

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.

|  | <b>Per Note</b> | <b>Total</b> |
|--|-----------------|--------------|
| 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.

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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 by a 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.

**Table of Contents****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.

|  | <b>Three Months Ended September<br/>30,</b>               |                      |
|--|---|----------------------|
|  | <b>2004</b>   | <b>2003</b>          |
|  | <b>(Amounts in Millions Except Per<br/>Share Amounts)</b> |                      |
| NET SALES  | \$ 13,744   | \$ 12,195            |
| Cost of products sold                              | 6,611   | 5,879                |
| Selling, general and administrative expense        | 4,263   | 3,673                |
|  | <hr/>   | <hr/>                |
| OPERATING INCOME                                   | 2,870   | 2,643                |
| Interest expense                                   | 181   | 141                  |
| Other non-operating income, net                    | 182   | 40                   |
|  | <hr/>   | <hr/>                |
| EARNINGS BEFORE INCOME TAXES                       | 2,871   | 2,542                |
| Income taxes                                       | 870   | 781                  |
|  | <hr/>   | <hr/>                |
| NET EARNINGS                                       | \$ 2,001  | \$ 1,761             |
|  | <hr/>   | <hr/>                |
| 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              |
|  |   |                      |
|  | <b>As of</b>  | <b>As of</b>         |
|  | <b>September</b>  | <b>June 30, 2004</b> |
|  | <b>30, 2004</b>   | <b>June 30, 2004</b> |
|  | <hr/>   | <hr/>                |
|  | <b>(Amounts in Millions)</b>                              |                      |
| 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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**Table of Contents****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):

|                               | <b>Net<br/>Sales</b> | <b>Net<br/>Earnings</b> |
|-------------------------------|----------------------|-------------------------|
|                               | <hr/>                | <hr/>                   |
| 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%                      |
|                               | <hr/>                | <hr/>                   |
| 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.



**Table of Contents****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

|   | <b>Three Months Ended September</b> |             | <b>%<br/>CHG</b> |
|---|-------------------------------------|-------------|------------------|
|   | <b>30</b>                           |             |                  |
|   | <b>2004</b>                         | <b>2003</b> |                  |
| 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

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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)\*\***

|                            | <b>Volume<br/>With<br/>Acquisitions<br/>&amp;<br/>Divestitures</b> | <b>Volume<br/>Without<br/>Acquisitions<br/>&amp;<br/>Divestitures</b> | <b>FX</b> | <b>Price</b> | <b>Mix/Other</b> | <b>Total<br/>Impact</b> | <b>Total<br/>Ex-FX</b> |
|----------------------------|--|---|-----------|--------------|------------------|-------------------------|------------------------|
| 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%                    |
|                            | <hr/>  | <hr/>   | <hr/>     | <hr/>        | <hr/>            | <hr/>                   | <hr/>                  |
| Total Company              | 12%  | 8%  | 3%        | -1%          | -1%              | 13%                     | 10%                    |
|                            | <hr/>  | <hr/>   | <hr/>     | <hr/>        | <hr/>            | <hr/>                   | <hr/>                  |

\*\*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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**Table of Contents****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):

|                            | <u>Net Sales</u> | <u>%<br/>Change<br/>Versus<br/>Year<br/>Ago</u> | <u>Earnings<br/>Before<br/>Income<br/>Taxes</u> | <u>%<br/>Change<br/>Versus<br/>Year<br/>Ago</u> | <u>Net<br/>Earnings</u> | <u>%<br/>Change<br/>Versus<br/>Year<br/>Ago</u> |
|----------------------------|------------------|---|---|---|-------------------------|---|
| 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%  |
|                            | <u>4,694</u>     | <u>8%</u>                                       | <u>891</u>                                      | <u>3%</u>                                       | <u>575</u>              | <u>3%</u>                                       |
| Household Care             |                  |   |   |   |                         |   |
| Fabric and Home Care       | 3,810            | 12%   | 897   | 8%  | 600                     | 7%  |
| Snacks and Coffee          | 740              | 1%  | 126   | -12%  | 83                      | -13%  |
|                            | <u>4,550</u>     | <u>10%</u>                                      | <u>1,023</u>                                    | <u>5%</u>                                       | <u>683</u>              | <u>4%</u>                                       |
| Total Business Segment     | 13,899           | 14%   | 2,922   | 7%  | 1,950                   | 7%  |
| Corporate                  | (155)            | n/a   | (51)  | n/a   | 51                      | n/a   |
|                            | <u>13,744</u>    | <u>13%</u>                                      | <u>2,871</u>                                    | <u>13%</u>                                      | <u>2001</u>             | <u>14%</u>                                      |

**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 Moisturise 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.

**Table of Contents****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:

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

**Table of Contents****CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES**

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

|                                       | <b>Three Months<br/>Ended<br/>September 30</b> |             |
|---------------------------------------|--|-------------|
|                                       | <b>2004</b>                                    | <b>2003</b> |
| 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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**Table of Contents****CAPITALIZATION**

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

|   | <b>September 30, 2004</b>  |
|---|--|
|   | <b>(in millions of dollars<br/>except<br/>per share amounts)</b> |
| <b>Debt:</b>  |  |
| Commercial paper and other borrowing due within one year (1)  | \$ 7,701   |
| Long-Term Borrowings  | 13,731   |
|   | <hr/>  |
| Total Debt (2)  | 21,432   |
| <b>Shareholders Equity:</b>   |  |
| 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   |
|   | <hr/>  |
| Total capitalization  | \$ 39,791  |
|   | <hr/>  |

(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.

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**DESCRIPTION OF THE NOTES**

The following descriptions of the particular terms of the notes (referred to in the accompanying prospectus as the Offered Debt Securities ) supplements the more general description of the debt securities contained in the accompanying prospectus. If there are any inconsistencies between the information in this section and the information in the prospectus, the information in this section controls.

Investors should read this section together with the section entitled Description of Debt Securities in the accompanying prospectus. Any capitalized terms that are defined in the prospectus have the same meanings in this section unless a different definition appears in this section. We qualify the description of the notes by reference to the indenture as described below.

**General**

The notes:

will be initially limited to \$47,106,000 aggregate principal amount, subject to our ability to reopen and issue additional notes which may be of the same series as the notes as described under Further Issues,

will mature on December 15, 2054,

will be senior debt of Procter & Gamble, ranking equally with all other present and future unsecured and unsubordinated indebtedness of Procter & Gamble,

will be issued as a separate series under the indenture between Procter & Gamble and J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association, dated as of September 28, 1992, in registered, book-entry form only,

will be issued in U.S. dollars in denominations of \$1,000 and integral multiples of \$1,000,

will be redeemable by us prior to the stated maturity at the times and prices described herein,

will be repayable at the option of the holders prior to the stated maturity at the times and prices described herein,

will be subject to defeasance and covenant defeasance, and

will not be subject to any sinking fund.

The indenture and the notes do not limit the amount of indebtedness which may be incurred or the amount of securities which may be issued by us or our subsidiaries, and contain no financial or similar restrictions on us or our subsidiaries, except as described in the prospectus under the caption Description of Debt Securities Restrictive Covenants.

**Interest and Principal**

*Payment of Interest and Principal*

We will pay interest on the notes quarterly on March 15, June 15, September 15 and December 15 of each year and on any maturity date (each, an interest payment date ), commencing March 15, 2005, to the persons in whose



names the notes are registered at the close of business on the 15th calendar day (in each case, whether or not a business day) immediately preceding the related interest payment date; *provided, however*, that interest payable on any maturity date shall be payable to the person to whom the principal of such notes shall be payable. Interest on the notes will be computed on the basis of the actual number of days elapsed over a 360-day year.

We will pay the principal of and interest on each note to the registered holder in immediately available funds upon presentation of the notes if in certificated form at the office or agency we maintain for this purpose in the

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Borough of Manhattan, The City of New York, currently the corporate trust office of the trustee, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; *provided, however*, that payment of interest may be made at our option by check mailed to the registered holder at the close of business on the regular record date at such address as shall appear in the security register or by wire transfer of immediately available funds to an account specified in writing by such holder to us and the trustee prior to the relevant record date. Notwithstanding anything to the contrary in this prospectus supplement or the accompanying prospectus, so long as the notes are in book-entry form, we will make payments of principal and interest through the trustee to DTC.

Interest payable on any interest payment date or maturity date shall be the amount of interest accrued from, and including, the immediately preceding interest payment date in respect of which interest has been paid or duly provided for (or from and including the original issue date, if no interest has been paid or duly provided for with respect to the notes) to, but excluding, such interest payment date or maturity date, as the case may be. If any interest payment date (other than the maturity date) would otherwise be a day that is not a business day, such interest payment date will be postponed to the immediately succeeding day that is a business day, except that if such business day is in the immediately succeeding calendar month, such interest payment date (other than the maturity date) shall be the immediately preceding business day. If the maturity date of the notes falls on a day that is not a business day, the related payment of principal and interest will be made on the immediately succeeding business day as if it were made on the date such payment was due, and no interest will accrue on the amounts so payable for the period from and after such date to the immediately succeeding business day.

By *business day* we mean a day which is not a day when banking institutions in the city in which the trustee administers its corporate trust business, currently New York City, or in the place of payment, are authorized or required by law or regulation to be closed, and that is also a *London business day*, which is a day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

The term *maturity*, when used with respect to a note, means the date on which the principal of such note or an installment of principal becomes due and payable as therein provided or as provided in the indenture, whether at the stated maturity or by declaration of acceleration, call for redemption, repayment or otherwise.

*Rate of Interest*

The interest rate on the notes will be reset quarterly on March 15, June 15, September 15 and December 15 of each year, commencing March 15, 2005 (each, an *interest reset date*), and the notes will bear interest at a per annum rate equal to three-month LIBOR (as defined below) for the applicable interest reset period or initial interest period (each as defined below), less 0.30% (30 basis points). The interest rate for the initial interest period will be three-month LIBOR, determined as of two London business days prior to the original issue date, less 0.30% per annum. The *initial interest period* will be the period from and including the original issue date to but excluding the initial interest reset date. Thereafter, each *interest reset period* will be the period from and including an interest reset date to but excluding the immediately succeeding interest reset date; *provided* that the final interest reset period for the notes will be the period from and including the interest reset date immediately preceding the maturity date of such notes to but excluding the maturity date.

