

PROCTER & GAMBLE CO

Form 10-Q

May 01, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark one)

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

**For the Quarterly Period Ended March 31, 2008**

**OR**

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

**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number 1-434**

**THE PROCTER & GAMBLE COMPANY**

*(Exact name of registrant as specified in its charter)*

**Ohio**

*(State of Incorporation)*

**31-0411980**

*(I.R.S. Employer Identification Number)*

**One Procter & Gamble Plaza, Cincinnati, Ohio**

*(Address of principal executive offices)*

**45202**

*(Zip Code)*

**(513) 983-1100**

*(Registrant's telephone number, including area code)*

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller reporting company)

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

There were 3,052,985,133 shares of Common Stock outstanding as of March 31, 2008.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

The Consolidated Statements of Earnings of The Procter & Gamble Company and subsidiaries (the Company, we or our) for the three months and nine months ended March 31, 2008 and 2007, the Consolidated Balance Sheets as of March 31, 2008 and June 30, 2007, and the Consolidated Statements of Cash Flows for the nine months ended March 31, 2008 and 2007 follow. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not necessarily be indicative of annual results.

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

Amounts in millions except per share amounts

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
NET SALES	\$ 20,463	\$ 18,694	\$ 62,237	\$ 57,204
Cost of products sold	9,974	9,057	29,887	27,210
Selling, general and administrative expense	6,378	5,991	19,107	17,945
 OPERATING INCOME	 4,111	 3,646	 13,243	 12,049
Interest expense	364	279	1,112	976
Other non-operating income, net	10	169	395	429
 EARNINGS BEFORE INCOME TAXES	 3,757	 3,536	 12,526	 11,502
Income taxes	1,047	1,024	3,467	3,430
 NET EARNINGS	 \$ 2,710	 \$ 2,512	 \$ 9,059	 \$ 8,072
 PER COMMON SHARE:				
Basic net earnings	\$ 0.87	\$ 0.78	\$ 2.89	\$ 2.51
Diluted net earnings	\$ 0.82	\$ 0.74	\$ 2.72	\$ 2.37
Dividends	\$ 0.35	\$ 0.31	\$ 1.05	\$ 0.93
 DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	 3,301.2	 3,397.3	 3,332.5	 3,405.7
See accompanying Notes to Consolidated Financial Statements				

**Table of Contents****THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

Amounts in Millions	March 31 2008	June 30 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,737	\$ 5,354
Investment securities	341	202
Accounts receivable	6,934	6,629
Inventories		
Materials and supplies	2,272	1,590
Work in process	675	444
Finished goods	5,480	4,785
Total inventories	8,427	6,819
Deferred income taxes	2,044	1,727
Prepaid expenses and other current assets	4,259	3,300
<b>TOTAL CURRENT ASSETS</b>	<b>25,742</b>	<b>24,031</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Buildings	6,955	6,380
Machinery and equipment	29,311	27,492
Land	901	849
	37,167	34,721
Accumulated depreciation	(16,833)	(15,181)
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>20,334</b>	<b>19,540</b>
<b>GOODWILL AND OTHER INTANGIBLE ASSETS</b>		
Goodwill	59,645	56,552
Trademarks and other intangible assets, net	34,305	33,626
<b>NET GOODWILL AND OTHER INTANGIBLE ASSETS</b>	<b>93,950</b>	<b>90,178</b>
<b>OTHER NON-CURRENT ASSETS</b>	<b>5,379</b>	<b>4,265</b>
<b>TOTAL ASSETS</b>	<b>\$ 145,405</b>	<b>\$ 138,014</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,535	\$ 5,710
Accrued and other liabilities	11,757	9,586
Taxes payable	684	3,382

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Debt due within one year			13,287	12,039
<b>TOTAL CURRENT LIABILITIES</b>			<b>31,263</b>	<b>30,717</b>
LONG-TERM DEBT			23,673	23,375
DEFERRED INCOME TAXES			11,629	12,015
OTHER NON-CURRENT LIABILITIES			9,251	5,147
<b>TOTAL LIABILITIES</b>			<b>75,816</b>	<b>71,254</b>
<b>SHAREHOLDERS' EQUITY</b>				
Preferred stock			1,371	1,406
Common stock - shares issued	Mar 31	3,999.3	3,999	
	June			
	30	3,989.7		3,990
Additional paid-in capital			59,974	59,030
Reserve for ESOP debt retirement			(1,324)	(1,308)
Accumulated other comprehensive income			4,146	617
Treasury stock			(45,816)	(38,772)
Retained earnings			47,239	41,797
<b>TOTAL SHAREHOLDERS' EQUITY</b>			<b>69,589</b>	<b>66,760</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			<b>\$ 145,405</b>	<b>\$ 138,014</b>

See accompanying Notes to Consolidated Financial Statements

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

Amounts in millions	Nine Months Ended March 31	
	2008	2007
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 5,354	\$ 6,693
OPERATING ACTIVITIES		
Net earnings	9,059	8,072
Depreciation and amortization	2,270	2,367
Share-based compensation expense	396	482
Deferred income taxes	1,065	306
Changes in:		
Accounts receivable	253	(866)
Inventories	(1,077)	(636)
Accounts payable, accrued and other liabilities	(410)	(233)
Other operating assets and liabilities	(385)	38
Other	547	323
<b>TOTAL OPERATING ACTIVITIES</b>	<b>11,718</b>	<b>9,853</b>
INVESTING ACTIVITIES		
Capital expenditures	(1,852)	(1,996)
Proceeds from asset sales	759	257
Acquisitions	36	(167)
Change in investment securities	(188)	725
<b>TOTAL INVESTING ACTIVITIES</b>	<b>(1,245)</b>	<b>(1,181)</b>
FINANCING ACTIVITIES		
Dividends to shareholders	(3,385)	(3,069)
Change in short-term debt	1,216	9,074
Additions to long-term debt	6,534	1,403
Reductions of long-term debt	(10,227)	(16,088)
Impact of stock options and other	1,436	1,213
Treasury purchases	(8,035)	(4,061)
<b>TOTAL FINANCING ACTIVITIES</b>	<b>(12,461)</b>	<b>(11,528)</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	371	157

CHANGE IN CASH AND CASH EQUIVALENTS	(1,617)	(2,699)
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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,737	\$ 3,994
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See accompanying Notes to Consolidated Financial Statements

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**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007. The results of operations for the three-month and nine-month period ended March 31, 2008 are not necessarily indicative of annual results.
2. **Comprehensive Income** Total comprehensive income is composed primarily of net earnings, net currency translation gains and losses, impacts of net investment and cash flow hedges and net unrealized gains and losses on investment securities. Total comprehensive income for the three months ended March 31, 2008 and 2007 was \$4,389 million and \$2,800 million, respectively. For the nine months ended March 31, 2008 and 2007, total comprehensive income was \$12,588 million and \$8,976 million, respectively.
3. **Segment Information** Following is a summary of segment results. In May 2007, we announced a number of changes to our organization structure and certain of our key leadership positions. The changes became effective on July 1, 2007 and resulted in changes to our GBU and reporting segment structure. The businesses that previously comprised the Gillette GBU are now included within the Beauty and Household Care GBUs. The Braun business has been combined with the Blades and Razors business to form the Grooming reportable segment within the Beauty GBU. The Grooming reportable segment also includes all face and shave prep products which were previously reported within the Beauty reportable segment. Duracell was moved to our Household Care GBU and will be reported as part of our Fabric Care and Home Care reportable segment. Finally, our feminine care business, which previously was part of our Beauty GBU and reportable segment, is now part of our Health and Well-Being GBU and will be reported as part of the Health Care reportable segment. The following segment information reflects the new segment reporting structure.

