
Total Company	12%	8%	3%	-1%	-1%	13%	10%

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

Gross margin improved 10 basis points against a strong base period comparison where gross margin improved 260 basis points (including approximately 80 basis points of improvement as a result of restructuring program charges in the three months ending September 30, 2002). Despite higher commodity prices, gross margin expanded due to the scale benefit of volume, cost reduction programs and the shift towards higher margin businesses, primarily Wella. Strong growth in developing markets negatively impacted gross margins, particularly in the fabric and home care business. The Company expects higher commodity prices will continue through the remaining quarters of the fiscal year and have a negative impact on gross margin.

Selling, general and administrative expenses (SG&A) as a percentage of net sales increased 90 basis points. Most of the increase was due to the impact of Wella. The remaining increase was due to marketing investments to support geographic product expansions, including Herbal Essences and Lenor, and support for oral care initiatives in North America and Western Europe. The current quarter includes two additional months of Wella results, as the acquisition was completed in September of 2003.

Substantially all of the increase in other non-operating income compared to the prior year is due to the before-tax gain on the sale of the juice business.

Net earnings increased 14 percent to $2.00 billion. Earnings growth was primarily driven by volume, as well as the impact from the divestiture of the juice business. This was partially offset by marketing investments, including introductory support for new product launches and on-going support for the base business, and the pricing activity previously discussed.

Diluted net earnings per share increased 16 percent to $0.73. As expected, the divestiture of the juice business contributed $0.02 to earnings per share for the quarter, or three percent of the earnings per share growth. The juice impact reflects the gain on the sale, which is reflected in non-operating income, partially offset by the effect of lower operating income versus the base period due to the divestiture.

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Business Segment Discussion

The following discussion provides a review of results by business segment. An analysis of the results for the three months ended September 30, 2004 are compared to the same period ended September 30, 2003.

The table below provides supplemental information on net earnings by business segment for the three months ended September 30, 2004 versus the comparable prior year period (dollars in millions):

	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	Net Earnings	% Change Versus Year Ago
Beauty Care	$ 4,655	24%	$ 1,008	13%	$ 692	16%
Health, Baby & Family Care						
Health Care	1,844	7%	375	-5%	$ 255	-4%
Baby and Family Care	2,850	9%	516	9%	320	9%
	4,694	8%	891	3%	575	3%
Household Care						
Fabric and Home Care	3,810	12%	897	8%	600	7%
Snacks and Coffee	740	1%	126	-12%	83	-13%
	4,550	10%	1,023	5%	683	4%
Total Business Segment	13,899	14%	2,922	7%	1,950	7%
Corporate	(155)	n/a	(51)	n/a	51	n/a
Total Company	13,744	13%	2,871	13%	2001	14%

Beauty Care

Beauty care unit volume increased 25 percent. Organic volume increased 10 percent. The hair care business grew organic volume by double-digits led by the Head and Shoulders, Rejoice and Herbal Essences brands. Hair care volume in North America was down slightly, due to softness in colorants and in minor shampoo brands which have been de-emphasized in the hair care portfolio. Olay delivered double-digit growth behind continued geographic expansion and growth from new initiatives including Regenerist Eye Serum. The fine fragrances business also delivered double-digit growth led by the Lacoste brand. The feminine care business posted double-digit growth driven by the Always/Whisper and Naturella brands. Net sales increased 24 percent to $4.66 billion. Foreign exchange had a positive impact of three percent which was offset by a three percent mix impact from growth in developing markets, where unit sales prices are generally lower than the segment average, and a one percent impact from pricing. Net earnings increased 16 percent to $692 million due to the impact of volume growth and cost reduction programs, which more than offset the impact of higher commodity prices. Net earnings were also impacted by increased marketing spending in support of initiatives, including Herbal Essences and Olay Moisturinse in shower body lotion in North America. Net earnings margin decreased due to the impact of two incremental months of Wella, which currently has a higher SG&A expense ratio compared to the other P&G beauty care businesses.