If any interest reset date would otherwise be a day that is not a business day, the interest reset date will be postponed to the immediately succeeding day that is a business day, except that if that business day is in the immediately succeeding calendar month, the interest reset date shall be the immediately preceding business day.

The interest rate in effect on each day will be (i) if that day is an interest reset date, the interest rate determined as of the interest determination date (as defined below) immediately preceding such interest reset date or (ii) if that

day is not an interest reset date, the interest rate determined as of the interest determination date immediately preceding the most recent interest reset date or the original issue date, as the case may be.

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*Interest Rate Determination*

The interest rate applicable to each interest reset period commencing on the related interest reset date, or the original issue date in the case of the initial interest period, will be the rate determined as of the applicable interest determination date. The interest determination date will be the second London business day immediately preceding the original issue date, in the case of the initial interest reset period, or thereafter the applicable interest reset date.

J.P. Morgan Trust Company, National Association, or its successor appointed by us, will act as calculation agent. Three-month LIBOR will be determined by the calculation agent as of the applicable interest determination date in accordance with the following provisions:

(i) LIBOR is the rate for deposits in U.S. dollars for the 3-month period which appears on Moneyline Telerate Page 3750 (as defined below) at approximately 11:00 A.M., London time, on the applicable interest determination date.

Moneyline Telerate Page 3750 means the display designated on page 3750 on Moneyline Telerate (or such other page as may replace the 3750 page on that service, any successor service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If no rate appears on Moneyline Telerate Page 3750, LIBOR for such interest determination date will be determined in accordance with the provisions of paragraph (ii) below.

(ii) With respect to an interest determination date on which no rate appears on Moneyline Telerate Page 3750 as of approximately 11:00 a.m., London time, on such interest determination date, the calculation agent shall request the principal London offices of each of four major reference banks (which may include affiliates of the underwriters) in the London interbank market selected by the calculation agent (after consultation with us) to provide the calculation agent with a quotation of the rate at which deposits of U.S. dollars having a three-month maturity, commencing on the second London business day immediately following such interest determination date, are offered by it to prime banks in the London interbank market as of approximately 11:00 a.m., London time, on such interest determination date in a principal amount equal to an amount of not less than U.S. \$1,000,000 that is representative for a single transaction in such market at such time. If at least two such quotations are provided, LIBOR for such interest determination date will be the arithmetic mean of such quotations as calculated by the calculation agent. If fewer than two quotations are provided, LIBOR for such interest determination date will be the arithmetic mean of the rates quoted as of approximately 11:00 a.m., New York City time, on such interest determination date by three major banks (which may include affiliates of the underwriters) selected by the calculation agent (after consultation with us) for loans in U.S. dollars to leading European banks having a three-month maturity commencing on the second London business day immediately following such interest determination date and in a principal amount equal to an amount of not less than U.S. \$1,000,000 that is representative for a single transaction in such market at such time; *provided, however*, that if the banks selected as aforesaid by the calculation agent are not quoting such rates as mentioned in this sentence, LIBOR for such interest determination date will be LIBOR determined with respect to the immediately preceding interest determination date.

All percentages resulting from any calculation of any interest rate for the notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward and all dollar amounts will be rounded to the nearest cent, with one-half cent being rounded upward.

Promptly upon such determination, the calculation agent will notify us and the trustee (if the calculation agent is not the trustee) of the interest rate for the new interest reset period. Upon request of a holder of the notes, the calculation agent will provide to such holder the interest rate in effect on the date of such request and, if determined, the interest rate for the next interest reset period.

All calculations made by the calculation agent for the purposes of calculating interest on the notes shall be conclusive and binding on the holders and us, absent manifest error.

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**Table of Contents****Optional Redemption**

The notes may be redeemed at any time, at our option, in whole or in part, in amounts of \$1,000 or any multiple of \$1,000, at the following redemption prices (in each case expressed as a percentage of the principal amount), if redeemed during the 12-month period beginning on December 15 of any of the following years:

| <b>Year</b> | <b>Redemption<br/>Price</b> |
|-------------|-----------------------------|
| 2034        | 105.0%                      |
| 2035        | 104.5%                      |
| 2036        | 104.0%                      |
| 2037        | 103.5%                      |
| 2038        | 103.0%                      |
| 2039        | 102.5%                      |
| 2040        | 102.0%                      |
| 2041        | 101.5%                      |
| 2042        | 101.0%                      |
| 2043        | 100.5%                      |
| 2044        | 100.0%                      |

and thereafter at 100% of the principal amount, in each case, together with any accrued and unpaid interest to the redemption date (subject to the right of holders of record on relevant record dates to receive interest due on an interest payment date).

We must mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each holder of the notes to be redeemed. Unless we default in the payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions of the notes called for redemption.

In the event of any redemption of less than all the outstanding notes, the particular notes (or portions of notes in multiples of \$1,000) to be redeemed shall be selected by the trustee by the method the trustee considers fair and appropriate.

**Repayment at Option of Holder**

The notes will be repayable at the option of the holder of the notes, in whole or in part, on the repayment dates and at the repayment prices (in each case expressed as a percentage of the principal amount) set forth in the following table:

| <b>Date</b>       | <b>Redemption<br/>Price</b> |
|-------------------|-----------------------------|
| December 15, 2005 | 98.0%                       |
| December 15, 2006 | 98.0%                       |
| December 15, 2007 | 98.0%                       |
| December 15, 2008 | 98.0%                       |
| December 15, 2009 | 98.0%                       |

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|                   |        |
|-------------------|--------|
| December 15, 2010 | 99.0%  |
| December 15, 2011 | 99.0%  |
| December 15, 2012 | 99.0%  |
| December 15, 2013 | 99.0%  |
| December 15, 2014 | 99.0%  |
| December 15, 2015 | 100.0% |

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and on December 15 of every third year thereafter at 100% of the principal amount, through and including December 15, 2054, in each case, together with any accrued and unpaid interest to the redemption date (subject to the rights of holders of record on relevant record dates to receive interest due on an interest payment date).

In order for a note to be repaid, the paying agent must receive, at least 30 but not more than 60 calendar days before the optional repayment date, (1) the note with the form entitled "Option to Elect Repayment" on the reverse of the note duly completed or (2) a telegram, facsimile transmission or a letter from a member of a national securities exchange or a member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company in the United States which must set forth:

the name of the holder of the note;

the principal amount of the note;

the principal amount of the note to be repaid;

the certificate number or a description of the tenor and terms of the note;

a statement that the option to elect repayment is being exercised; and

a guarantee that the note is to be repaid.

These items, together with the duly completed form entitled "Option to Elect Repayment" on the reverse of the note, must be received by the Paying Agent not later than the fifth business day after the date of that telegram, facsimile transmission or letter. The repayment option may be exercised by the holder of a note for less than the entire principal amount of the note but, in that event, the principal amount of the note remaining outstanding after repayment must be in an authorized denomination.

## **Conditional Right to Shorten Maturity**

We intend to deduct interest paid on the notes for United States Federal income tax purposes. However, there have been proposed tax law changes in the past that, among other things, would have prohibited an issuer from deducting interest payments on debt instruments with a maturity of more than 40 years. While none of these proposals has become law, we cannot assure you that similar legislation affecting our ability to deduct interest paid on the notes will not be enacted in the future or that any such legislation would not have a retroactive effective date. As a result, we cannot assure you that a tax event (as defined below) will not occur.

If a tax event occurs, we will have the right to shorten the maturity of the notes, without the consent of the holders of the notes, to the minimum extent required, in the opinion of nationally recognized independent tax counsel, so that, after shortening the maturity, interest paid on the notes will be deductible for United States Federal income tax purposes or, if that counsel cannot opine definitively as to such a minimum period, the minimum extent so required to maintain our interest deduction to the extent deductible under current law as determined in good faith by our board of directors, after receipt of an opinion of that counsel regarding the applicable legal standards. In that case, the amount payable on those notes on that new maturity date will be equal to 100% of the principal amount of those notes plus interest accrued on those notes to the date those notes mature on that new maturity date. We cannot assure you that we would not exercise our right to shorten the maturity of those notes if a tax event occurs or as to the period that the maturity would be shortened. If we elect to exercise our right to shorten the maturity of the notes when a tax event occurs, we will mail a notice to each holder of notes by first-class mail not more than 60 days after the occurrence of the tax event, stating the new maturity date of the notes. This notice shall be effective immediately upon mailing.



We believe that the notes should constitute indebtedness for United States Federal income tax purposes under current law and, in that case, an exercise of our right to shorten the maturity of the notes should not be a taxable event to holders for those purposes. Prospective investors should be aware, however, that our exercise of our right to shorten the maturity of the notes will be a taxable event to holders for United States Federal income tax

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purposes if the notes are treated as equity for United States Federal income tax purposes before the maturity is shortened, assuming that the notes of shortened maturity are treated as debt for those purposes.

Tax event means that we shall have received an opinion of nationally recognized independent tax counsel to the effect that, as a result of:

any amendment to, clarification of, or change (including any announced prospective amendment, clarification or change) in any law, or any regulation thereunder, of the United States;

any judicial decision, official administrative pronouncement, ruling, regulatory procedure, regulation, notice or announcement, including any notice or announcement of intent to adopt or promulgate any ruling, regulatory procedure or regulation (any of the foregoing, an administrative or judicial action ); or

any amendment to, clarification of, or change in any official position with respect to, or any interpretation of, an administrative or judicial action or a law or regulation of the United States that differs from the previously generally accepted position or interpretation,

in each case, occurring on or after December 15, 2004, there is more than an insubstantial increase in the risk that interest paid by us on the notes is not, or will not be, deductible, in whole or in part, by us for United States Federal income tax purposes.

