PROCTER & GAMBLE CO
Form 10-Q
April 30, 2004

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2004 Commission file number 1-434

THE PROCTER & GAMBLE COMPANY
(Exact name of registrant as specified in its charter)

Ohio	31-0411980
(State of incorporation)	(I.R.S. Employer Identification No.)
One Procter & Gamble Plaza, Cincinnati, Ohio	45202
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

There were 1,285,299,395 shares of Common Stock outstanding as of March 31, 2004.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The Consolidated Statement of Earnings of The Procter & Gamble Company and subsidiaries for the three and nine months ended March 31, 2004 and 2003, the Consolidated Balance Sheet as of March 31, 2004 and June 30, 2003, and the Consolidated Statement of Cash Flows for the nine months ended March 31, 2004 and 2003 follow. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not be indicative necessarily of annual results.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS

Amounts in millions except per share amounts

	Three Months Ended March 31		Nine Months Ended March 31	
	2004	2003	2004	2003
NET SALES	$13,029	$10,656	$38,445	$32,457
Cost of products sold	6,394	5,394	18,597	16,373
Marketing, research, administrative and other expense	4,332	3,305	12,160	9,700
OPERATING INCOME	2,303	1,957	7,688	6,384
Interest expense	164	138	454	425
Other non-operating income, net	67	37	136	214
EARNINGS BEFORE INCOME TAXES	2,206	1,856	7,370	6,173
Income taxes	678	583	2,263	1,942
NET EARNINGS	$ 1,528	$ 1,273	$ 5,107	$ 4,231
PER COMMON SHARE:				
Basic net earnings	$ 1.16	$ 0.96	$ 3.87	$ 3.19
Diluted net earnings	$ 1.09	$ 0.91	$ 3.65	$ 3.01
Dividends	$ 0.46	$ 0.41	$ 1.37	$ 1.23
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	1,395.0	1,395.8	1,398.1	1,401.9

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

Amounts in millions

ASSETS	March 31 2004	June 30 2003
CURRENT ASSETS		
Cash and cash equivalents	$ 5,365	$ 5,912
Investment securities	385	300
Accounts receivable	4,093	3,038
Inventories		
Materials and supplies	1,285	1,095
Work in process	349	291
Finished goods	2,987	2,254
Total Inventories	4,621	3,640
Deferred income taxes	986	843
Prepaid expenses and other receivables	1,754	1,487
TOTAL CURRENT ASSETS	17,204	15,220

PROPERTY, PLANT AND EQUIPMENT			
Buildings		5,221	4,729
Machinery and equipment		19,400	18,222
Land		651	591
		25,272	23,542
Accumulated depreciation		(11,202)	(10,438)
NET PROPERTY, PLANT AND EQUIPMENT		14,070	13,104
NET GOODWILL AND OTHER INTANGIBLE ASSETS			
Goodwill		16,551	11,132
Trademarks and other intangible assets		3,951	2,375
NET GOODWILL AND OTHER INTANGIBLE ASSETS		20,502	13,507
OTHER NON-CURRENT ASSETS		2,092	1,875
TOTAL ASSETS		$ 53,868	$ 43,706
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		$ 3,048	$ 2,795
Accrued and other liabilities		6,512	5,512
Taxes payable		2,398	1,879
Debt due within one year		5,065	2,172
TOTAL CURRENT LIABILITIES		17,023	12,358
LONG-TERM DEBT		13,349	11,475
DEFERRED INCOME TAXES		1,972	1,396
OTHER NON-CURRENT LIABILITIES		3,232	2,291
TOTAL LIABILITIES		35,576	27,520
SHAREHOLDERS' EQUITY			
Preferred stock		1,536	1,580
Common stock - shares outstanding-	Mar 31 1,285.3	1,285	
	June 30 1,297.2		1,297
Additional paid-in capital		3,492	2,931
Reserve for ESOP debt retirement		(1,278)	(1,308)
Accumulated other comprehensive income		(1,374)	(2,006)
Retained earnings		14,631	13,692
TOTAL SHAREHOLDERS' EQUITY		18,292	16,186
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 53,868	$ 43,706