**SEGMENT INFORMATION**

Amounts in millions

		Three Months Ended March 31			Nine Months Ended March 31		
			Earnings Before Income Taxes	Net Earnings		Earnings Before Income Taxes	Net Earnings
		Net Sales			Net Sales		
<b>Beauty GBU</b>							
Beauty	<b>2008</b>	<b>\$ 4,743</b>	<b>\$ 784</b>	<b>\$ 589</b>	<b>\$14,479</b>	<b>\$ 2,788</b>	<b>\$2,161</b>
	2007	4,365	792	603	13,345	2,654	2,041
Grooming	<b>2008</b>	<b>1,977</b>	<b>551</b>	<b>403</b>	<b>6,153</b>	<b>1,761</b>	<b>1,283</b>
	2007	1,744	429	310	5,565	1,486	1,081
<b>Health &amp; Well-Being GBU</b>							
Health Care	<b>2008</b>	<b>3,651</b>	<b>943</b>	<b>617</b>	<b>10,982</b>	<b>2,979</b>	<b>1,980</b>
	2007	3,291	827	536	10,034	2,665	1,777
Snacks, Coffee and Pet Care	<b>2008</b>	<b>1,207</b>	<b>171</b>	<b>105</b>	<b>3,632</b>	<b>556</b>	<b>345</b>
	2007	1,090	191	116	3,406	567	353

**Household Care  
GBU**

 Fabric Care and  
Home Care

<b>2008</b>	<b>5,759</b>	<b>1,165</b>	<b>781</b>	<b>17,737</b>	<b>3,827</b>	<b>2,579</b>
2007	5,220	1,058	700	16,083	3,517	2,365

 Baby Care and  
Family Care

<b>2008</b>	<b>3,531</b>	<b>739</b>	<b>471</b>	<b>10,325</b>	<b>2,069</b>	<b>1,319</b>
2007	3,268	606	382	9,486	1,754	1,106

**Corporate**

<b>2008</b>	<b>(405)</b>	<b>(596)</b>	<b>(256)</b>	<b>(1,071)</b>	<b>(1,454)</b>	<b>(608)</b>
2007	(284)	(367)	(135)	(715)	(1,141)	(651)

**Total**

<b>2008</b>	<b>20,463</b>	<b>3,757</b>	<b>2,710</b>	<b>62,237</b>	<b>12,526</b>	<b>9,059</b>
2007	18,694	3,536	2,512	57,204	11,502	8,072

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4. The Company acquired the Gillette Company in October 2005. At that time, we recognized an assumed liability for Gillette exit costs of \$1.23 billion, including \$854 million in separations related to approximately 5,500 people, \$55 million in employee relocation costs and \$320 million in other exit costs. These costs are primarily related to the elimination of selling, general and administrative overlap between the two companies in areas like Global Business Services, corporate staff and go-to-market support, as well as redundant manufacturing capacity. As of March 31, 2008, the remaining liability was \$322 million. Total integration plan charges against the assumed liability were \$94 million for the three months ended March 31, 2008 and \$243 million for the nine months ended March 31, 2008. A total of \$109 million of the liability was reversed to goodwill during the three months ended March 31, 2008 related to underspending on a number of projects that were concluded during the period. We expect such activities to be substantially complete by June 30, 2008.

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5. Goodwill and Other Intangible Assets Goodwill as of March 31, 2008 is allocated by reportable segment and global business unit as follows (amounts in millions):

	<b>Nine Months Ended March 31, 2008</b>
<b>BEAUTY GBU</b>	
<b>Beauty, beginning of year</b>	<b>\$ 15,359</b>
Acquisitions and divestitures	(81)
Translation and other	1,406
<b>Goodwill, March 31, 2008</b>	<b>16,684</b>
<b>Grooming, beginning of year</b>	<b>24,211</b>
Acquisitions and divestitures	(242)
Translation and other	1,408
<b>Goodwill, March 31, 2008</b>	<b>25,377</b>
<b>HEALTH &amp; WELL-BEING GBU</b>	
<b>Health Care, beginning of year</b>	<b>8,482</b>
Acquisitions and divestitures	(51)
Translation and other	336
<b>Goodwill, March 31, 2008</b>	<b>8,767</b>
<b>Snacks, Coffee and Pet Care, beginning of year</b>	<b>2,407</b>
Acquisitions and divestitures	(5)
Translation and other	36
<b>Goodwill, March 31, 2008</b>	<b>2,438</b>
<b>HOUSEHOLD CARE GBU</b>	
<b>Fabric Care and Home Care, beginning of year</b>	<b>4,470</b>
Acquisitions and divestitures	(39)
Translation and other	237
<b>Goodwill, March 31, 2008</b>	<b>4,668</b>
<b>Baby Care and Family Care, beginning of year</b>	<b>1,623</b>
Acquisitions and divestitures	(34)
Translation and other	122
<b>Goodwill, March 31, 2008</b>	<b>1,711</b>
<b>GOODWILL, Net, beginning of year</b>	<b>56,552</b>
Acquisitions and divestitures	(452)
Translation and other	3,545

<b>Goodwill, March 31, 2008</b>	<b>\$</b>	<b>59,645</b>
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The increase in goodwill from June 30, 2007 is primarily due to currency translation.

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Identifiable intangible assets as of March 31, 2008 are comprised of (amounts in millions):

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets with determinable lives	\$ 8,918	\$ 2,492
Intangible assets with indefinite lives	27,879	
Total identifiable intangible assets	\$ 36,797	\$ 2,492

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

The amortization expense of intangible assets for the three months ended March 31, 2008 and 2007 was \$156 million and \$153 million, respectively. For the nine months ended March 31, 2008 and 2007, the amortization expense of intangible assets was \$468 million and \$484 million respectively.

6. Pursuant to SFAS 123(R) Share-Based Payment, companies must recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the fair-value-based method).