**Notes Used as Qualified Replacement Property**

Prospective investors seeking to treat the notes as qualified replacement property for purposes of section 1042 of the Internal Revenue Code of 1986, as amended (the Code ), should be aware that section 1042 requires the issuer to meet certain requirements in order for the notes to constitute qualified replacement property. In general, qualified replacement property is a security issued by a domestic corporation that did not, for the taxable year preceding the taxable year in which such security was purchased, have passive investment income in excess of 25 percent of the gross receipts of such corporation for such preceding taxable year (the Passive Income Test ). For purposes of the Passive Income Test, where the issuing corporation is in control of one or more corporations, all such corporations are treated as one corporation (the Affiliated Group ) for the purposes of computing the amount of passive investment income for purposes of section 1042.

We believe that less than 25 percent of our Affiliated Group s gross receipts is passive investment income for the taxable year ending June 30, 2004. In making this determination, we have made certain assumptions and used procedures which we believe are reasonable. We cannot give any assurance as to whether we will continue to meet the Passive Income Test. It is, in addition, possible that the Internal Revenue Service may disagree with the manner in which we have calculated our Affiliated Group s gross receipts (including the characterization of those gross receipts) and passive investment income and the conclusions reached in this discussion. Prospective purchasers of the notes should consult with their own tax advisors with respect to these and other tax matters relating to the notes.

**Further Issues**

We may from time to time, without notice to or the consent of the registered holders of the notes, create and issue further notes of this series ranking equally with the notes of this series in all respects (or in all respects other than the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes). Such further notes may be consolidated and form a single series with the notes of this series and have the same terms as to status, redemption or otherwise as the notes of this series.



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**Book-Entry System**

We have obtained the information in this section concerning The Depository Trust Company ( DTC ) and its book-entry system and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information. In addition, the description of the clearing system in this section reflects our understanding of the rules and procedures of DTC as they are currently in effect. DTC could change its rules and procedures at any time.

The notes will initially be represented by one or more fully registered global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co. (DTC's nominee). You may hold your interests in the global notes in the United States through DTC, either as a participant in that system or indirectly through organizations which are participants in that system.

So long as DTC or its nominee is the registered owner of the global securities representing the notes, DTC or such nominee will be considered the sole owner and holder of the notes for all purposes of the notes and the indenture. Except as provided below, owners of beneficial interests in the notes will not be entitled to have the notes registered in their names, will not receive or be entitled to receive physical delivery of the notes in definitive form and will not be considered the owners or holders of the notes under the indenture, including for purposes of receiving any reports delivered by us or the trustee pursuant to the indenture. Accordingly, each person owning a beneficial interest in a note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of notes.

Unless and until we issue the notes in fully certificated, registered form under the limited circumstances described below under the heading *Book-Entry System* *Certificated Notes* :

you will not be entitled to receive a certificate representing your interest in the notes;

all references in this prospectus supplement or in the accompanying prospectus to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and

all references in this prospectus supplement or the accompanying prospectus to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the notes, for distribution to you in accordance with DTC procedures.

***The Depository Trust Company***

DTC will act as securities depository for the notes. The notes will be issued as fully registered notes registered in the name of Cede & Co. DTC has advised us as follows: DTC is

a limited-purpose trust company organized under the New York Banking Law;

a banking organization under the New York Banking Law;

a member of the Federal Reserve System;

a clearing corporation under the New York Uniform Commercial Code; and

a clearing agency registered under the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its direct participants deposit with DTC. DTC facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic

computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates.

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Direct participants of DTC include securities brokers and dealers (including underwriters), banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants. Indirect access to the DTC system is also available to securities brokers and dealers, banks and trust companies that maintain a custodial relationship with a direct participant.

If you are not a direct participant or an indirect participant and you wish to purchase, sell or otherwise transfer ownership of, or other interests in, notes, you must do so through a direct participant or an indirect participant. DTC agrees with and represents to DTC participants that it will administer its book-entry system in accordance with its rules and by-laws and requirements of law. The Securities and Exchange Commission has on file a set of the rules applicable to DTC and its direct participants.

Purchases of notes under DTC's system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participants or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes, except as provided below in *Book-Entry System - Certificated Notes*.

To facilitate subsequent transfers, all notes deposited with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes. DTC's records reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

### ***Book-Entry Format***

Under the book-entry format, the trustee will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants or to you as the beneficial owner. You may experience some delay in receiving your payments under this system. Neither we, the trustee under the indenture nor any paying agent has any direct responsibility or liability for the payment of principal or interest on the notes to owners of beneficial interests in the notes.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal, premium, if any, and interests on the notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to the notes kept on your behalf. We and the trustee under the indenture have no responsibility for any aspect of the actions of DTC or any of its direct or indirect participants. We and the trustee under the indenture have no responsibility or liability for any aspect of the records kept by DTC or any of its direct or indirect participants relating to or payments made on account of beneficial ownership interests in the notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. We also do not supervise these systems in any way.

The trustee will not recognize you as a holder under the indenture, and you can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised us that it will only take action regarding a note if one or more of the direct participants to whom the note is credited directs DTC to take such action and only in respect of the portion of the aggregate principal amount of the notes as to which that participant or participants has or

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have given that direction. DTC can only act on behalf of its direct participants. Your ability to pledge notes to non-direct participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your notes.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the omnibus proxy).

### ***Same-Day Settlement and Payment***

The underwriters will settle the notes in immediately available funds. We will make principal and interest payments on the notes in immediately available funds or the equivalent.

Secondary market trading between DTC direct participants will occur in accordance with DTC rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity (if any) in the notes.

### ***Certificated Notes***

Unless and until they are exchanged, in whole or in part, for notes in definitive form in accordance with the terms of the notes, the notes may not be transferred except (1) as a whole by DTC to a nominee of DTC or (2) by a nominee of DTC to DTC or another nominee of DTC or (3) by DTC or any such nominee to a successor of DTC or a nominee of such successor.

We will issue notes to you or your nominees, in fully certificated registered form, rather than to DTC or its nominees, only if:

we advise the trustee in writing that DTC is no longer willing or able to discharge its responsibilities properly or that DTC is no longer a registered clearing agency under the Securities Exchange Act of 1934, and the trustee or we are unable to locate a qualified successor within 90 days;

an event of default has occurred and is continuing under the indenture; or

we, at our option, elect to terminate the book-entry system through DTC.

If any of the three above events occurs, DTC is required to notify all direct participants that notes in fully certificated registered form are available through DTC. DTC will then surrender the global note representing the notes along with instructions for re-registration. The trustee will re-issue the notes in fully certificated registered form and will recognize the registered holders of the certificated notes as holders under the indenture.

Unless and until we issue the notes in fully certificated, registered form, (1) you will not be entitled to receive a certificate representing your interest in the notes; (2) all references in this prospectus supplement or in the accompanying prospectus to actions by holders will refer to actions taken by the depository upon instructions from their direct participants; and (3) all references in this prospectus supplement or the accompanying prospectus to payments and notices to holders will refer to payments and notices to the depository, as the registered holder of the notes, for distribution to you in accordance with its policies and procedures.

## **Governing Law**



The indenture and the notes for all purposes shall be governed by and construed in accordance with the laws of the State of New York.

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**Table of Contents****UNDERWRITING**

We intend to offer the notes through the underwriters named below. Subject to the terms and conditions contained in an underwriting agreement and the related pricing agreement between us and the underwriters, we have agreed to sell to each underwriter and each underwriter has severally agreed to purchase from us, the principal amount of the notes listed opposite its name below.

| <b>Underwriters</b>                                | <b>Principal<br/>Amount</b> |
|--|-----------------------------|
| UBS Securities LLC                                 | \$21,280,000                |
| Citigroup Global Markets Inc.                      | 16,726,000                  |
| Morgan Stanley & Co. Incorporated                  | 5,000,000                   |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 4,100,000                   |
|  | <hr/>                       |
| Total  | \$47,106,000                |
|  | <hr/>                       |

The underwriters have agreed to purchase all of the notes sold pursuant to the underwriting agreement if any of these notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriter may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

**Commissions and Discounts**

The underwriters have advised us that they propose initially to offer the notes to the public at the public offering price on the cover page of this prospectus supplement.

The expenses of the offering, not including the underwriting discount, are estimated to be \$180,000.00 and are payable by us.

**New Issue of Notes**

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or for quotation of the notes on any automated dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes or that an

active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

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**Price Stabilization and Short Positions**

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the notes. If the underwriters create a short position in the notes in connection with the offering, i.e., if they sell more notes than are on the cover page of this prospectus supplement, the underwriters may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude or any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

**Other Relationships**

The underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

**VALIDITY OF THE NOTES**

The validity of the notes will be passed upon for Procter & Gamble by Joseph A. Stegbauer, Senior Counsel, The Procter & Gamble Company, One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, One New York Plaza, New York, New York 10004. Mr. Stegbauer may rely as to matters of New York law upon the opinion of Fried, Frank, Harris, Shriver & Jacobson LLP, and Fried, Frank, Harris, Shriver & Jacobson LLP may rely as to matters of Ohio law upon the opinion of Mr. Stegbauer. Fried, Frank, Harris, Shriver & Jacobson LLP from time to time performs legal services for Procter & Gamble.

**AVAILABLE INFORMATION**

We file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be inspected and copied at the public reference room maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional office at 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604. Information relating to the operation of the public reference facility may be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is <http://www.sec.gov>. Copies of such materials can be obtained by mail from the Public Reference Branch of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

In addition, reports, proxy statements and other information concerning us may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, and the offices of the National Stock Exchange, 400 S. LaSalle Street, 5th Floor, Chicago, Illinois 60605.

We have filed with the SEC a registration statement on Form S-3 with respect to the securities that we are offering through this prospectus supplement and the accompanying prospectus. This registration statement, together with all amendments, exhibits and documents incorporated by reference, is referred to as the registration statement. This prospectus supplement does not contain all of the information included in the registration statement. Certain parts of the registration statement are omitted in accordance with the rules and regulations of the SEC. For further information, reference is made to the registration statement.