See accompanying Notes to Consolidated Financial Statements

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

Amounts in millions	Nine Months Ended March 31	
	2004	2003

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 5,912	$ 3,427
OPERATING ACTIVITIES		
Net earnings	5,107	4,231
Depreciation and amortization	1,279	1,231
Deferred income taxes	358	277
Change in:		
Accounts receivable	(150)	183
Inventories	(119)	(221)
Accounts payable and accruals	213	423
Other operating assets & liabilities	23	73
Other	228	542
TOTAL OPERATING ACTIVITIES	6,939	6,739
INVESTING ACTIVITIES		
Capital expenditures	(1,331)	(967)
Proceeds from asset sales	156	122
Acquisitions, net of cash acquired	(5,398)	(51)
Change in investment securities	(94)	(93)
TOTAL INVESTING ACTIVITIES	(6,667)	(989)
FINANCING ACTIVITIES		
Dividends to shareholders	(1,865)	(1,690)
Change in short-term debt	2,068	(1,386)
Additions to long-term debt	1,963	1,227
Reduction of long-term debt	(1,104)	(749)
Proceeds from stock options	437	170
Purchase of treasury shares	(2,327)	(1,235)
TOTAL FINANCING ACTIVITIES	(828)	(3,663)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	9	(1)
CHANGE IN CASH AND CASH EQUIVALENTS	(547)	2,086
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,365	$ 5,513

See accompanying Notes to Consolidated Financial Statements

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

1. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003. The results of operations for the three-month and nine-month periods ended March 31, 2004 are not indicative necessarily of annual results.

2. Comprehensive Income - Total comprehensive income is comprised primarily of net earnings, net currency translation gains and losses, impacts of net investment and cash flow hedges and net unrealized gains and losses on securities. Total comprehensive income for the three months ended March 31, 2004 and 2003 was $1,373 million and $1,299 million, respectively. For the nine months ended March 31, 2004 and 2003, total comprehensive income was $5,739 million and $4,442 million, respectively.

3. Segment Information - The basis for presenting segment results generally is consistent with overall Company reporting. A primary difference relates to partially-owned operations, where segment sales and before-tax earnings reflect such investments as consolidated subsidiaries while after-tax earnings are adjusted to reflect only the Company's ownership percentage. Applicable adjustments to comply with U.S. GAAP are reflected in the Corporate segment. The Corporate segment also includes both operating and non-operating elements such as financing and investment activities, certain employee benefit costs, intangible asset amortization, certain restructuring charges, segment eliminations, prior year results of certain divested businesses and other general corporate items. Additionally, for interim periods certain non-recurring tax impacts are reflected on a discrete basis for management and segment reporting purposes, but are eliminated in Corporate to arrive at the Company's effective tax rate for the quarter.

SEGMENT INFORMATION (Amounts in millions)

Three Months Ended March 31	Fabric & Home Care	Baby & Family Care	Beauty Care	Health Care	Snacks & Beverages	Cor
Net Sales						
2004	$ 3,581	$ 2,707	$ 4,465	$ 1,719	$ 800	
2003	3,061	2,473	3,026	1,428	756	
Earnings Before Income Taxes						
2004	830	357	910	320	92	
2003	752	334	685	227	87	
Net Earnings						
2004	548	219	593	215	55	
2003	499	200	463	147	50	

Nine Months Ended March 31	Fabric & Home Care	Baby & Family Care	Beauty Care	Health Care	Snacks & Beverages	Cor
Net Sales						
2004	$ 10,381	$ 7,987	$ 12,710	$ 5,355	$ 2,627	
2003	9,295	7,425	9,146	4,405	2,459	
Earnings Before Income Taxes						
2004	2,505	1,273	2,870	1,226	442	
2003	2,329	1,177	2,220	876	377	
Net Earnings						
2004	1,680	795	1,890	824	286	
2003	1,560	717	1,518	596	251	

4. Acquisitions - Acquisitions during the nine months ended March 31, 2004 consist primarily of the Company's September 2003 acquisition of a controlling interest in Wella AG (Wella). Through a stock purchase agreement with the majority shareholders of Wella and a tender offer made on the remaining shares, the Company acquired a total of 81% of Wella's outstanding shares, including 99% of Wella's outstanding voting class shares, for a total purchase price excluding acquisition costs of EUR 4.67 billion (approximately $5.1 billion based on exchange rates on the

date of the transactions). The Wella business consists of professional hair care, retail hair care, and cosmetics and fragrances divisions with over $3 billion in annual net sales.

The acquisition of Wella's shares has been accounted for as a purchase business combination in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." Accordingly, the Company's consolidated financial statements include the results of Wella from the date on which the Company acquired control (September 2, 2003). The operating results of the Wella business are reported in the Company's Beauty Care business segment.