Total share-based compensation for the three months and nine months ended March 31, 2008 and 2007 are summarized in the following table (amounts in millions):

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
Share-Based Compensation				
SFAS 123(R) Stock Options	\$ 144	\$ 180	\$ 373	\$ 439
Other Share-Based Awards	10	13	23	43
Total Share-Based Compensation	\$ 154	\$ 193	\$ 396	\$ 482

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

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

The components of net periodic benefit cost are as follows:

Amounts in millions

	Pension Benefits Three Months Ended March 31		Other Retiree Benefits Three Months Ended March 31	
	2008	2007	2008	2007
Service Cost	\$ 63	\$ 67	\$ 24	\$ 20
Interest Cost	134	116	57	52
Expected Return on Plan Assets	(146)	(107)	(108)	(102)
Amortization of Deferred Amounts	3	3		(6)
Curtailment Gain		(154)		
Recognized Net Actuarial Loss	(3)	12	(4)	1
<b>Gross Benefit Cost (Credit)</b>	<b>51</b>	<b>(63)</b>	<b>(31)</b>	<b>(35)</b>
Dividends on ESOP Preferred Stock			(23)	(20)
<b>Net Periodic Benefit Cost (Credit)</b>	<b>\$ 51</b>	<b>(\$63)</b>	<b>(\$54)</b>	<b>(\$55)</b>

Amounts in millions

	Pension Benefits Nine Months Ended March 31		Other Retiree Benefits Nine Months Ended March 31	
	2008	2007	2008	2007
Service Cost	\$ 198	\$ 200	\$ 71	\$ 61
Interest Cost	400	352	169	154
Expected Return on Plan Assets	(419)	(328)	(322)	(305)
Amortization of Deferred Amounts	10	9		(17)
Curtailment Gain		(154)		
Recognized Net Actuarial Loss	9	34	(11)	2

<b>Gross Benefit Cost (Credit)</b>	<b>198</b>	<b>113</b>	<b>(93)</b>	<b>(105)</b>
Dividends on ESOP Preferred Stock			(69)	(62)
<b>Net Periodic Benefit Cost (Credit)</b>	<b>\$ 198</b>	<b>\$ 113</b>	<b>(\$162)</b>	<b>(\$167)</b>

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

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### **8. New Accounting Standards**

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

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

The total amount of unrecognized tax benefits at July 1, 2007 was \$2,971 million, excluding any related accruals for interest and penalties. Included in this total was \$1,893 million that, if recognized, would impact the effective tax rate in future periods. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. Accrued interest and penalties as of July 1, 2007 were \$589 million and \$128 million, respectively, on an after tax basis.

P&G is present in over 140 taxable jurisdictions, and at any point in time, has 30-40 audits underway at various stages of completion. We have tax years open ranging from 1997 and forward. P&G has made a concerted effort to bring its audit inventory to a more current position. We have done this by working with tax authorities to conduct audits for several open years at once. While we may be able to estimate the timing of the resolution we are generally not able to reliably estimate the ultimate settlement amounts until the close of the audit. Based on information currently available we anticipate that over the next 12 month period net audit activity could favorably impact earnings by a range of up to \$150 million to \$250 million. On an ongoing basis, adjustments will be made to the liability for unrecognized tax benefits to reflect the impact of audit developments, tax law changes, statute expirations, as well as for the accrual of additional current year tax exposures and for interest and penalties on existing liabilities.

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

In December 2007, the FASB issued SFAS 141 (Revised), Business Combinations (SFAS 141R) and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 141(R) and SFAS 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and

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step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. SFAS 141(R) and SFAS 160 will be effective for the company during our fiscal year beginning July 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company beginning July 1, 2009. The Company is currently evaluating the provisions of SFAS 161 to determine the impact on its consolidated financial statements.

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

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

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

Overview

Summary of Results

Forward-Looking Statements

Results of Operations Three Months Ended March 31, 2008

Results of Operations Nine months Ended March 31, 2008

Business Segment Discussion Three and Nine Months Ended March 31, 2008

Financial Condition

Reconciliation of Non-GAAP Measures

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

**OVERVIEW**

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

Our products are sold in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores and drug stores. We have also expanded our presence in high frequency stores, the neighborhood stores which serve many consumers in developing markets. We compete in multiple product categories and have three global business units (GBUs): Beauty; Health and Well-Being; and Household Care. Under U.S. Generally Accepted Accounting Principles, the business units comprising the GBUs are aggregated into six reportable segments: Beauty; Grooming; Health Care; Snacks, Coffee and Pet Care; Fabric Care and Home Care; and Baby Care and Family Care. We have on-the-ground operations in over 80 countries through our Market Development Organization, which leads country business teams to build our brands in local markets and is organized along seven geographic areas comprised of three developed regions (North America, Western Europe and Northeast Asia) and four developing regions (Latin America, Central and Eastern Europe/Middle East/Africa, Greater China and ASEAN/Australasia/India).

The following table provides the percentage of net sales and net earnings by reportable business segment for the three months ended March 31, 2008 (excludes net sales and net earnings in Corporate):

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	<b>Net Sales</b>	<b>Net Earnings</b>
<b>Beauty GBU</b>	<b>32%</b>	<b>34%</b>
Beauty	23%	20%
Grooming	9%	14%
<b>Health and Well-Being GBU</b>	<b>23%</b>	<b>24%</b>
Health Care	17%	21%
Snacks, Coffee and Pet Care	6%	3%
<b>Household Care GBU</b>	<b>45%</b>	<b>42%</b>
Fabric Care and Home Care	28%	26%
Baby Care and Family Care	17%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The following table provides the percentage of net sales and net earnings by reportable business segment for the nine months ended March 31, 2008 (excludes net sales and net earnings in Corporate):

	<b>Net Sales</b>	<b>Net Earnings</b>
<b>Beauty GBU</b>	<b>33%</b>	<b>35%</b>
Beauty	23%	22%
Grooming	10%	13%
<b>Health and Well-Being GBU</b>	<b>23%</b>	<b>24%</b>
Health Care	17%	20%
Snacks, Coffee and Pet Care	6%	4%
<b>Household Care GBU</b>	<b>44%</b>	<b>41%</b>
Fabric Care and Home Care	28%	27%
Baby Care and Family Care	16%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**SUMMARY OF RESULTS**

Following are highlights of results for the nine months ended March 31, 2008:

Net sales grew nine percent to \$62.2 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, increased five percent.

Unit volume increased five percent and organic volume, which excludes acquisitions and divestitures, grew six percent. Every reportable segment posted year-on-year volume growth and each geographic region delivered year-on-year organic volume growth.

Net earnings increased 12 percent to \$9.1 billion. Net earnings increased behind higher operating profit, a lower tax rate and favorable foreign exchange.

Diluted net earnings per share were \$2.72, an increase of 15 percent versus the comparable prior year period.

Operating cash flow was \$11.7 billion, an increase of 19 percent versus the prior year period. Free cash flow productivity was 109 percent for the fiscal year to date period. Free cash flow productivity is defined as the ratio of operating cash flow less capital expenditures to net earnings.

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### **FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

### **RESULTS OF OPERATIONS Three Months Ended March 31, 2008**

The following discussion provides a review of results for the three months ended March 31, 2008 versus the three months ended March 31, 2007.