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**INCORPORATION OF DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference the information in documents that we file with them. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus, and information in documents that we file after the date of this prospectus supplement and before the termination of the offering will automatically update information in this prospectus supplement and the accompanying prospectus.

We incorporate by reference into this prospectus supplement:

our Annual Report on Form 10-K for the year ended June 30, 2004, as conformed to organizational and segment measurement changes contained in our Current Report on Form 8-K filed on October 22, 2004;

our Quarterly Report on Form 10-Q for the period ended September 30, 2004;

our Current Reports on Form 8-K dated September 1, 2004 and October 22, 2004; and

any future filings which we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, until we sell all of the securities offered by this prospectus supplement and the accompanying prospectus.

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**PROSPECTUS**

**The Procter & Gamble Company**

By this prospectus, we may offer

Debt Securities

Warrants

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. We may, from time to time, sell in one or more offerings pursuant to this prospectus up to a total dollar amount of \$8,558,000,000 of any combination of our debt securities and warrants.

This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

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

This prospectus is dated May 5, 2004

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This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may, from time to time, sell in one or more offerings up to a total dollar amount of \$8,558,000,000 of any combination of our debt securities and warrants.

This prospectus provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the specific amounts, prices and terms of the securities offered. The prospectus supplement may also add, update or change information contained in this prospectus.

You should carefully read both this prospectus and any prospectus supplement together with additional information described below under the heading **Where You Can Find More Information**.



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**THE COMPANY**

In this prospectus supplement and the accompanying prospectus, unless we otherwise specify or the context otherwise requires, references to:

Procter & Gamble, the Company, we, us, and our are to The Procter & Gamble Company and its subsidiaries

fiscal followed by a specific year are to our fiscal year ended or ending June 30 of that year; and

dollars, \$ and U.S.\$ are to United States dollars.

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 five product-based, reportable segments called Global Business Units ( GBUs ). These units are: Fabric and Home Care; Baby and Family Care; Beauty Care; Health Care; and Snacks and Beverages.

Fabric and Home Care includes laundry detergents, dish care, fabric enhancers and surface cleaners. Representative brands include Ariel, Tide, Dryel, Downy, Cascade, Dawn, Febreze and Swiffer.

Baby and Family Care includes diapers, wipes, tissue and towels. Representative brands include Pampers, Luvs, Charmin and Bounty.

Beauty Care includes hair care, hair colorants, skin care, cosmetics, fine fragrances, deodorants, tampons, pads and pantliners. Representative brands include Pantene, Herbal Essences, Nice N Easy, Head & Shoulders, Olay, Zest, Cover Girl, Secret, Old Spice, Tampax, Always and Whisper.

Snacks and Beverages includes coffee, snacks, commercial services and juice. Representative brands include Folgers, Millstone, Pringles and Sunny Delight.

Health Care includes oral care, personal health care, pharmaceuticals and pet health and nutrition. Representative brands include Crest, Scope, Metamucil, Vicks, Actonel, Asacol, Iams and Eukanuba.

In the most recent fiscal year ended June 30, 2003, the Fabric and Home Care segment accounted for 29% of total sales and Beauty Care accounted for 28% of total sales. Baby and Family Care accounted for 23%, Health Care accounted for 13% and Snacks and Beverages accounted for 7% of total sales.

In the United States, as of June 30, 2003, the Company owned and operated 35 manufacturing facilities and leased and operated 2 manufacturing facilities. These facilities were located in 21 different states. In addition, the Company owned and operated 83 manufacturing facilities in 42 other countries. Many of the domestic and international facilities produced products for multiple business segments. Fabric and Home Care products were produced at 45 of these locations; Baby and Family Care products at 32; Health Care products at 25; Beauty Care products at 39; and Snacks and Beverages products at 11.

Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983-1100.

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**RECENT DEVELOPMENTS**

In March, 2003, the Company entered into an agreement to acquire a controlling interest in Wella AG from the majority shareholders and, in June, 2003, the Company completed a tender offer for the remaining outstanding voting class shares and preference shares. On September 2, 2003, the Company completed the previously announced purchase of the shares of Wella AG held by the majority shareholders. On September 10, 2003, the Company purchased the shares secured through the tender offer. As a result of these purchases, the Company acquired approximately 81% of the outstanding Wella shares (99% of the voting class shares and 45% of the preference shares) for a total purchase price of 4.67 billion Euros, excluding acquisition costs (approximately \$5.1 billion based on actual exchange rates on the date of the transaction). The acquisition was financed by a mixture of available cash balances and debt. Wella AG is a leading beauty care company selling its products in more than 150 countries, focused on professional hair care, retail hair care and cosmetics and fragrances.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL INFORMATION**

The summary consolidated financial information for the years ended June 30, 2003 and 2002 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003. The summary consolidated financial information for the years ended June 30, 2001 and 2000 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2001. The summary consolidated financial information for the year ended June 30, 1999 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 1999. All information is reported in U.S. dollars.

|  | <b>Years Ended June 30,</b>                  |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | <b>1999</b>                                  | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> |
|  | (amounts in millions, except per share data) |             |             |             |             |
| <b>Operating Results:</b>                              |  |             |             |             |             |
| Net sales  | \$ 38,125                                    | \$ 39,951   | \$ 39,244   | \$ 40,238   | \$ 43,377   |
| Cost of products sold                                  | 21,027                                       | 21,514      | 22,102      | 20,989      | 22,141      |
| Marketing, research, administrative and other expenses | 10,845                                       | 12,483      | 12,406      | 12,571      | 13,383      |
| Operating income                                       | 6,253  | 5,954       | 4,736       | 6,678       | 7,853       |
| Interest expense                                       | 650  | 722         | 794         | 603         | 561         |
| Other Income, net                                      | 235  | 304         | 675         | 308         | 238         |
| Earnings before income taxes                           | 5,838  | 5,536       | 4,616       | 6,383       | 7,530       |
| Income taxes   | 2,075  | 1,994       | 1,694       | 2,031       | 2,344       |
| Net earnings   | 3,763  | 3,542       | 2,922       | 4,352       | 5,186       |
| Per common share:                                      |  |             |             |             |             |
| Basic net earnings                                     | \$ 2.75                                      | \$ 2.61     | \$ 2.15     | \$ 3.26     | \$ 3.90     |
| Diluted net earnings                                   | \$ 2.59                                      | \$ 2.47     | \$ 2.07     | \$ 3.09     | \$ 3.69     |
| Average shares outstanding:                            |  |             |             |             |             |
| Basic  | 1,328.1                                      | 1,313.2     | 1,300.3     | 1,297.4     | 1,296.6     |
| Diluted  | 1,446.8                                      | 1,427.2     | 1,405.6     | 1,404.9     | 1,401.3     |
| Ratio of earnings to fixed charges(1)(2)               | 8.8  | 7.1         | 6.2         | 10.4        | 12.8        |
| <b>Financial Position (at period end):</b>             |  |             |             |             |             |
| Working capital(3)                                     | \$ 597                                       | \$ 5        | \$ 1,043    | \$ (538)    | \$ 2,862    |
| Total assets   | 32,192                                       | 34,366      | 34,387      | 40,776      | 43,706      |
| Long-term debt   | 6,265  | 9,012       | 9,792       | 11,201      | 11,475      |
| Shareholders equity                                    | 12,058                                       | 12,287      | 12,010      | 13,706      | 16,186      |

- (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).

- (2) The ratio of earnings to fixed charges for the six months ended December 31, 2003 was 16.5.
- (3) Working capital is defined as current assets less current liabilities.

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**Results of Operations: Year Ended June 30, 2003 Compared to the Year Ended June 30, 2002**

***Financial Review***

*Results of Operations*

This financial report for the Company's fiscal year ended June 30, 2003 has been derived from our Annual Report to shareholders for the Company's fiscal year ended June 30, 2003.

The Company markets nearly 300 products in more than 160 countries around the world in five distinct business segments: Fabric and Home Care, Beauty Care, Baby and Family Care, Health Care and Snacks and Beverages.

The Company's results for the fiscal year ended June 30, 2003 reflect broad-based business strength, with four of the five segments delivering top-line sales growth and all five business segments delivering profit growth.

The Company continues to make clear choices about where to play and how to win. The framework for these decisions is grounded in focus areas that include: building core categories and leading brands, growing with leading customers and in the biggest geographic markets, investing in faster-growing, higher margin businesses and building leadership in fast-growing developing markets.

Consistent with this framework, in March 2003 the Company reached an agreement with the controlling shareholders of Wella AG to acquire 77.6% of the voting class shares. In June 2003, the Company completed a tender offer for the remaining outstanding voting class shares and preference shares, securing approximately 81% of the total outstanding Wella AG shares (99% of the voting class shares and 45% of the preference shares). This acquisition closed in the first quarter of fiscal 2004. Wella AG is a leading beauty care company selling its products in more than 150 countries, focused on professional hair care, retail hair care and cosmetics and fragrances.

This framework also requires some difficult decisions, including the Company's announcement in July 2003 to seek strategic alternatives for its Sunny Delight and Punica juice drink brands. Another example is the Company's continuing evaluation of outsourcing arrangements in areas where the Company can leverage industry expertise and scale to obtain high quality services at a lower cost. The Company has announced plans to outsource real estate and facilities management, information technology and certain other administrative and manufacturing processes.

*Volume and Net Sales*

The Company achieved record sales of \$43.38 billion in 2003, exceeding 2002 sales by \$3.14 billion, or 8%. Volume growth of 8% was broad-based, with particular strength in Fabric and Home Care, Beauty Care and Health Care. In fact, 19 of the Company's top 20 brands increased volume as compared to the prior year. Excluding the impacts of acquisitions and divestitures, volume was also up 8%, as the impact of the Clairol acquisition in November 2001 was offset by the impact of the Jif and Crisco spin-off in May 2002. Net sales included a favorable foreign exchange impact of 2%, as the strength of the Euro was partially offset by weakness in certain Latin American currencies. The foreign exchange impact was offset by pricing of 2% to stimulate growth and remain competitive in key categories, including the diapers, tissue, hair care, feminine care, teeth whitening and coffee. Future pricing activities will be aimed at providing value to both consumers and customers and will be influenced by competitive activity and the Company's product initiative program.