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

The following table provides pro forma results of operations for the nine months ended March 31, 2004 and 2003 and for the three months ended March 31, 2003, as if Wella had been acquired as of the beginning of each fiscal year presented. The pro forma results include certain adjustments, including adjustments to convert Wella's historical financial information from International Accounting Standards (IAS) into accounting principles generally accepted in the United States of America (U.S. GAAP), estimated interest impacts from funding of the acquisition, and estimated depreciation and amortization of fixed and identifiable intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the Wella acquisition. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

PRO FORMA RESULTS (Amounts in millions)

	Nine Months Ended March 31		Three Months Ended
	2004	2003	March 31, 2003
Net Sales	$38,993	$34,934	$11,415
Net Earnings	5,080	4,285	1,284
Diluted net earnings per common share	3.63	3.06	0.92

5. Goodwill and Other Intangible Assets - Goodwill as of March 31, 2004 is allocated by reportable segment as follows (amounts in millions):

	Fabric & Home Care	Baby & Family Care	Beauty Care	Health Care
Goodwill, June 30, 2003	$460	$884	$6,600	$2,908
Acquisition (Note 4)			4,593	143
Translation & Other	9	43	608	21
Goodwill, March 31, 2004	$469	$927	$11,801	$3,072

Identifiable intangible assets as of March 31, 2004 are comprised of:

Amounts in Millions

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets	$2,102	$561
Non-amortizable intangible assets	$2,579	$169
Total identifiable intangible assets	$4,681	$730

Amortizable intangible assets consist principally of patents, technology and trademarks. The non-amortizable intangible assets consist primarily of trademarks. Gross amortizable intangible assets increased by $795 million during the nine months ended March 31, 2004, primarily due to trademarks from the Wella acquisition, translation and several small brand acquisitions. Non-amortizable intangibles increased by $913 million during the nine months ended March 31, 2004 primarily due to trademarks from the Wella acquisition and translation. These estimated allocations of the Wella purchase price to specific assets acquired, including identifiable intangibles, are subject to revision based on the final determination of fair values, as discussed in footnote 4.

The amortization of intangible assets for the three and nine months ended March 31, 2004 is $44 million and $125 million, respectively.

6. Pro Forma Stock-Based Compensation - The Company has stock-based compensation plans under which stock options are granted to key managers and directors at the market price on the date of grant. In prior years, the majority of grants to key managers were issued in the quarter ended September 30. In fiscal 2004, the key manager grants were issued in the quarter ended March 31, 2004. Grants issued since September 2002 are vested after three years and have a ten-year life. Grants issued from 1999 through 2002 are vested after three years and have a fifteen-year life. The Company also makes other grants to employees, for which vesting terms and option lives differ.

Pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to account for its employee stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," which recognizes expense based on the intrinsic value at date of grant. As stock options have been issued with exercise prices equal to the market value of the underlying shares on the grant date, no compensation cost has resulted. Had compensation cost for all options granted been determined based on the fair value at grant date consistent with SFAS No. 123, the Company's net earnings and earnings per share would have been as follows:

	Three Months Ended March 31		Nine Months Ended March 31	
	2004	2003	2004	2003
Net earnings				
As reported	$1,528	$1,273	$5,107	$4,231
Pro forma expense	91	100	238	305
Pro forma	1,437	1,173	4,869	3,926
Net earnings per common share				
Basic				
As reported	$1.16	$0.96	$3.87	$3.19
Pro forma adjustments	(0.07)	(0.08)	(0.18)	(0.24)
Pro forma	1.09	0.88	3.69	2.95
Diluted				
As reported	1.09	0.91	3.65	3.01
Pro forma adjustments	(0.06)	(0.07)	(0.18)	(0.21)
Pro forma	1.03	0.84	3.47	2.80

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience.

7. Postretirement Benefits - The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. This Act introduced both a Medicare prescription-drug benefit and a federal subsidy to sponsors of retiree health-care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. The Act will not have a material impact on the Company's accumulated postretirement benefit obligation or net postretirement benefit costs, due primarily to the relative size of the expected federal subsidy, the Company's determination that its prescription benefits are at least as beneficial as those provided under Medicare and the Company's expectation that the Act will not materially impact participation rates or per capita claims costs. Accordingly, the effects of the Act will be factored into the Company's normal year-end measurement process for other post-employment benefit (OPEB) plans, which will decrease the Company's postretirement benefit obligation reported at June 2004 and periodic benefit costs beginning in fiscal 2005. Specific authoritative guidance on the accounting for the federal subsidy is pending. Any changes to the final guidance, if issued after the effects of the Act are reflected in the measurement of the accumulated postretirement benefit obligation or net postretirement benefit costs, could require a subsequent change to such reported information.