Table of Contents**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

(Amounts in Millions Except Per Share Amounts)

## Consolidated Earnings Information

		Three Months Ended March 31	
	2008	2007	% CHG
<b>NET SALES</b>	\$ 20,463	\$ 18,694	9%
<b>COST OF PRODUCTS SOLD</b>	9,974	9,057	10%
<b>GROSS MARGIN</b>	10,489	9,637	9%
<b>SELLING, GENERAL &amp; ADMINISTRATIVE EXPENSE</b>	6,378	5,991	6%
<b>OPERATING INCOME</b>	4,111	3,646	13%
<b>TOTAL INTEREST EXPENSE</b>	364	279	
<b>OTHER NON-OPERATING INCOME, NET</b>	10	169	
<b>EARNINGS BEFORE INCOME TAXES</b>	3,757	3,536	6%
<b>INCOME TAXES</b>	1,047	1,024	
<b>NET EARNINGS</b>	2,710	2,512	8%
<b>EFFECTIVE TAX RATE</b>	27.9%	29.0%	
<b>PER COMMON SHARE:</b>			
<b>BASIC NET EARNINGS</b>	\$ 0.87	\$ 0.78	12%
<b>DILUTED NET EARNINGS</b>	\$ 0.82	\$ 0.74	11%
<b>DIVIDENDS</b>	\$ 0.35	\$ 0.31	13%
<b>AVERAGE DILUTED SHARES OUTSTANDING</b>	3,301.2	3,397.3	

<b>COMPARISONS AS A % OF NET SALES</b>			<b>Basis Pt Chg</b>
<b>COST OF PRODUCTS SOLD</b>	48.7%	48.4%	30
<b>GROSS MARGIN</b>	51.3%	51.6%	(30)
<b>SELLING, GENERAL &amp; ADMINISTRATIVE EXPENSE</b>	31.2%	32.0%	(80)
<b>OPERATING MARGIN</b>	20.1%	19.5%	60
<b>EARNINGS BEFORE INCOME TAXES</b>	18.4%	18.9%	(50)
<b>NET EARNINGS</b>	13.2%	13.4%	(20)

Net sales increased nine percent for the quarter to \$20.5 billion. Volume was up four percent, including a negative one percent impact from the divestiture of our Western European family care business. Price increases, taken primarily to offset higher commodity costs, contributed one percent to net sales growth. These were partially offset by a negative one percent mix impact resulting from disproportionate double-digit volume growth in developing regions, where average selling price is below the company average. Favorable foreign exchange added five percent to net sales. Every reportable segment, except Beauty, posted mid-single digit or higher organic volume growth. Volume grew primarily behind initiative activity on our key brands and continued developing region expansion. The Company delivered high-single digit or higher volume growth on Always, Ariel, Dolce & Gabbana, Febreze, Fusion, Gain, Head &

Shoulders, Naturella, Pampers, Pringles, Rejoice, Venus and Vicks for the quarter, partially offset by declines on Braun, Folgers and Mach3. Organic volume and sales were both up five percent for the quarter.

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<b>Net Sales Change Drivers 2008 vs. 2007 (Three Months Ended Mar. 31)</b>						
	Volume with Acquisitions & Divestitures	Volume excluding Acquisitions & Divestitures	Foreign Exchange	Price	Mix/ Other	Net Sales Growth
<b>Beauty GBU</b>						
Beauty	3%	3%	6%	0%	0%	9%
Grooming	6%	6%	7%	2%	-2%	13%
<b>Health and Well-Being GBU</b>						
Health Care	6%	6%	6%	0%	-1%	11%
Snacks, Coffee and Pet Care	4%	4%	3%	5%	-1%	11%
<b>Household Care GBU</b>						
Fabric Care and Home Care	6%	6%	5%	0%	-1%	10%
Baby Care and Family Care	1%	7%	5%	1%	1%	8%
<b>Total Company</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>1%</b>	<b>-1%</b>	<b>9%</b>

Net sales percentage changes are approximations based on quantitative formulas that are consistently applied. Gross margin was down 30-basis points for the quarter to 51.3% of net sales. Commodity and energy cost increases had a negative impact on gross margin of over 220-basis points. These were largely offset by scale leverage from volume growth, pricing and cost savings projects resulting from manufacturing efficiency improvements and product reformulations. The year over year gross margin change was also impacted by a number of base period charges, including net charges related to the integration of Gillette, supply chain restructuring projects and the impacts of the pet food recall, that reduced the base period gross margin approximately 50-basis points.

Total selling, general and administrative expenses (SG&A) increased six percent to \$6.4 billion. SG&A as a percentage of net sales was down 80-basis points as a result of lower overhead spending as a percentage of net sales. Total overhead spending increased, but was down as a percentage of net sales for the total Company and in each reportable segment primarily due to scale leverage, a focus on overhead productivity and Gillette synergy savings. Marketing spending as a percentage of net sales was in-line with the prior year period.

Interest expense for the quarter was up \$85 million versus the year-ago period due to a higher debt level and a higher interest rate driven by the geographic mix of our short-term borrowings. Other non-operating income decreased \$159 million versus the prior year period primarily due to lower current period interest income and base period gains on the sale of minor beauty and feminine care brands. Interest income declined primarily due to lower interest rates. Net earnings increased eight percent for the quarter to \$2.7 billion behind a 13 percent increase in operating profit and a lower tax rate, partially offset by lower other non-operating income. Our effective tax rate was down 110-basis points primarily due to a more favorable geographic mix of earnings. There is a possibility of favorable tax audit activity in the April - June quarter that could impact the Company's fourth quarter and fiscal year effective tax rate. However, given the uncertainty around such items, we cannot quantify the potential impact at this time. Diluted net earnings per share were up 11 percent to \$0.82. Diluted net earnings per share growth exceeded net earnings growth due to share repurchase activity. We repurchased \$2.6 billion of treasury shares during the quarter under a previously announced share buyback program that started in July 2007.

**RESULTS OF OPERATIONS Nine months Ended March 31, 2008**

The following discussion provides a review of results for the nine months ended March 31, 2008 versus the nine months ended March 31, 2007.



Table of Contents**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

(Amounts in Millions Except Per Share Amounts)

## Consolidated Earnings Information

		<b>Nine months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>	<b>% CHG</b>
<b>NET SALES</b>	\$ 62,237	\$ 57,204	9%
<b>COST OF PRODUCTS SOLD</b>	29,887	27,210	10%
<b>GROSS MARGIN</b>	32,350	29,994	8%
<b>SELLING, GENERAL &amp; ADMINISTRATIVE EXPENSE</b>	19,107	17,945	6%
<b>OPERATING INCOME</b>	13,243	12,049	10%
<b>TOTAL INTEREST EXPENSE</b>	1,112	976	
<b>OTHER NON-OPERATING INCOME, NET</b>	395	429	
<b>EARNINGS BEFORE INCOME TAXES</b>	12,526	11,502	9%
<b>INCOME TAXES</b>	3,467	3,430	
<b>NET EARNINGS</b>	9,059	8,072	12%
<b>EFFECTIVE TAX RATE</b>	27.7%	29.8%	
<b>PER COMMON SHARE:</b>			
<b>BASIC NET EARNINGS</b>	\$ 2.89	\$ 2.51	15%
<b>DILUTED NET EARNINGS</b>	\$ 2.72	\$ 2.37	15%
<b>DIVIDENDS</b>	\$ 1.05	\$ 0.93	13%
<b>AVERAGE DILUTED SHARES OUTSTANDING</b>	3,332.5	3,405.7	

<b>COMPARISONS AS A % OF NET SALES</b>			<b>Basis Pt Chg</b>
<b>COST OF PRODUCTS SOLD</b>	48.0%	47.6%	40
<b>GROSS MARGIN</b>	52.0%	52.4%	(40)
<b>SELLING, GENERAL &amp; ADMINISTRATIVE EXPENSE</b>	30.7%	31.4%	(70)
<b>OPERATING MARGIN</b>	21.3%	21.1%	20
<b>EARNINGS BEFORE INCOME TAXES</b>	20.1%	20.1%	
<b>NET EARNINGS</b>	14.6%	14.1%	50

Net sales for the fiscal year to date period were up nine percent to \$62.2 billion behind five percent volume growth and a favorable five percent foreign exchange impact. This was partially offset by a negative one percent mix impact primarily due to disproportionate double-digit growth in developing regions. Volume growth was broad-based across segments and geographic regions. Each reportable segment posted year-on-year volume growth and each geographic

region delivered year-on-year organic volume growth for the fiscal year to date period. Volume grew primarily behind initiative activity on key brands and continued expansion in developing regions. A number of the company's key brands, including Always, Ariel, Dolce & Gabbana, Downy, Febreze, Fusion, Gain, Head & Shoulders, Hugo Boss, Naturella, Pampers, Pringles, Oral-B, Tide and Venus, posted high-single digit or higher volume growth to offset declines on Actonel, Braun, Iams and Mach3. Organic sales increased five percent for the fiscal year to date period behind six percent organic volume growth.