Fiscal year 2002 sales were \$40.24 billion, an increase of 3%, compared to \$39.24 billion in 2001, on volume growth of 7% driven by Health Care and Beauty Care. Net sales grew less than volume due to a 1% impact for exchange effects, a 1% impact for pricing and a 2% impact for mix.



**Table of Contents***Net Earnings*

Net earnings were \$5.19 billion in 2003, an increase of 19% compared to \$4.35 billion in 2002. Reported results included after-tax restructuring charges of \$538 million in 2003 and \$706 million in 2002. Increased earnings were driven by volume growth, the shift in mix to higher profit products in the Health Care and Beauty Care segments, lower restructuring costs and lower manufacturing costs as a percentage of net sales. Net earnings in 2001 were \$2.92 billion, including after-tax restructuring charges of \$1.48 billion. Net earnings in 2002 exceeded 2001 due to volume growth, manufacturing savings and lower restructuring charges. The restructuring program covered enrollment reductions, manufacturing consolidations and portfolio choices to scale back or discontinue under-performing businesses and initiatives and was substantially complete at June 30, 2003. It is discussed in more detail in the Restructuring Program section and Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

Diluted net earnings per share were \$3.69 in 2003 compared to \$3.09 in 2002 and \$2.07 in 2001, including the restructuring charge impact of \$0.39, \$0.50 and \$1.05 per share, respectively.

*Operating Costs*

Cost of products sold was \$22.14 billion in 2003 compared to \$20.99 billion in 2002 and \$22.10 billion in 2001. Before-tax restructuring charges included in cost of products sold were \$381 million in 2003, \$508 million in 2002 and \$1.14 billion in 2001. Gross margin in 2003 improved to 49.0%, an increase of 120 basis points versus the previous year. Lower restructuring costs accounted for 40 basis points of the improvement with the remainder achieved behind lower material costs and the benefits of restructuring and base business savings delivered outside the restructuring program. Gross margin of 47.8% in 2002 improved versus 43.7% in 2001, which was more significantly impacted by restructuring charges.

Marketing, research, administrative and other expense (MRA&O) was \$13.38 billion in 2003 versus \$12.57 billion in 2002 and \$12.41 billion in 2001. MRA&O included before-tax restructuring charges of \$374 million in 2003, \$519 million in 2002 and \$583 million in 2001. The increase in MRA&O in 2003 versus 2002 was driven by additional marketing investments behind new product launches and expansions of existing brands, including Tide with Bleach, Swiffer Duster, Crest Whitestrips and Olay Regenerist. Marketing investments were partially offset by lower research and administrative costs, reflecting savings from the Company's restructuring program.

As a percent of net sales, MRA&O has improved with 2003 down 30 basis points to 30.9%. Marketing expenses as a percentage of net sales increased 75 basis points due to the marketing investments discussed in the preceding paragraph as well as other product launches and brand equity building activities. This was more than offset by lower research and administrative expenses as a percentage of net sales due to scale efficiencies and lower restructuring costs. MRA&O was 31.2% of net sales in 2002 versus 31.6% in 2001, with higher marketing investments more than offset by lower restructuring costs.

*Non-Operating Items*

Interest expense was \$561 million in 2003, compared to \$603 million in 2002 and \$794 million in 2001. The decline in interest expense in 2003 was driven by lower interest rates and debt balances. The decline in 2002 versus 2001 was driven by lower interest rates partially offset by an increase in debt to fund the Clairol acquisition in November 2001.

Other non-operating income, which consists primarily of interest and investment income and divestitures, contributed \$238 million in 2003 compared to \$308 million in 2002 and \$674 million in





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2001. This decline was driven by significantly lower gains from divestitures and asset sales in 2003 and 2002 versus 2001, as the Company's activity to divest non-strategic brands declined.

The Company's effective tax rate for 2003 was 31.1%, a reduction of 70 basis points compared to the 2002 rate of 31.8%. The effective tax rate for 2001 was 36.7%. The decline in the current year was driven primarily by the country mix impact of foreign operations, as earnings increased in countries with lower overall tax rates. The declining rate since 2001 also reflected the impact of lower restructuring charges and amortization of goodwill and indefinite-lived intangibles prior to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets.

*Net Earnings Margins*

Net earnings margin was 12.0% in 2003 versus 10.8% in 2002 and 7.4% in 2001. The margin increase in 2003 was primarily driven by higher volume, lower unit cost of products sold due to lower materials costs, the benefits of restructuring, as well as base business savings, and a reduction in restructuring charges. In 2002, the margin increase reflected a reduction in restructuring charges, the benefit of base and restructuring cost savings projects on both manufacturing and overhead costs and the benefits of lower interest expense.

***Financial Condition***

The Company's financial condition remains solid, particularly as demonstrated by cash flow generation. One of the Company's key focus areas is cash management, including capital spending targets, to achieve superior shareholder return.

*Cash*

Operating cash flow provides the primary source of funds to finance operating needs, capital expenditures and shareholder dividends. This is supplemented by additional borrowings to provide funds to finance the share repurchase program and acquisitions. The overall cash position of the Company reflects a global strategy to optimize cash management while considering offshore funding needs, liquidity management objectives and other economic considerations.

The Company continues to generate strong operating cash flow. In 2003, operating cash flow was \$8.70 billion, up \$958 million from \$7.74 billion in 2002. The increase in 2003 was primarily driven by higher earnings. Changes in working capital also contributed, primarily behind an increase in current liabilities. Operating cash flow in 2002 was up \$1.94 billion from \$5.80 billion in 2001, driven by higher earnings and an increase in taxes payable, partially offset by lower depreciation and amortization charges.

Operating cash flow less capital spending, or free cash flow, was \$7.22 billion for 2003, a 19% increase over the prior year. The majority of the year-over-year improvement was driven by increased earnings with lower capital spending also contributing. Free cash flow was \$6.06 billion in 2002 and \$3.32 billion in 2001.

Net cash used for acquisitions in 2003 was \$61 million. This compares to \$5.47 billion in cash used in 2002, primarily for the Clairol acquisition, and \$138 million in 2001. The acquisition of Wella AG, which occurred subsequent to the 2003 fiscal year, was funded using a combination of debt and available cash balances.

Proceeds from the divestiture of certain non-strategic brands and other asset sales generated \$143 million in cash flow in the current year, compared to the \$227 million generated in 2002.



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Divestitures in both years reflect historical levels, but represent a significant decline when compared to the \$788 million generated in 2001, during the Company's program to divest minor brands.

The Company maintains a share repurchase program and annually authorizes the purchase of shares of Company stock on the open market. A primary purpose of the program is to mitigate the dilutive impact of stock option grants, effectively prefunding the exercise obligation. Additionally, there is a discretionary component under which the Company may repurchase additional outstanding shares. Current year purchases under the combined programs were \$1.24 billion, reflecting a return to historical levels, compared to \$568 million in 2002 and \$1.25 billion in 2001. The decline in 2002 was primarily due to cash requirements associated with the Clairol acquisition.

Common share dividends grew 8% to \$1.64 per share in 2003 versus \$1.52 in 2002 and \$1.40 in 2001. The annual dividend rate will increase 11% to \$1.82 per common share in 2004, marking the 48th consecutive fiscal year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were \$2.25 billion, \$2.10 billion and \$1.94 billion in 2003, 2002 and 2001, respectively.

Total debt decreased from \$14.93 billion in 2002 to \$13.65 billion in 2003, a reduction of \$1.28 billion. Total debt in 2001 was \$12.02 billion. The decrease in 2003 was primarily due to the utilization of cash flow from operations to pay down existing balances. The increase in debt in 2002 was primarily driven by the Clairol acquisition.

Due to strong credit ratings, the Company is able to issue commercial paper at favorable rates and to readily access general bank financing. The Company's Standard & Poor's (S&P) and Moody's short-term credit ratings are A-1+ and P-1, respectively.

### *Capital Spending*

Capital spending efficiency continues to be a focus area for the Company. Total capital spending in 2003 was \$1.48 billion, a decrease of \$197 million compared to 2002 spending of \$1.68 billion. Capital spending in 2001 was \$2.49 billion. Capital spending in 2003 as a percentage of net sales was 3.4%, the lowest level in over a decade. Capital spending was 4.2% and 6.3% of net sales in 2002 and 2001, respectively. This is a result of the systemic interventions the Company has made to improve capital spending efficiencies and asset utilization and is primarily the result of lower spending in Baby and Family Care. On an ongoing basis, while there may be exceptional years when specific business circumstances, such as capacity additions, may lead to higher spending, the Company's goal is to maintain capital spending at about 4% of net sales.

### *Guarantees and Other Off-Balance Sheet Arrangements*

The Company does not have guarantees or other off-balance sheet financing arrangements that the Company believes could have a material impact on financial condition or liquidity.

### *Purchase Commitments*

The Company has purchase commitments for materials, supplies, services and fixed assets as part of the normal course of business. Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for either early termination or failure to purchase contracted quantities. The Company does not expect potential payments under these provisions to materially affect results of operations or financial condition. This conclusion is made based upon reasonably likely outcomes assumed by reference to historical experience and current business plans.



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*Liquidity*

As discussed previously, the Company's primary source of liquidity is cash generated from operations. Additionally, the Company is able to support its short-term liquidity, if necessary, through agreements with a diverse group of creditworthy financial institutions. The Company has never drawn on these facilities and does not intend to do so in the foreseeable future. However, should the facilities be needed, when combined with cash on hand, the Company believes they would provide sufficient credit funding to meet any short-term financing requirements. The Company does not have other commitments or related party transactions that are considered material to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

**FORWARD-LOOKING STATEMENTS**

All statements, other than statements of historical fact included in this Prospectus, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition to the risks and uncertainties noted in this presentation, there are certain factors that could cause actual results to differ materially from those anticipated by some of the statements made. These include: (1) the ability to achieve business plans, including 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 Wella) and completing planned divestitures (including the potential divestiture of the company's juice business), (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 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 successful completion 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, especially in the Company's significant geographical markets, as well as any political and/or economic uncertainty due to terrorist activities; and (9) the ability to successfully manage increases in the prices of raw materials used to make the Company's products. 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 might differ materially from the forward-looking statements made herein. For additional information concerning factors that could cause actual results to materially differ from those projected herein, please refer to our most recent 10-K, 10-Q and 8-K reports.