In December 2003, the FASB issued SFAS No. 132 (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits," which requires the components of net periodic pension cost to be disclosed on an interim basis as follows:

Amounts in millions

	Pension Benefits		Other Retir	
	Three Months Ended March 31		Three Mon Marc	
	2004	2003	2004	

Service Cost	$ 41	$ 35	$ 22
Interest Cost	55	45	43
Expected Return on Plan Assets	(41)	(38)	(82)
Amortization of Prior Service Cost and Prior Transition Amount	1	1	-
Recognized Net Actuarial Loss (Gain)	7	3	-
Gross Benefit Cost	63	46	(17)
Dividends on ESOP Preferred Stock	-	-	(18)
Net Periodic Benefit Cost	$ 63	$ 46	$ (35)

Amounts in millions

	Pension Benefits		Other Retir
	Nine Months Ended March 31		Nine Mon Marc
	2004	2003	2004
Service Cost	$ 116	$ 95	$ 67
Interest Cost	156	136	129
Expected Return on Plan Assets	(118)	(113)	(246)
Amortization of Prior Service Cost and Prior Transition Amount	2	3	(1)
Recognized Net Actuarial Loss (Gain)	21	9	1
Gross Benefit Cost	177	130	(50)
Dividends on ESOP Preferred Stock	-	-	(55)
Net Periodic Benefit Cost	$ 177	$ 130	$ (105)

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

OVERVIEW

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 March 31, 2004
Results of Operations - Nine Months Ended March 31, 2004

Business Segment Discussion (for the three and nine months ended March 31, 2004)
Financial Condition

The Company markets approximately 300 consumer 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 following table provides the percentage of net sales and net earnings by business segment for the nine months ended March 31, 2004 (excludes net sales and net earnings in Corporate):

	NET SALES	NET EARNINGS
Fabric and Home Care	26%	31%
Beauty Care	33%	34%
Baby and Family Care	20%	15%
Health Care	14%	15%
Snacks and Beverages	7%	5%
TOTAL	100%	100%

The Company has expressed its intent to focus on strategies that are right for the long term health of the business as measured by shareholder return. Long term targets include: sales growth of 4% to 6% excluding the impact of changes in foreign exchange rates from year-over-year comparisons, double-digit earnings per share growth, and greater than 90 percent free cash flow productivity (defined as the ratio of net earnings divided by the difference of operating cash flow less capital expenditures). MD&A will reference results for the quarter and fiscal year to date against these targets.

For the nine months ended March 31, 2004, the Company delivered sales and earnings growth above long-term targets. Net sales increased 18 percent (14% excluding foreign exchange impacts) while net earnings increased 21 percent, with all business segments posting sales and earnings growth. Results of the Beauty Care segment include the impact of the Wella acquisition which was completed in September 2003. Sales grew ahead of volume due to positive foreign exchange impacts, partially offset by mix (driven by high growth in developing markets) and pricing activity. Earnings increased due to the scale benefit of volume, the completion of the Company's restructuring program which had $277 million of after tax charges in the base period, and lower manufacturing costs, partially offset by increased marketing investments in the base business and in support of product initiatives.

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 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) and completing planned divestitures (including the 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 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, 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 could vary materially from the forward-looking statements made herein.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2004

The following discussion provides a review of results for the three months ended March 31, 2004 versus the three months ended March 31, 2003.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Consolidated Earnings Information

	Three Months Ended March 31 2004	2003	% CHG
NET SALES	$ 13,029	$ 10,656	22 %
COST OF PRODUCTS SOLD	6,394	5,394	19 %
GROSS MARGIN	6,635	5,262	26 %
MARKETING, RESEARCH, ADMIN & OTHER	4,332	3,305	31 %
OPERATING INCOME	2,303	1,957	18 %
TOTAL INTEREST EXPENSE	164	138	
OTHER NON-OPERATING INCOME, NET	67	37	
EARNINGS BEFORE INCOME TAXES	2,206	1,856	19 %
INCOME TAXES	678	583	
NET EARNINGS	1,528	1,273	20 %
EFFECTIVE TAX RATE	30.7 %	31.4 %	
PER COMMON SHARE:			
BASIC NET EARNINGS	$ 1.16	$ 0.96	21 %
DILUTED NET EARNINGS	$ 1.09	$ 0.91	20 %
DIVIDENDS	$ 0.46	$ 0.41	
AVERAGE DILUTED SHARES OUTSTANDING	1,395.0	1,395.8	
COMPARISONS AS A % OF NET SALES			Basis Pt
COST OF PRODUCTS SOLD	49.1 %	50.6 %	
GROSS MARGIN	50.9 %	49.4 %	150