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**Table of Contents****Net Sales Change Drivers 2008 vs. 2007 (Nine months Ended Mar. 31)**

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

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

Gross margin was down 40-basis points fiscal year to date to 52.0% of net sales. Commodity and energy cost increases had a negative impact on gross margin of over 150-basis points. These were largely offset by scale leverage from volume growth and cost savings projects resulting from manufacturing efficiency improvements and product reformulations.

Total selling, general and administrative expenses (SG&A) increased six percent to \$19.1 billion for the fiscal year to date period. SG&A as a percentage of net sales was down 70-basis points primarily behind lower overhead spending as a percentage of net sales, partially offset by higher marketing spending as a percentage of net sales. Total overhead spending increased, but was down as a percentage of net sales for the total Company and for each reportable segment primarily due to scale leverage, a focus on overhead productivity and Gillette synergy savings.

Interest expense for the fiscal year to date period was up \$136 million versus the year-ago period due to a higher interest rate driven by the geographic mix of our short-term borrowings. Other non-operating income was down \$34 million primarily due to lower interest income, which more than offset higher current period divestiture gains. Current year gains included a gain on the sale of our Western Europe family care business and our Japanese adult incontinence business. The base period included gains on the sale of Pert in North America, Sure and minor beauty and feminine care businesses.

Net earnings increased 12 percent to \$9.1 billion behind higher operating profit, a lower tax rate and favorable foreign exchange. Our tax rate declined from 29.8% to 27.7% due to a one-time tax benefit resulting from a reduction in the German statutory tax rate, which reduced our deferred tax liabilities related to acquired intangible assets, the favorable settlement of tax audits and a more favorable geographic mix of earnings. Diluted net earnings per share were up 15 percent versus the prior year to \$2.72 per share. Diluted net earnings per share growth exceeded net earnings growth due to share repurchase activity. We repurchased \$8.0 billion of treasury shares during the fiscal year to date period under a previously announced share buyback program that started in July 2007.

**BUSINESS SEGMENT DISCUSSION Three and Nine months Ended March 31, 2008**

The following discussion provides a review of results by business segment. Analyses of the results for the three and nine months ended March 31, 2008 are provided compared to the same three and nine month period ended March 31, 2007. The primary financial measures used to evaluate segment performance are net sales and net earnings. The table

below provides supplemental information on net sales and net earnings by business segment for the three and nine months ended March 31, 2008 versus the comparable prior year period (Amounts in millions):

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Three Months Ended March 31, 2008						
		% Change		% Change		% Change
		Versus	Earnings Before Income Taxes	Versus	Net	Versus
	Net Sales	Year Ago		Year Ago	Earnings	Year Ago
Beauty GBU						
Beauty	\$ 4,743	9%	\$ 784	-1%	\$ 589	-2%
Grooming	1,977	13%	551	28%	403	30%
Health and Well-Being GBU						
Health Care	3,651	11%	943	14%	617	15%
Snacks, Coffee and Pet Care	1,207	11%	171	-10%	105	-9%
Household Care GBU						
Fabric Care and Home Care	5,759	10%	1,165	10%	781	12%
Baby Care and Family Care	3,531	8%	739	22%	471	23%
Total Business Segments	20,868	10%	4,353	12%	2,966	12%
Corporate	(405)	N/A	(596)	N/A	(256)	N/A
Total Company	20,463	9%	3,757	6%	2,710	8%

Nine months Ended March 31, 2008						
		% Change		% Change		% Change
		Versus	Earnings Before Income Taxes	Versus	Net	Versus
	Net Sales	Year Ago		Year Ago	Earnings	Year Ago
Beauty GBU						
Beauty	\$14,479	8%	\$ 2,788	5%	\$2,161	6%
Grooming	6,153	11%	1,761	19%	1,283	19%
Health and Well-Being GBU						
Health Care	10,982	9%	2,979	12%	1,980	11%
Snacks, Coffee and Pet Care	3,632	7%	556	-2%	345	-2%

Household Care GBU						
Fabric Care and Home Care	17,737	10%	3,827	9%	2,579	9%
Baby Care and Family Care	10,325	9%	2,069	18%	1,319	19%
Total Business Segments	63,308	9%	13,980	11%	9,667	11%
Corporate	(1,071)	N/A	(1,454)	N/A	(608)	N/A
Total Company	62,237	9%	12,526	9%	9,059	12%

**BEAUTY GBU****Beauty**

Beauty net sales increased nine percent for the quarter to \$4.7 billion. Net sales were up on three percent volume growth and a six percent favorable foreign exchange impact. Volume was up mid-single digits in both hair color, behind the Nice N Easy Perfect 10 launch, and in cosmetics, behind the Cover Girl Lash Blast mascara initiative. Retail hair care volume was also up mid-single digits as high-teens growth on Head & Shoulders, double-digit growth on Rejoice and high-single digit growth on Pantene outside of North America more than offset an 11 percent decline on Pantene in North America. Prestige fragrances volume was up low-single digits and organic volume was up mid-single digits as a result of new product launches on Gucci, Hugo Boss and Dolce & Gabbana. Skin care volume was flat versus a base period that grew double-digits behind initiative pipeline volume builds in developing regions and mid-teens growth in North America. Professional hair care volume was in-line with the prior year period as mid-single digit growth in developing regions was offset by a low-single digit decline in developed regions. Volume in deodorants was down low-single digits



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due to a double-digit decline in Western Europe resulting primarily from market softness. Net earnings in Beauty declined two percent to \$589 million. Net earnings margin was down 140-basis points as lower gross margin and the impact of base period minor brand divestiture gains more than offset lower SG&A as a percentage of net sales. Gross margin declined due to higher commodity costs, which more than offset benefits from volume scale leverage and cost savings projects. SG&A improved as a percentage of net sales as lower overhead spending as a percentage of net sales more than offset increased marketing spending as a percentage of net sales.