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**USE OF PROCEEDS**

Unless otherwise indicated in the applicable prospectus supplement, we will use the net proceeds from the sale of debt securities and warrants offered by this prospectus for general corporate purposes.

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**DESCRIPTION OF DEBT SECURITIES**

This section describes the general terms and provisions of any debt securities that we may offer in the future. A prospectus supplement relating to a particular series of debt securities will describe the specific terms of that particular series and the extent to which the general terms and provisions apply to that particular series.

**General**

We expect to issue the debt securities under an indenture, dated as of September 28, 1992, between us and J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association, as trustee. We have filed a copy of the indenture as an exhibit to the registration statement of which this prospectus forms a part. The following summaries of various provisions of the indenture are not complete. You should read the indenture for a more complete understanding of the provisions described in this section. The indenture itself, not this description or the description in the prospectus supplement, defines your rights as a holder of debt securities. Parenthetical section and article numbers in this description refer to sections and articles in the indenture.

The debt securities will be unsecured obligations of Procter & Gamble. The indenture does not limit the amount of debt securities that we may issue under the indenture. The indenture provides that we may issue debt securities from time to time in one or more series.

**Terms of a Particular Series**

Each prospectus supplement relating to a particular series of debt securities will include specific information relating to the offering. This information will include some or all of the following terms of the debt securities of the series:

the title of the debt securities;

any limit on the total principal amount of the debt securities;

the date or dates on which the debt securities will mature;

the rate or rates, which may be fixed or variable, at which the debt securities will bear interest, if any, and the date or dates from which interest will accrue;

the dates on which interest, if any, will be payable and the regular record dates for interest payments;

any mandatory or optional sinking fund or similar provisions;

any optional or mandatory redemption provisions, including the price at which, the periods within which, and the terms and conditions upon which we may redeem or repurchase the debt securities;

the terms and conditions upon which the debt securities may be repayable prior to final maturity at the option of the holder;

the portion of the principal amount of the debt securities that will be payable upon acceleration of maturity, if other than the entire principal amount;

provisions allowing us to defease the debt securities or certain restrictive covenants and certain events of default under the indenture;



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if other than in United States dollars, the currency or currencies, including composite currencies, of payment of principal of and premium, if any, and interest on the debt securities;

the federal income tax consequences and other special considerations applicable to any debt securities denominated in a currency or currencies other than United States dollars;

any index used to determine the amount of payments of principal of and premium, if any, and interest, if any, on the debt securities;

if the debt securities will be issuable only in the form of a global security as described below, the depository or its nominee with respect to the debt securities and the circumstances under which the global security may be registered for transfer or exchange in the name of a person other than the depository or its nominee; and

any other terms of the debt securities. (Section 301)

**Payment of Principal, Premium and Interest**

Unless otherwise indicated in the prospectus supplement, principal of and premium, if any, and interest, if any, on the debt securities will be payable, and the debt securities will be exchangeable and transfers of debt securities will be registrable, at the office of the trustee at 1 Bank One Plaza, Suite IL1-0823 Chicago, Illinois 60670. At our option, however, payment of interest may be made by:

wire transfer on the date of payment in immediately available federal funds or next day funds to an account specified by written notice to the trustee from any holder of debt securities;

any similar manner that the holder may designate in writing to the trustee; or

check mailed to the address of the holder as it appears in the security register. (Sections 301, 305 and 1002)

Any payment of principal and premium, if any, and interest, if any, required to be made on a day that is not a business day need not be made on that day, but may be made on the next succeeding business day with the same force and effect as if made on the non-business day. No interest will accrue for the period from and after the non-business day. (Section 113)

Unless otherwise indicated in the prospectus supplement relating to the particular series of debt securities, we will issue the debt securities only in fully registered form, without coupons, in denominations of \$1,000 or any multiple of \$1,000. (Section 302) We will not require a service charge for any transfer or exchange of the debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with any transfer or exchange. (Section 305)

**Original Issue Discount Securities**

Debt securities may be issued under the indenture as original issue discount securities to be offered and sold at a substantial discount from their stated principal amount. An original issue discount security under the indenture includes any security which provides for an amount less than its principal amount to be due and payable upon a declaration of acceleration upon the occurrence of an event of default. In addition, under regulations of the U.S. Treasury Department it is possible that debt securities which are offered and sold at their stated principal amount would, under certain circumstances, be treated as issued at an original issue discount for federal income tax purposes, and special rules may apply to debt securities and warrants which are considered to be issued as investment units. Federal income tax consequences and other special considerations applicable to any such original issue discount securities, or other debt securities treated as issued at an original issue discount, and to investment units will be

described in the applicable prospectus supplement.

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### **Book-Entry Debt Securities**

The debt securities of a series may be issued in the form of one or more global securities that will be deposited with a depository or its nominee identified in the prospectus supplement relating to the debt securities. In this case, one or more global securities will be issued in a denomination or total denominations equal to the portion of the total principal amount of outstanding debt securities to be represented by the global security or securities. Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a global security may not be registered for transfer or exchange except as a whole by the depository for the global security to a nominee of the depository and except in the circumstances described in the prospectus supplement relating to the debt securities. We will describe in the prospectus supplement the terms of any depository arrangement and the rights and limitations of owners of beneficial interests in any global debt security. (Sections 204 and 305)

### **Restrictive Covenants**

In this section we describe the principal covenants that will apply to the debt securities unless the prospectus supplement for a particular series of debt securities states otherwise. We make use of several defined terms in this section. The definitions for these terms are located at the end of this section under **Definitions Applicable to Covenants**.

#### ***Restrictions on Secured Debt***

If we or any Domestic Subsidiary shall incur, assume or guarantee any Debt secured by a Mortgage on any Principal Domestic Manufacturing Property or on any shares of stock or debt of any Domestic Subsidiary, we will secure, or cause such Domestic Subsidiary to secure, the debt securities then outstanding equally and ratably with (or prior to) such Debt. However, we will not be restricted by this covenant if, after giving effect to the particular Debt so secured the total amount of all Debt so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Domestic Manufacturing Properties, would not exceed 5% of our and our consolidated subsidiaries' Consolidated Net Tangible Assets.

In addition, the restriction will not apply to, and there shall be excluded in computing secured Debt for the purpose of the restriction, Debt secured by

- (1) Mortgages on property of, or on any shares of stock or debt of, any corporation existing at the time the corporation becomes a Domestic Subsidiary;
  - (2) Mortgages in favor of us or a Domestic Subsidiary;
  - (3) Mortgages in favor of U.S. governmental bodies to secure progress or advance payments;
  - (4) Mortgages on property, shares of stock or debt existing at the time of their acquisition, including acquisition through merger or consolidation, purchase money Mortgages and construction cost Mortgages; and
  - (5) any extension, renewal or refunding of any Mortgage referred to in the immediately preceding clauses (1) through (4), inclusive. (Section 1004)
- The indenture does not restrict the incurrence of unsecured debt by us or our subsidiaries.

#### ***Restrictions on Sales and Leasebacks***

Neither we nor any Domestic Subsidiary may enter into any sale and leaseback transaction involving any Principal Domestic Manufacturing Property, the completion of construction and

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commencement of full operation of which has occurred more than 120 days prior to the transaction, unless

we or the Domestic Subsidiary could incur a lien on the property under the restrictions described above under Restrictions on Secured Debt in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the debt securities then outstanding or

we, within 120 days, apply to the retirement of our Funded Debt an amount not less than the greater of (1) the net proceeds of the sale of the Principal Domestic Manufacturing Property leased pursuant to such arrangement or (2) the fair value of the Principal Domestic Manufacturing Property so leased, subject to credits for various voluntary retirements of Funded Debt.

This restriction will not apply to any sale and leaseback transaction

between us and a Domestic Subsidiary,

between Domestic Subsidiaries or

involving the taking back of a lease for a period of less than three years. (Section 1005)

***Definitions Applicable to Covenants***

The term *Attributable Debt* means the total net amount of rent, discounted at 10% per annum compounded annually, required to be paid during the remaining term of any lease.

The term *Consolidated Net Tangible Assets* means the total amount of assets, less applicable reserves and other properly deductible items, after deducting (a) all current liabilities and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as described on our and our consolidated subsidiaries most recent balance sheet and computed in accordance with generally accepted accounting principles.

The term *Debt* means notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

The term *Domestic Subsidiary* means any of our subsidiaries except a subsidiary which neither transacts any substantial portion of its business nor regularly maintains any substantial portion of its fixed assets within the United States or which is engaged primarily in financing our and our subsidiaries operations outside the United States.

The term *Funded Debt* means Debt having a maturity of, or by its terms extendible or renewable for, a period of more than 12 months after the date of determination of the amount of Debt.

The term *Mortgage* means pledges, mortgages and other liens.

The term *Principal Domestic Manufacturing Property* means any facility (together with the land on which it is erected and fixtures comprising a part of the land) used primarily for manufacturing or processing, located in the United States, owned or leased by us or one of our subsidiaries and having a gross book value in excess of 3/4 of 1% of Consolidated Net Tangible Assets. However, the term *Principal Domestic Manufacturing Property* does not include any facility or portion of a facility (1) which is a pollution control or other facility financed by obligations issued by a state or local governmental unit pursuant to Section 103(b)(4)(E), 103(b)(4)(F) or 103(b)(6) of the Internal Revenue Code of 1954, or any successor provision thereof, or (2) which, in the opinion of our board of directors, is not of material importance to the total business conducted by us and our subsidiaries as an entirety.