MARKETING, RESEARCH, ADMIN & OTHER	33.2 %	31.0 %	220
OPERATING MARGIN	17.7 %	18.4 %	(70)
EARNINGS BEFORE INCOME TAXES	16.9 %	17.4 %	(50)
NET EARNINGS	11.7 %	11.9 %	(20)

Unit volume for the quarter increased 20 percent, with all business segments and geographic regions reporting unit volume growth. Excluding the impact of acquisitions and divestitures, primarily Wella, unit volume increased 12 percent. Volume growth was led by Beauty Care, up 41 percent, and Health Care, up 19 percent. Developing markets delivered double-digit volume growth led by China and Central and Eastern Europe.

Net sales increased 22 percent to $13.03 billion. Net sales increased behind volume growth, the addition of Wella and a positive foreign exchange impact of five percent due primarily to the strengthening of the Euro, British Pound and Canadian dollar. Product mix reduced sales growth by two percent reflecting higher growth in developing markets, including China and Latin America. Developing markets generally have an average unit sales price lower than the Company average. Pricing activity reduced sales growth by one percent largely in response to competition in multiple categories including coffee and family care in the United States and Beauty Care and Fabric and Home Care in North America and Europe. The table below identifies the drivers to net sales changes versus the prior year quarter by business segment:

	Volume				
	With Acquisitions/ Divestitures	Without Acquisitions/ Divestitures	FX	Price	Mix/Other
FABRIC AND HOME CARE	12%	12%	5%	-1%	1%
BEAUTY CARE	41%	13%	6%	-1%	2%
BABY AND FAMILY CARE	7%	7%	5%	-1%	-2%
HEALTH CARE	19%	18%	4%	0%	-3%
SNACKS AND BEVERAGES	2%	2%	5%	-3%	2%
TOTAL COMPANY	20%	12%	5%	-1%	-2%

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

Net earnings increased 20 percent to $1.53 billion. Earnings growth was primarily driven by volume benefits and the completion of the prior year restructuring program (which included $66 million after tax in the base period). These improvements were partially offset by marketing investments to support base business growth and new initiatives, as well as current period charges to maintain a competitive cost structure.

Diluted net earnings per share were $1.09, an increase of 20 percent. The acquisition of Wella had a slightly dilutive effect on total Company earnings.

Gross margin expanded 150 basis points, with 40 basis points of the improvement ($46MM before tax) related to restructuring program charges in the prior year. The remaining 110 basis points of gross margin expansion were predominately driven by the scale benefit of volume. Base business savings and the addition of Wella, which has a higher gross margin than the consolidated Company average, also contributed to margin expansion. These items were partially offset by the impact of pricing, higher commodity costs, increased mix of developing markets (which have lower average margins) and current year charges for actions associated with organizational streamlining and other projects to maintain a competitive cost structure.

Marketing, Research, Administrative and Other Costs (MRA&O) as a percentage of net sales increased 220 basis points. The prior year period includes $41 million before tax of restructuring program charges. The majority of the basis point increase was due to the Wella acquisition reflecting a higher ratio of MRA&O expenses to sales than the base business. The remaining increase reflects marketing investments to sustain growth behind the base business and initiatives, partially offset by the non-recurrence of prior year restructuring costs, which represented a 40 basis point improvement year-over-year.