Beauty net sales increased eight percent fiscal year to date to \$14.5 billion. Net sales increased behind three percent volume growth and five points of favorable foreign exchange. Product mix was neutral as the favorable impacts of disproportionate growth in prestige fragrances and the launch of premium-priced clinical strength deodorants were offset by the impact of disproportionate growth in developing regions, where selling prices are below the segment average. Skin care volume was up mid-single digits driven by growth on Olay behind the Definity and Regenerist initiatives. Prestige fragrances volume was up mid-single digits and organic volume was up high-single digits behind new product launches on Dolce & Gabbana and Hugo Boss. Retail hair care volume was up mid-single digits, led by high-single digit growth in developing markets. Retail hair care volume in developed regions was flat as a 20% volume increase on Head & Shoulders was offset by a double-digit volume decline on Pantene in North America. Hair color volume increased low-single digits as growth on Nice N Easy behind the Perfect 10 launch more than offset declines on minor color brands. Volume in deodorants was down mid-single digits primarily due to competitive activity and market softness in Western Europe. Net earnings in Beauty increased six percent to \$2.2 billion. Net earnings margin was down 40-basis points as lower gross margin and base period divestiture gains on minor brands more than offset improved SG&A as a percentage of net sales. Gross margin was down due to higher commodity costs, which more than offset volume scale leverage and cost savings projects. SG&A improved behind lower overhead spending as a percentage of net sales, which more than offset higher marketing spending as a percent of net sales.

## Grooming

Grooming net sales increased 13 percent for the quarter to \$2.0 billion behind six percent volume growth and a seven percent favorable foreign exchange impact. Price increases taken across premium shaving systems added two percent to net sales. Product mix had a negative two percent mix impact on net sales as the positive mix impact from growth on the premium-priced Fusion brand was more than offset by disproportionate growth in developing regions, where selling prices are below the segment average. Blades and razors volume was up high-single digits behind double-digit volume growth in developing regions on the expansion of Fusion and the launch of Venus Embrace in North America. These gains were partially offset by a mid-single digit volume decline in Western Europe, due primarily to base period pipeline volume related to the Fusion launch in several Western European markets, and lower Mach3 shipments resulting from the business trade-up strategy to the Fusion line. Braun volume was down mid-single digits globally. High-single digit volume growth in developing regions was more than offset by overall softness in Western Europe, lower volume in home appliances resulting primarily from supply constraints at our contract manufacturer and the previously announced exit of the U.S. home appliance business. Net earnings in Grooming were up 30 percent for the quarter to \$403 million behind higher net sales and a 270-basis point increase in net earnings margin. Net earnings margin was up primarily behind lower overhead expenses as a percentage of net sales. Gross margin was up slightly as benefits of volume scale leverage, pricing and a more profitable product mix were largely offset by higher costs incurred at our contract manufacturer on the Braun home appliance business.

Grooming net sales increased 11 percent to \$6.2 billion fiscal year to date. Net sales were up behind six percent volume growth, a seven percent favorable foreign exchange impact and a one percent positive pricing impact. Product mix had a negative three percent impact on net sales as positive product mix from growth on the premium-priced Fusion brand was more than offset by the impact of disproportionate growth in developing regions. Blades and razors volume increased high-single digits behind volume growth of over 20% in

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developing regions driven primarily by Fusion expansion. In developed regions, blades and razors volume was down low-single digits due to a base period that included significant pipeline shipments related to the Fusion launch in Western Europe and Japan and lower current period Mach3 shipments resulting from the business trade-up strategy to the Fusion line. Braun volume was down mid-single digits fiscal year to date primarily due to lower home appliance shipments resulting from supply constraints at our contract manufacturer, the previously announced exit of the home appliance business in the U.S. and the divestiture of thermometer and blood pressure devices. Net earnings in Grooming were up 19% fiscal year to date to \$1.3 billion behind net sales growth and a 150-basis point earnings margin expansion. Earnings margin improved behind lower SG&A as a percentage of net sales, partially offset by a reduction in gross margin. Gross margin declined due to higher costs incurred at our contract manufacturer on the Braun home appliance business, which more than offset higher pricing, benefits from volume scale leverage and a more profitable product mix. SG&A as a percentage of net sales was down due to lower overhead spending, partially offset by higher marketing spending as a percentage of net sales.

## HEALTH AND WELL-BEING GBU

### Health Care

Health Care net sales were up 11 percent for the quarter to \$3.7 billion. Net sales growth was driven by a six percent increase in volume and a six percent favorable foreign exchange impact. Disproportionate growth in feminine care in developing regions, where selling prices are below the segment average, drove a negative one percent mix impact. Feminine care volume was up high-single digits behind double-digit growth on Naturella and high-single digit growth on Always, partially offset by a low-single digit decline on Tampax. Oral care volume increased mid-single digits with both Crest and Oral-B posting mid-single digit growth. Volume in pharmaceuticals and personal health was up mid-single digits as the addition of the Swiss Precision Diagnostics joint venture and high-single digit growth on Vicks, driven by high cold and flu incidence in North America during the quarter, more than offset low-single digit volume growth in pharmaceuticals and on Prilosec OTC. Prilosec OTC volume is expected to decline significantly starting in the fourth fiscal quarter due to the recent loss of marketplace exclusivity and the entry of competing products into the market. This is expected to have an adverse effect on the results of the Health Care segment in future periods. Net earnings in Health Care were up 15 percent to \$617 million. Net earnings margin was up 60-basis points primarily due to lower overhead expenses as a percent of net sales, which more than offset lower gross margin. Gross margin was down due to higher commodity costs and a less profitable product mix, primarily from disproportionate growth in developing regions in feminine care and oral care (which have lower gross margin than the segment average).

Health Care net sales increased nine percent fiscal year to date to \$11.0 billion behind a five percent increase in volume. Foreign exchange had a positive five percent impact on net sales. Disproportionate growth in developing regions on feminine care and oral care resulted in a negative one percent mix impact. Feminine care volume increased mid-single digits and organic volume was up high-single digits behind double-digit growth on Naturella and high-single digit growth on Always, which more than offset a low-single digit decline on Tampax. Oral care volume was up mid-single digits behind initiative-driven growth on Oral-B toothbrushes and Crest. Volume in pharmaceuticals and personal health was up low-single digits as the impact of adding the Swiss Precision Diagnostics business and mid-single digit growth on Prilosec OTC was largely offset by lower shipments on Actonel. Prilosec OTC volume is expected to decline significantly starting in the fourth fiscal quarter due to the recent loss of marketplace exclusivity and the entry of competing products into the market. This is expected to have an adverse effect on the results of the Health Care segment in future periods. Net earnings in Health Care were up 11 percent to \$2.0 billion behind net sales growth and a 30-basis point improvement in net earnings margin. Net earnings margin increased as reduced SG&A as a percentage of net sales more than offset lower gross margin. Gross margin was down as higher commodity costs and a less profitable mix primarily from disproportionate growth in developing regions in feminine care and oral care more than offset volume scale leverage. SG&A improved primarily behind lower overhead spending as a

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percentage of net sales.

**Snacks, Coffee and Pet Care**

Snacks, Coffee and Pet Care net sales increased 11 percent for the quarter to \$1.2 billion on four percent volume growth. Increased pricing in coffee and pet care added five percent to net sales. Favorable foreign exchange added three percent, partially offset by a negative one percent product mix impact from disproportionate growth in Snacks. Snacks volume increased double-digits driven by the Pringles Rice Infusion and Pringles Extreme Flavors initiatives. Coffee volume was up low-single digits behind the Dunkin' Donut® license agreement, which was not in the prior year period. Pet care volume was down low-single digits due to continued negative impacts from the voluntary wet pet food recall in the U.S. in March 2007. Net earnings in Snacks, Coffee and Pet Care were \$105 million, down nine percent due to the receipt in the base period of a Hurricane Katrina insurance payment. Net earnings margin was down 200-basis points due to lower gross margin and an increase in SG&A as a percentage of net sales. Gross margin was down as higher commodity costs more than offset higher pricing and base period impacts related to the pet care recall. SG&A as a percentage of net sales increased significantly, despite lower current period overhead spending as a percentage of net sales, due to the Hurricane Katrina insurance receipt in the base period.