Health, Baby and Family Care

Health care delivered mid single-digit volume and sales growth against a base period comparison that included the pipeline shipments and launch of Prilosec OTC. Unit volume increased six percent. Pharmaceuticals delivered double-digit growth led by the continued success of Actonel and Asacol. Despite softness in certain tooth whitening products, oral care volume increased low-single digits behind growth in dentifrice and developing markets. Net sales increased seven percent to $1.84 billion, including a positive foreign exchange impact of two percent, which was offset by two percent of negative mix due primarily to developing market growth, where

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unit sales prices are generally lower than the average for the business. Pricing added one percent to sales. Net earnings decreased four percent to $255 million, primarily due to the impact of Prilosec OTC in the base period, which included significant pipeline volume but a lower proportion of marketing spending. In addition, marketing investments in the current year contributed to the earnings decline, including support of oral care initiatives in North America and Western Europe, as well as marketing spending in pharmaceuticals. Excluding the impact of Prilosec OTC, health care delivered double-digit sales and earnings growth.

The baby and family care business delivered unit volume growth of seven percent for the quarter. Volume growth was driven primarily in baby care behind Feel n Learn training pants in North America and Baby Dry in Western Europe. Family care volume also grew behind recent Bounty and Charmin initiatives. Net sales increased nine percent to $2.85 billion, including a positive foreign exchange impact of three percent. Pricing had no significant impact on sales growth. Gains from the recent North America family care price increase were offset primarily by the continuation of prior-quarter reductions in baby care, including in select Western European countries to address the growth of hard discounters and in North America for new package formats. Mix reduced sales by one percent due primarily to growth in developing markets that have a lower average sales price than the average for the business. Net earnings grew nine percent to $320 million against a difficult base period comparison where earnings grew 23 percent. Earnings improved behind the scale benefits of volume, pricing in North America family care and cost saving projects, partly offset by higher commodity costs and targeted pricing investments in baby care.

Household Care

For the quarter, fabric and home care unit volume was up behind geographic expansion and an increasing presence in multiple price tiers, including the Gain brand in North America. Volume increased 11 percent behind developing market growth, recent initiatives including Tide with a Touch of Downy, Febreze Scent Stories and Air Effects, and the expansion of Lenor fabric softener in Northeast Asia. Net sales increased 12 percent to $3.81 billion. Foreign exchange increased sales by three percent. Pricing reduced sales by one percent driven mainly by actions to remain competitive in Germany and France, and mix reduced sales by one percent due to developing market growth. Net earnings increased seven percent to $600 million. The impacts of volume growth and ongoing savings programs were partially offset by SG&A investments to support new product initiatives, higher costs associated with the fabric care capacity expansion in North America and higher commodity prices. Additionally, earnings margin was negatively impacted by the aforementioned pricing actions and the mix effect of developing market growth, which has a lower gross margin than the balance of the business.

Snacks and coffee sales were $740 million, an increase of one percent behind positive foreign exchange of two percent that offset the impact of a one percent volume decline. Continued competitive discounting and trade promotion activity had an adverse impact on volume growth. Net earnings were $83 million, down 13 percent driven by higher coffee commodity prices and marketing investments behind innovation in the snacks business.

Corporate

Corporate includes certain operating and non-operating activities not allocated to specific business units. These include: the incidental businesses managed at the corporate level, financing and investing activities, certain restructuring charges, other general corporate items and the historical results of divested businesses, including the juice business, which was divested in August of 2004. Corporate also includes reconciling items to adjust the accounting policies used in the segments to U.S. GAAP. The most significant reconciling items include income taxes, which are reflected in the segments at statutory rates, adjustments for unconsolidated entities (where we do not control the financial and operating decisions, and therefore, do not consolidate them) and subsidiaries where we do not have 100% ownership. Because both unconsolidated entities and less than 100 percent owned subsidiaries are managed as integral parts of the Company, they are accounted for similar to a wholly-owned subsidiary for management and segment purposes. This means we recognize 100 percent of each income statement component to before-tax earnings. In determining net earnings for the segments, we apply the statutory tax rates and eliminate the share of earnings applicable to other ownership interests, in a manner similar to minority interest. Accordingly, the relationship between before-tax earnings and net earnings is impacted by the adjustments necessary to offset the

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effect of the business segment treatment of taxes, unconsolidated entities, and less than 100 percent owned subsidiaries discussed above.