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**Events of Default**

Any one of the following are events of default under the indenture with respect to debt securities of any series:

- (1) our failure to pay principal of or premium, if any, on any debt security of that series when due;
- (2) our failure to pay any interest on any debt security of that series when due, continued for 30 days;
- (3) our failure to deposit any sinking fund payment, when due, in respect of any debt security of that series;
- (4) our failure to perform any other of our covenants in the indenture, other than a covenant included in the indenture solely for the benefit of other series of debt securities, continued for 90 days after written notice as provided in the indenture;
- (5) certain events involving bankruptcy, insolvency or reorganization; and
- (6) any other event of default provided with respect to debt securities of that series. (Section 501)

If an event of default with respect to outstanding debt securities of any series shall occur and be continuing, either the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series may declare the principal amount (or, if the debt securities of that series are original issue discount securities, the portion of the principal amount as may be specified in the terms of that series) of all the debt securities of that series to be due and payable immediately. At any time after a declaration of acceleration with respect to debt securities of any series has been made, but before a judgment or decree based on acceleration has been obtained, the holders of a majority in principal amount of the outstanding debt securities of that series may, under some circumstances, rescind and annul the acceleration. (Section 502) For information as to waiver of defaults, see the section below entitled **Modification and Waiver** .

A prospectus supplement relating to each series of debt securities which are original issue discount securities will describe the particular provisions relating to acceleration of the maturity of a portion of the principal amount of such original issue discount securities upon the occurrence of an event of default and its continuation.

During default, the trustee has a duty to act with the required standard of care. Otherwise, the indenture provides that the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless the holders shall have offered to the trustee reasonable indemnity. (Section 603) If the provisions for indemnification of the trustee have been satisfied, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series. (Section 512)

We will furnish to the trustee annually a certificate as to our compliance with all conditions and covenants under the indenture. (Section 1007)

**Defeasance**

The prospectus supplement will state if any defeasance provision will apply to the debt securities. Defeasance refers to the discharge of some or all of our obligations under the indenture.

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***Defeasance and Discharge***

We will be discharged from any and all obligations in respect of the debt securities of any series if we deposit with the trustee, in trust, money and/or U.S. government securities which through the payment of interest and principal will provide money in an amount sufficient to pay the principal of and premium, if any, and each installment of interest on the debt securities of the series on the dates those payments are due and payable.

If we defease a series of debt securities, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for

the rights of holders to receive from the trust funds payment of principal, premium and interest on the debt securities,

our obligation to register the transfer or exchange of debt securities of the series,

our obligation to replace stolen, lost or mutilated debt securities of the series,

our obligation to maintain paying agencies,

our obligation to hold monies for payment in trust and

the rights of holders to benefit, as applicable, from the rights, powers, trusts, duties and immunities of the trustee.

We may defease a series of debt securities only if, among other things:

we have received from, or there has been published by, the Internal Revenue Service a ruling to the effect that holders of the debt securities of the series will not recognize income, gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred, and

we have delivered to the trustee an opinion of counsel, who may be our employee or counsel, to the effect that the debt securities of the series, if then listed on the New York Stock Exchange, will not be delisted as a result of the deposit, defeasance and discharge. (Section 403)

***Defeasance of Covenants and Events of Default***

We may omit to comply with the covenants described above under Restrictions on Secured Debt (Section 1004) and Restrictions on Sales and Leasebacks (Section 1005), and the failure to comply with these covenants will not be deemed an event of default (Section 501(4)), if we deposit with the trustee, in trust, money and/or U.S. government securities which through the payment of interest and principal will provide money in an amount sufficient to pay the principal of and premium, if any, and each installment of interest on the debt securities of the series on the dates those payments are due and payable. Our obligations under the indenture and the debt securities of the series will remain in full force and effect, other than with respect to the defeased covenants and related events of default.

We may defease the covenants and the related events of default described above only if, among other things, we have delivered to the trustee an opinion of counsel, who may be our employee or counsel, to the effect that



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the holders of the debt securities of the series will not recognize income, gain or loss for federal income tax purposes as a result of the deposit and defeasance of the covenants and events of default, and the holders of the debt securities of the series will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit and defeasance had not occurred, and

the debt securities of the series, if then listed on the New York Stock Exchange, will not be delisted as a result of the deposit and defeasance. (Section 1006)

If we choose covenant defeasance with respect to the debt securities of any series as described above and the debt securities of the series are declared due and payable because of the occurrence of any event of default other than the event of default described in clause (4) under Events of Default, the amount of money and U.S. government securities on deposit with the trustee will be sufficient to pay amounts due on the debt securities of the series at the time of their stated maturity. The amount on deposit with the trustee may not be sufficient to pay amounts due on the debt securities of the series at the time of the acceleration resulting from the event of default. However, we will remain liable for these payments.

**Modification and Waiver**

Procter & Gamble and the trustee may make modifications of and amendments to the indenture if the holders of at least 66 2/3% in principal amount of the outstanding debt securities of each series affected by the modification or amendment consent to the modification or amendment.

However, the consent of the holder of each debt security affected will be required for any modification or amendment that

changes the stated maturity of the principal of, or any installment of principal of or interest on, any debt security,

reduces the principal amount of, or the premium, if any, or interest, if any, on, any debt security,

reduces the amount of principal of an original issue discount security payable upon acceleration of the maturity of the security,

changes the place or currency of payment of principal of, or premium, if any, or interest, if any, on, any debt security,

impairs the right to institute suit for the enforcement of any payment on any debt security, or

reduces the percentage in principal amount of debt securities of any series necessary to modify or amend the indenture or to waive compliance with various provisions of the indenture or to waive various defaults. (Section 902)

Without the consent of any holder of debt securities, we and the trustee may make modifications or amendments to the indenture in order to

evidence the succession of another person to us and the assumption by that person of the covenants in the indenture,

add to the covenants for the benefit of the holders,

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add additional events of default,

permit or facilitate the issuance of securities in bearer form or uncertificated form,

add to, change, or eliminate any provision of the indenture in respect of a series of debt securities to be created in the future,

secure the securities as required by Restrictions on Secured Debt,

establish the form or terms of securities of any series,

evidence the appointment of a successor trustee, or

cure any ambiguity, correct or supplement any provision which may be inconsistent with another provision, or make any other provision, provided that any action may not adversely affect the interests of holders of debt securities in any material respect.

The holders of at least 66 2/3% in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive compliance by us with various restrictive provisions of the indenture. (Section 1008)

The holders of a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive any past default with respect to that series, except

a default in the payment of the principal of or premium, if any, or interest on any debt security of that series, or

a default in respect of a provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding debt security of that series that would be affected. (Section 513)

**Consolidation, Merger and Sale of Assets**

If the conditions below are met, we may, without the consent of any holders of outstanding debt securities:

consolidate or merge with or into another entity, or

transfer or lease our assets as an entirety to another entity.

We have agreed that we will engage in a consolidation, merger or transfer or lease of assets as an entirety only if

the entity formed by the consolidation or into which we are merged or which acquires or leases our assets is a corporation, partnership or trust organized and existing under the laws of any United States jurisdiction and assumes our obligations on the debt securities and under the indenture,

after giving effect to the transaction no event of default would have happened and be continuing, and

various other conditions are met. (Article Eight)

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**Regarding the Trustee**

J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association, is the trustee under the indenture. J.P. Morgan Trust Company is also a depository of Procter & Gamble and has performed other services for us and our subsidiaries in the normal course of its business.

**DESCRIPTION OF WARRANTS**

This section describes the general terms and provisions of the warrants to which any prospectus supplement may relate. The particular terms of the warrants offered by any prospectus supplement and the extent, if any, to which the general provisions may apply to the warrants so offered will be described in the prospectus supplement relating to the offered warrants.

We may issue the following types of warrants:

warrants for the purchase of debt securities,

warrants to buy or sell government debt securities, which are debt securities of or guaranteed by the United States,

warrants to buy or sell foreign currencies, currency units or units of a currency index or currency basket,

warrants to buy or sell units of a stock index or stock basket and

warrants to buy and sell a commodity or a commodity index.

We may issue warrants independently or together with any debt securities offered by any prospectus supplement. Warrants may be attached to or separate from any debt securities. The warrants will be settled either through physical delivery or through payment of a cash settlement value as described below and in any applicable prospectus supplement.

Warrants will be issued under a warrant agreement to be entered into between Procter & Gamble and a bank or trust company, as warrant agent, all as described in the prospectus supplement relating to the particular issue of warrants. The warrant agent will act solely as our agent in connection with the warrant certificates and will not assume any obligation or relationship of agency or trust for or with any holders of warrant certificates or beneficial owners of warrants.

We have filed a copy of the form of warrant agreement, including the form of warrant certificate, as an exhibit to the registration statement of which this prospectus forms a part. The following summaries of various provisions of the form of warrant agreement are not complete. You should read the form of warrant agreement for a more complete understanding of the provisions described in this section. The warrant agreement itself, not this description or the description in the prospectus supplement, defines your rights as a holder of warrants.

**Terms**

The prospectus supplement will describe the following terms of the offered warrants:

the offering price;

the currency, currency unit, currency index or currency basket based on or relating to currencies for which warrants may be purchased;

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the date on which the right to exercise the warrants commences and the date on which the right expires;

whether the warrant certificates will be issuable in definitive registered form or global form or both;

federal income tax consequences;

whether the warrant is for debt securities, government debt securities, currencies, currency units, currency indices or currency baskets, stock indices, stock baskets, commodities, commodity indices or another index or reference as described in the prospectus supplement; and

any other terms of the warrants, including any terms which may be required or advisable under United States laws or regulations.

**Warrants to Purchase Debt Securities**

If the offered warrants are to purchase debt securities, the prospectus supplement will also describe

the designation, total principal amount, currency, currency unit or currency basket of denomination and other terms of the debt securities purchasable upon exercise of the offered warrants;

the designation and terms of the debt securities with which the offered warrants are issued and the number of offered warrants issued with each debt security;

the date on and after which the offered warrants and the related debt securities will be separately transferable; and

the principal amount of debt securities purchasable upon exercise of one offered warrant and the price at which and currency, currency unit or currency basket in which such principal amount of debt securities may be purchased upon exercise.