Snacks, Coffee and Pet Care net sales increased seven percent to \$3.6 billion fiscal year to date. Net sales grew behind a two percent volume increase, a positive two percent price impact resulting from price increases in coffee and pet care and a three percent favorable foreign exchange impact. Snacks volume was up high-single digits behind the launch of Rice Infusion in Western Europe, Extreme Flavors in North America and continued growth on Pringles Minis and Selects. Coffee volume increased low-single digits primarily behind the Dunkin' Donut® license agreement. In pet care, volume was down mid-single digits due to continued negative impacts from the voluntary wet pet food recall in the U.S. in March 2007. Net earnings in Snacks, Coffee and Pet Care were down two percent to \$345 million. Net earnings margin was down 90-basis points as lower gross margin was partially offset by improved SG&A expenses as a percentage of net sales. Gross margin was down as higher commodity costs more than offset price increases and base period pet recall impacts. SG&A decreased as a percentage of net sales due to lower overhead and marketing spending as a percentage of net sales. Hurricane Katrina insurance payments were received in both the current and the base period and, therefore, had minimal impact on the segment's year-on-year net earnings growth rate. In January 2008, P&G announced plans to separate its coffee business and create an independent company. The coffee business had net sales of approximately \$1.6 billion and operating income of about \$350 million in fiscal 2007. Although no decision has been made on the form of the separation, P&G expects to do a spin-off or split-off transaction in the first half of fiscal 2009.

**HOUSEHOLD CARE GBU****Fabric Care and Home Care**

Fabric Care and Home Care net sales increased 10 percent to \$5.8 billion for the quarter on six percent volume growth. Favorable foreign exchange added five percent to net sales, but was partially offset by a negative one percent mix impact resulting from disproportionate growth in developing regions and on large pack sizes in fabric care, both of which have selling prices below the segment average. Fabric care volume was up high-single digits behind double-digit developing region growth and initiative activity on Ariel, Downy, Gain and Tide, including continued growth behind the liquid laundry detergent compaction expansion in North America. Home care volume was up mid-single digits behind growth on Febreze Candles, the expansion of Fairy auto-dishwashing in Western Europe and high-single digit growth on Cascade resulting from high levels of customer orders in advance of a March price increase. Batteries volume was up mid-single digits as high-single digit growth in developing regions more than offset a mid-single digit decline in North America resulting from market softness. Net earnings in Fabric Care and Home Care increased 12 percent to \$781 million. Net

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earnings margin was up 20-basis points behind a lower tax rate resulting from disproportionate growth in developing regions, where tax rates are below the segment average. Lower SG&A as a percentage of net sales offset lower gross margin. Gross margin was down due to higher commodity costs, which more than offset the benefits of volume scale leverage and cost savings projects. SG&A as percentage of net sales improved due to lower overhead expenses as a percentage of net sales.

Fabric Care and Home Care net sales increased 10 percent to \$17.7 billion fiscal year to date. Volume was up seven percent and favorable foreign exchange added five percent to net sales growth. This was partially offset by a negative two percent mix impact primarily from disproportionate double-digit growth in developing regions and on large pack sizes in fabric care. Fabric care volume increased high-single digits behind double-digit growth in developing regions, the liquid laundry detergent compaction launch in North America and initiative activity on Tide, Gain, Ariel and Downy. Home care volume was up mid-single digits behind the Dawn restage in North America, the launch of Febreze Candles and continued expansion of auto-dishwashing products in Western Europe. Batteries volume was up high-single digits behind double-digit growth in developing regions and mid-single digit growth in North America. Net earnings in Fabric Care and Home Care increased nine percent to \$2.6 billion. Earnings margin was down 20-basis points primarily due to lower gross margin, partially offset by a reduction in SG&A as a percentage of net sales. Gross margin was down due to higher commodity costs, which more than offset benefits from volume scale leverage and manufacturing cost savings projects. SG&A improved as a percentage of net sales as lower overhead spending as a percentage of net sales more than offset higher marketing spending as a percentage of net sales.

### **Baby Care and Family Care**

Baby Care and Family Care net sales increased eight percent to \$3.5 billion for the quarter. Volume was up one percent, including the impact of the Western European Family Care divestiture in October 2007. Price increases in both Baby Care and Family Care and favorable product mix each contributed one percent to net sales and favorable foreign exchange added five percent. Organic sales, which exclude the impacts of the Western European family care divestiture and foreign exchange, were up eight percent behind a seven percent increase in organic volume. Baby care volume was up high-single digits behind double-digit growth in developing regions on Pampers and continued growth on Baby Dry and Swaddlers in developed regions. Family care volume was down mid-single digits due to the divestiture of the Western European family care business but was up high-single digits on an organic basis behind growth on both Charmin and Bounty. Net earnings in Baby Care and Family Care were up 23 percent to \$471 million. Net earnings margin was up 170-basis point behind higher gross margin and improved SG&A costs. Gross margin was up behind a more profitable product mix following the Western Europe family care divestiture, volume scale leverage, increased pricing and cost savings projects, which more than offset higher commodity and energy costs. SG&A improved as a percentage of net sales due to lower overhead spending as a percentage of net sales and the receipt of payments for transitional services performed by P&G for the divested Western European family care business, partially offset by higher marketing spending as a percentage of net sales.

Baby Care and Family Care net sales increased nine percent fiscal year to date to \$10.3 billion. Volume was up four percent, including the impact of the Western European family care divestiture. Foreign exchange had a positive five percent impact in net sales. Organic volume and organic sales, which exclude the impacts of the Western European family care divestiture and foreign exchange, both grew eight percent. Organic volume growth was balanced across the segment with high-single digit growth in both baby care and family care. Baby care volume in developed regions was up mid-single digits behind growth on Pampers Baby Stages of Development and on the Baby Dry caterpillar flex initiative. In developing regions, baby care volume was up double-digits behind continued growth on Pampers. Family care volume was down low-single digits due to the divestiture of the Western European family care business. Family care organic volume was up high-single digits behind the Bounty and Charmin product restages. Net earnings in Baby Care and Family Care were up 19 percent to \$1.3 billion. Net earnings margin improved 110-basis points behind higher gross margin and

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lower SG&A as a percentage of net sales. Gross margin was up as a more profitable product mix following the Western Europe family care divestiture, volume scale leverage and cost savings projects more than offset higher commodity and energy costs. SG&A improved as a percentage of net sales due to lower overhead spending as a percentage of net sales and the receipt of payments for transitional services performed by P&G for the divested Western European family care 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 certain divested brands and categories, including certain Gillette brands that were divested as required by the regulatory authorities in relation to the Gillette acquisition. Corporate also includes reconciling items to adjust the accounting policies used in the segments to U.S. GAAP. The most significant reconciling items include income taxes (to adjust from statutory rates that are reflected in the segments to the overall Company effective tax rate), adjustments for unconsolidated entities (to eliminate sales, cost of products sold and SG&A for entities that are consolidated in the segments but accounted for using the equity method for U.S. GAAP) and minority interest adjustments for subsidiaries where we do not have 100% ownership. Since both unconsolidated entities and less than 100% owned subsidiaries are managed as integral parts of the Company, they are accounted for similar to a wholly owned subsidiary for management and segment purposes. This means our segment results recognize 100% of each income statement component through before-tax earnings in the segments, with eliminations for unconsolidated entities in Corporate. In determining segment net earnings, we apply the statutory tax rates (with adjustments to arrive at the Company's effective tax rate in Corporate) and eliminate the share of earnings applicable to other ownership interests, in a manner similar to minority interest.