Net earnings for the quarter were $51 million versus a net loss in the base period of $53 million. The current year earnings reflect the net impact of the juice divestiture, which more than offset the normal level of Corporate expenses. The current period non-operating gain was partially offset by the reduction in operating results for the juice business versus the prior year. Due to the divestiture, the current period includes only one month of operating results.

Financial Condition

Operating Activities

Cash generated from operating activities for the three months ended September 30, 2004 was $1.92 billion compared to $1.61 billion in the prior year period, an increase of 19%. The increase in cash from operating activities was driven by earnings growth adjusted for non-cash items (depreciation, amortization and deferred income taxes). Accounts receivable and inventory both increased, but at a lower percentage than overall sales growth.

Investing Activities

Investing activities in the current year used $413 million compared to $5.30 billion in the prior year period, which included the acquisition of Wella. Capital expenditures were $413 million, or three percent of net sales which is below the Company s long-term target of four percent. Acquisitions used $335 million of cash, primarily driven by the acquisitions of a pharmaceutical and a fabric and home care business in Europe. Proceeds from asset sales were $366 million, which includes the divestiture of the juice business.

Financing Activities

Financing activities used net cash of $771 million in the current year compared to a source of cash of $1.96 billion in the base period. The difference relates primarily to increased borrowing in the base period to fund the Wella acquisition. The Company s gross debt position increased $437 million during the three months ended September 30, 2004. The Company also issued $3 billion of long-term debt during the current year to reduce its short-term commercial paper balances. Treasury purchases were $622 million compared to $274 million last year, when the Company was preserving capital for the Wella acquisition.

At June 30, 2004, the Company s current liabilities exceeded current assets by $5.03 billion. The key driver was the use of commercial paper to partially fund the Wella acquisition. At September 30, 2004, this excess had been reduced to $3.19 billion. 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 ratings which will enable it to refinance this debt at favorable rates in commercial paper and bond markets. In addition, the Company has agreements with a diverse group of creditworthy financial institutions that, if needed, would provide sufficient credit funding to meet short-term financing requirements.

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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.

Other Measures

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:

(Dollars in Millions)	Operating Cash Flow	Capital Spending	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
July to September 2003	$ 1,606	$ 364	$ 1,242	$ 1,761	71%
July to September 2004	$ 1,918	$ 413	$ 1,505	$ 2,001	75%

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CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods indicated.

	Three Months Ended September 30	
	2004	**2003**
Ratio of earnings to fixed charges(1)	15.0x	16.3x

(1) Earnings used to compute this ratio are earnings before income taxes and before fixed charges (excluding interest capitalized during the period) and after deducting undistributed earnings of equity method investees. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and expense, and one-third of all rent expense (considered representative of the interest factor).

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CAPITALIZATION

The following table sets forth the consolidated capitalization of Procter & Gamble and its subsidiaries at September 30, 2004.

	September 30, 2004 (in millions of dollars except per share amounts)
Debt:	
Commercial paper and other borrowing due within one year (1)	$ 7,701
Long-Term Borrowings	13,731
Total Debt (2)	21,432
Shareholders Equity:	
Convertible Class A preferred stock, stated value $1 per share; 600,000,000 shares authorized, 1,514.3 outstanding	1,514
Non-Voting Class B preferred stock, stated value $1 per share; 200,000,000 shares authorized, none outstanding	
Common Stock, stated value $1 per share; 5,000,000,000 shares authorized, 2,536.7 outstanding	2,537
Additional Paid-In Capital	2,585
Reserve for Employee Stock Ownership Plan debt retirement	(1,267)
Accumulated other comprehensive income	(1,328)
Retained earnings	14,318
Total Shareholders Equity	18,359
Total capitalization	$ 39,791

(1) Includes $3,324 million equivalent to current portion of long-term debt due within one year. We maintain credit facilities in support of our short-term commercial paper borrowings. At September 30, 2004 our credit lines with banks amounted to $2 billion (none of which had been utilized as of December 10, 2004).

(2) Total debt includes $19,497 million of The Procter & Gamble Company debt. The balance of debt is held by subsidiaries.