**Warrants to Buy or Sell Government Debt Securities or Foreign Currencies**

If the offered warrants are to buy or sell government debt securities or a foreign currency, currency unit, currency index or currency basket, the offered warrants will be listed on a national securities exchange and the prospectus supplement will describe

the amount and designation of the government debt securities or currency, currency unit, currency index or currency basket, as the case may be, subject to each offered warrant,

whether the offered warrants provide for cash settlement or delivery of the government debt securities or foreign currency, currency unit, units of the currency index or currency basket upon exercise, and

the national securities exchange on which the offered warrants will be listed.

**Warrants on a Stock Index or a Stock Basket**

If the offered warrants are warrants on a stock index or a stock basket, the offered warrants will provide for payment of an amount in cash determined by reference to increases or decreases in the stock index or stock basket and will be listed on a national securities exchange, and the prospectus supplement will describe

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the terms of the offered warrants,

the stock index or stock basket covered by the offered warrants and the market to which the stock index or stock basket relates, and

the national securities exchange on which the offered warrants will be listed.

**Warrants on a Commodity or Commodity Index**

If the offered warrants are warrants on a commodity or commodity index, the offered warrants will provide for cash settlement or delivery of the particular commodity or commodities and the offered warrants will be listed on a national securities exchange. The prospectus supplement will describe

the terms of the offered warrants,

the commodity or commodity index covered by the offered warrants and the market, if any, to which the commodity or commodity index relates and

the national securities exchange on which the warrants will be listed.

**Warrant Certificates**

Warrant certificates may be exchanged for new warrant certificates of different denominations, may if in registered form be presented for registration of transfer, and may be exercised at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement. Warrants to buy or sell government debt securities or a foreign currency, currency unit, currency index or currency basket, and warrants on stock indices or stock baskets or on commodities or commodity indices may be issued in the form of a single global warrant certificate, registered in the name of the nominee of the depository of the warrants, or may initially be issued in the form of definitive certificates that may be exchanged, on a fixed date, or on a date or dates selected by us, for interests in a global warrant certificate, as described in the applicable prospectus supplement.

Prior to the exercise of their warrants, holders of warrants to purchase debt securities will not have any of the rights of holders of the debt securities purchasable upon exercise of the warrant, including the right to receive payments of principal of, premium, if any, or interest, if any, on the debt securities or to enforce covenants in the indenture.

**Exercise of Warrants**

As described in or calculable from the prospectus supplement relating to the warrants, you may exercise your warrant

to purchase the principal amount of debt securities at the exercise price,

to buy or sell the amount of government debt securities or of a currency, currency unit, currency index or currency basket, stock index or stock basket, commodity or commodities at the exercise price or

to receive such settlement value in respect of such amount of government debt securities or of a currency, currency unit, currency index or currency basket, stock index or stock basket, commodity or commodity index.

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Warrants may be exercised at any time up to 3:00 P.M. New York time on the date described in the prospectus supplement relating to such warrants or as may be otherwise described in the prospectus supplement. After that time on that date, or a later date to which the date may be extended by us, unexercised warrants will become void.

If there are no restrictions or additional requirements described in the prospectus supplement, you may exercise warrants by delivering to the warrant agent

the properly completed and duly executed warrant certificate and

payment as provided in the prospectus supplement of the amount required to purchase the debt securities, or, except in the case of warrants providing for cash settlement, payment for or delivery of the government debt securities or currency, currency unit, currency index, currency basket, stock index, stock basket, commodity or commodities index as the case may be, purchased or sold upon the exercise of the warrant.

Warrants will be deemed to have been exercised upon receipt of the warrant certificate and any payment, if applicable, at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement. We will, as soon as possible, issue and deliver the debt securities purchasable upon exercise, or buy or sell the government debt securities or currency, currency unit, currency index or currency basket, stock index or stock basket, commodity or commodities or pay the settlement value in respect of the warrants. If you exercise fewer than all of the warrants represented by the warrant certificate, you will receive a new warrant certificate for the remaining amount of the warrants.

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**PLAN OF DISTRIBUTION**

**General**

We may sell debt securities and/or warrants in one or more transactions from time to time to or through underwriters, who may act as principals or agents, directly to other purchasers or through agents to other purchasers.

A prospectus supplement relating to a particular offering of debt securities or warrants may include the following information:

the terms of the offering,

the names of any underwriters or agents,

the purchase price of the securities from us,

the net proceeds to us from the sale of the securities,

any delayed delivery arrangements,

any underwriting discounts and other items constituting underwriters' compensation,

any initial public offering price and

any discounts or concessions allowed or reallocated or paid to dealers.

The distribution of the debt securities and warrants, if any, may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices.

**Underwriting Compensation**

In connection with the sale of debt securities and warrants, if any, underwriters may receive compensation from us or from purchasers for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell debt securities and warrants to or through dealers, and the dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents.

Underwriters, dealers and agents that participate in the distribution of debt securities and warrants may be deemed to be underwriters under the Securities Act. Any discounts or commissions that they receive from us and any profit that they receive on the resale of debt securities and warrants may be deemed to be underwriting discounts and commissions under the Securities Act. If any entity is deemed an underwriter or any amounts deemed underwriting discounts and commissions, the prospectus supplement will identify the underwriter or agent and describe the compensation received from us.

**Indemnification**

We may enter agreements under which underwriters and agents who participate in the distribution of debt securities and warrants may be entitled to indemnification by us against various liabilities, including liabilities under the Securities Act, and to contribution with respect to payments which the underwriters, dealers or agents may be



required to make.

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### **Related Transactions**

Various of the underwriters who participate in the distribution of debt securities or warrants, and their affiliates, may perform various commercial banking and investment banking services for us from time to time in the ordinary course of business.

### **Delayed Delivery Contracts**

We may authorize underwriters or other persons acting as our agents to solicit offers by institutions to purchase debt securities and warrants from us pursuant to contracts providing for payment and delivery on a future date. These institutions may include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases we must approve these institutions. The obligations of any purchaser under any of these contracts will be subject to the condition that the purchase of the debt securities and/or warrants shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and other agents will not have any responsibility in respect of the validity or performance of these contracts.

### **No Established Trading Market**

The debt securities and/or warrants, when first issued, will have no established trading market. Any underwriters or agents to or through whom we sell debt securities or warrants for public offering and sale may make a market in the securities but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the debt securities or warrants.

### **Price Stabilization and Short Positions**

If underwriters or dealers are used in the sale, until the distribution of the securities is completed, rules of the Securities and Exchange Commission may limit the ability of any underwriters to bid for and purchase the securities. As an exception to these rules, representatives of any underwriters are permitted to engage in transactions that stabilize the price of the securities. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the securities. If the underwriters create a short position in the securities in connection with the offering, i.e., if they sell more securities than are set forth on the cover page of the prospectus supplement, the representatives of the underwriters may reduce that short position by purchasing securities in the open market.

We make no representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the securities. In addition, we make no representation that the representatives of any underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## **LEGAL OPINIONS**

The validity of the issuance of our securities offered by this prospectus will be passed upon for The Procter & Gamble Company by Chris B. Walther, Assistant Secretary or any Counsel, Senior Counsel or Associate General Counsel of the Company, and for any underwriters or agents by Fried, Frank, Harris, Shriver & Jacobson LLP or other counsel for the underwriters. Mr. Walther or other counsel for the Company may rely as to matters of New York law upon the opinion of Fried, Frank, Harris, Shriver & Jacobson LLP or other counsel for the underwriters. Fried, Frank, Harris, Shriver & Jacobson LLP or other counsel for the underwriters may rely as to matters of Ohio law upon the

opinion of Mr. Walther or other counsel for the Company. Fried, Frank, Harris, Shriver & Jacobson LLP performs legal services for us from time to time.

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**EXPERTS**

The financial statements incorporated in this prospectus by reference from The Procter and Gamble Company's Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy materials that we have filed with the SEC, including the registration statement, at the following public reference room of the SEC:

450 Fifth Street, N.W.  
Washington, DC 20549

Please telephone the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. You may find our reports, proxy statements and other information at this SEC website.

In addition, you can obtain our reports, proxy statements and other information about Procter & Gamble at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, and at the offices of the Cincinnati Stock Exchange, 400 LaSalle Street, 5th Floor, Chicago, Illinois 60605.

The SEC allows us to incorporate by reference into this document the information which we filed with the SEC. This means that we can disclose important information by referring you to those documents. The information incorporated by reference is an important part of this prospectus and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below:

Our Annual Report on Form 10-K for our fiscal year ended June 30, 2003; and

Our Quarterly reports on Form 10-Q for the periods ended September 30, 2003 and December 31, 2003.

In addition to the documents listed above, we also incorporate by reference any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (other than information filed in response to Items 402(i), (k) and (l) of Regulation S-K) until we have sold all of the offered securities to which this prospectus relates or the offering is otherwise terminated. Furthermore, all documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of the initial registration statement and before the date of effectiveness of the registration statement are deemed to be incorporated by reference into, and to be a part of, this prospectus from the date of filing of those documents.

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You may request a copy of these filings (other than exhibits, unless that exhibit is specifically incorporated by reference into the filing), at no cost, by writing us at the following address or telephoning us at (513) 983-8697 between 8:00 a.m. and 5:00 p.m., Eastern Standard Time:

The Procter & Gamble Company  
Attn: Linda D. Rohrer, Assistant Secretary  
1 Procter & Gamble Plaza  
Cincinnati, Ohio 45202-3315

You may also get a copy of these reports from our website at <http://www.pg.com>. Please note, however, that we have not incorporated any other information by reference from our website, other than the documents listed above.

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume the information in this prospectus or any supplemental prospectus is accurate as of any date other than the date on the front of those documents.

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**\$47,106,000**

**The Procter & Gamble Company**

**Floating Rate Notes due 2054**

**PROSPECTUS SUPPLEMENT**

**UBS Investment Bank**

**Citigroup**

**Morgan Stanley**

**Merrill Lynch & Co.**

December 10, 2004

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