Net earnings in Corporate decreased \$121 million for the quarter primarily due to higher interest expense, lower interest income and base period divestiture gains. Fiscal year to date, net earnings in Corporate increased \$43 million versus the year-ago period. The increase was driven primarily by a lower tax rate partially offset by higher interest expense. Our fiscal year to date tax rate was down 210-basis points primarily due to a one-time tax benefit in the first quarter resulting from a change in the statutory tax rate in Germany and the favorable settlement of tax audits.

### **FINANCIAL CONDITION**

#### **Operating Activities**

Cash generated from operating activities for the fiscal year to date period was \$11.7 billion, an increase of 19 percent versus the comparable prior year period. Operating cash flow, and the increase in operating cash flow versus the prior year period, resulted primarily from increased net earnings and non-cash charges (depreciation and amortization, share-based compensation and deferred income tax expense). Working capital balances increased, resulting in a net use of cash, primarily to support business growth. Inventory days increased 10 days during the fiscal year to date period due to foreign exchange, softer than expected shipments in Beauty and higher inventory in fabric care to support the liquid laundry detergent compaction expansion in North America. Accounts payable days were down six days during the fiscal year to date period, but increased six days versus the comparable prior-year period largely due to foreign exchange. Accounts receivable days were down one day during the fiscal year to date period due to Gillette integration benefits, which more than offset foreign exchange impacts. Operating cash flow also benefitted from an income tax benefit associated with net investment hedges that matured or were terminated in the current period.

#### **Investing Activities**

Investing activities in both the current and prior fiscal year to date periods used \$1.2 billion in cash. Capital expenditures in the current fiscal year to date period were \$1.9 billion, or 3.0 percent of net sales. Proceeds

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from asset sales in the current period generated \$759 million in cash primarily from the sale of our Western European family care business and our adult incontinence business in Japan.

**Financing Activities**

Total cash used by financing activities was \$12.5 billion this fiscal year to date, versus \$11.5 billion in the comparable prior year period. We repurchased \$8.0 billion of treasury shares under a previously announced share buyback program that started in July 2007. Net changes in the Company's short and long-term debt balances due to borrowings, maturities and other payments used \$2.5 billion of cash during the fiscal year, primarily due to the maturity and termination of instruments designated as net investment hedges. In the prior year period, we repurchased \$4.1 billion of treasury shares and reduced our debt position by \$5.6 billion.

As of March 31, 2008 the Company's current liabilities exceeded current assets by \$5.5 billion, driven by our short-term debt position. The Company anticipates being able to support its short-term liquidity through cash generated from operations. The Company also has very strong long- and short-term debt ratings which will enable it to continue to refinance this debt at favorable rates in commercial paper and bond markets. In addition, the Company has agreements with a diverse group of creditworthy financial institutions that, if needed, would provide sufficient credit funding to meet short-term financing requirements.

**RECONCILIATION OF NON-GAAP MEASURES**

Our discussion of financial results includes several measures not defined by U.S. GAAP. We believe these measures provide our investors with additional information about the underlying results and trends of the Company, as well as insight to some of the metrics used to evaluate management. When used in MD&A, we have provided the comparable GAAP measure in the discussion.

**Organic Sales Growth.** Organic sales growth is a non-GAAP measure of net sales growth excluding the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. We believe this provides investors with a more complete understanding of underlying sales trends by providing sales growth on a consistent basis.

The reconciliation of reported net sales growth to organic sales for the January – March quarter:

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

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

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

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**Free Cash Flow.** Free cash flow is defined as operating cash flow less capital spending. We view free cash flow as an important measure because it is one factor in determining the amount of cash available for dividends and discretionary investment. Free cash flow is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation.

**Free Cash Flow Productivity.** Free cash flow productivity is defined as the ratio of free cash flow to net earnings. The Company's long-term target is to generate free cash at or above 90 percent of net earnings. Free cash flow is also one of the measures used to evaluate senior management. The reconciliation of free cash flow and free cash flow productivity is provided below (amounts in millions):

	Operating Cash Flow	Less: Capital Expenditures	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
Jul Mar 08	\$11,718	\$(1,852)	\$9,866	\$9,059	109%
		-25-			

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes in the Company's exposure to market risk since June 30, 2007. Additional information can be found in the section entitled Other Information, which appears on page 47, and Note 6, Risk Management Activities, which appears on pages 59-60 of the Annual Report to Shareholders for the fiscal year ended June 30, 2007 which can be found by reference to Exhibit 13 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.**

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

**Changes in Internal Control Over Financial Reporting.**

There were no changes in our internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents****PART II. OTHER INFORMATION****Item 1A. Risk Factors.**

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased <sup>(1)</sup></b>	<b>Average Price Paid per Share<sup>(2)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(3)</sup></b>	<b>Approximate dollar value of shares that may yet be purchased under our share repurchase program (\$ in Billions) <sup>(4)</sup></b>
1/1/08-1/31/08	13,589,682	\$70.31	13,556,168	23.6
2/1/08-2/29/08	5,978,023	\$65.77	5,808,300	23.2
3/1/08-3/31/08	17,955,695	\$66.71	17,945,544	22

(1) The total number of shares purchased was 37,523,400 for the quarter. All transactions were made in the open market or pursuant to prepaid forward agreements with large financial institutions. Under these agreements, the Company prepaid large financial institutions to deliver shares at a future date in exchange for a discount. The number of shares purchased other

than through a publicly announced repurchase plan was 213,388 for the quarter.

These shares were acquired by the Company under various compensation and benefit plans. This table excludes shares withheld from employees to satisfy minimum tax withholding requirements on option exercises and other equity-based transactions.

The Company administers cashless exercises through an independent, third party broker and does not repurchase stock in connection with cashless exercise.

- (2) Average price paid per share is calculated on a settlement basis and excludes commission.
- (3) On August 3, 2007, the Company announced a share repurchase plan. Pursuant

to the share repurchase plan, the Board of Directors authorized the Company and its subsidiaries to acquire in open market and/or private transactions \$24 to \$30 billion of shares of Company common stock over the subsequent three years to be financed by issuing a combination of long-term and short-term debt. Certain purchases were made prior to announcement of program but are considered purchases against the program.

- (4) The dollar values listed in this column include commissions to be paid to brokers to execute the transactions.

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Item 6. Exhibits

Exhibit

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

\* Compensatory plan or arrangement

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

May 1, 2008  
Date

/s/ VALARIE L. SHEPPARD  
(Valarie L. Sheppard)  
Vice President and Comptroller

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