RESULTS OF OPERATIONS - NINE MONTHS ENDED MARCH 31, 2004

The following discussion provides a review of results for the nine months ended March 31, 2004 versus the nine months ended March 31, 2003.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Consolidated Earnings Information

	Nine Months Ended March 31 2004	2003	% CHG
NET SALES	$ 38,445	$ 32,457	18 %
COST OF PRODUCTS SOLD	18,597	16,373	14 %
GROSS MARGIN	19,848	16,084	23 %
MARKETING, RESEARCH, ADMINISTRATIVE & OTHER	12,160	9,700	25 %
OPERATING INCOME	7,688	6,384	20 %
TOTAL INTEREST EXPENSE	454	425	
OTHER NON-OPERATING INCOME, NET	136	214	
EARNINGS BEFORE INCOME TAXES	7,370	6,173	19 %
INCOME TAXES	2,263	1,942	
NET EARNINGS	5,107	4,231	21 %
EFFECTIVE TAX RATE	30.7 %	31.5 %	
PER COMMON SHARE:			
BASIC NET EARNINGS	$ 3.87	$ 3.19	21 %
DILUTED NET EARNINGS	$ 3.65	$ 3.01	21 %
DIVIDENDS	$ 1.37	$ 1.23	
AVERAGE DILUTED SHARES OUTSTANDING	1,398.1	1,401.9	

COMPARISONS AS A % OF NET SALES	2004	2003	Basis Pt Chg
COST OF PRODUCTS SOLD	48.4 %	50.4 %	
GROSS MARGIN	51.6 %	49.6 %	200
MARKETING, RESEARCH, ADMINISTRATIVE & OTHER	31.6 %	29.9 %	170
OPERATING MARGIN	20.0 %	19.7 %	30

EARNINGS BEFORE INCOME TAXES	19.2 %	19.0 %	20
NET EARNINGS	13.3 %	13.0 %	30

Fiscal year to date, unit volume increased 17 percent with all business segments and geographic regions delivering unit volume growth. Excluding acquisitions and divestitures, unit volume increased 10 percent through the first nine months of the fiscal year. Volume growth was led by Beauty Care, up 35 percent, and Health Care, up 20 percent. Developing markets delivered double-digit volume growth led by China and Central and Eastern Europe.

For the first nine months of the fiscal year, net sales increased 18 percent to $38.45 billion. Foreign exchange contributed four percent to sales growth behind the strengthening of the Euro, British Pound and Canadian Dollar. Product mix reduced sales growth by two percent reflecting higher growth in developing markets, including China and Latin America. Developing markets generally have an average unit sales price lower than the Company average. Pricing investments include activities to drive top line growth in multiple businesses and to respond to competitors' actions. The table below identifies the drivers to changes in net sales fiscal year to date versus the prior year by business segment:

	Volume				
	With Acquisitions/ Divestitures	Without Acquisitions/ Divestitures	FX	Price	Mix/Other
FABRIC AND HOME CARE	10%	10%	4%	-1%	-1%
BEAUTY CARE	35%	10%	5%	-1%	0%
BABY AND FAMILY CARE	6%	6%	5%	-2%	-1%
HEALTH CARE	20%	19%	4%	0%	-2%
SNACKS AND BEVERAGES	2%	2%	4%	-1%	2%
TOTAL COMPANY	17%	10%	4%	-1%	-2%

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

Fiscal year to date earnings increased 21 percent to $5.11 billion. Earnings growth was driven by volume benefits, the completion of the restructuring program (which included $277 million of after tax charges in the prior year period) and product cost savings. Earnings growth was partially offset by increased marketing investments in the base business and in support of initiatives. Diluted net earnings per share increased 21 percent to $3.65 compared to $3.01 in the base period.

Gross margin expanded 200 basis points, with 60 basis points of the improvement related to restructuring program charges in the base period of $209 million. The remaining gross margin improvement was driven by the scale benefit of volume, base business savings and the addition of Wella which has a higher gross margin than the base business. These improvements were partially offset by the impact of higher commodity costs and the pricing actions mentioned above, as well as current year restructuring activity.

Marketing, Research, Administrative and Other Costs (MRA&O) as a percentage of net sales increased 170 basis points. The prior year period includes $161 million of restructuring program charges. The majority of the increase is due to Wella, reflecting a higher ratio of marketing expenses to sales than the base business. The balance was due to marketing investments made to drive growth on the base business and in support of initiatives, partially offset by the non-recurrence of prior year restructuring charges which resulted in a 50 basis point improvement year-over-year.

BUSINESS SEGMENT DISCUSSION

The following discussion provides a review of results by business segment. An analysis of the results for the three and nine months ended March 31, 2004 are compared to the same periods ended March 31, 2003.

The table below provides supplemental information on net earnings by business segment for the three and nine months ended March 31, 2004 versus the comparable prior year period:

	THREE MONTHS ENDED MARCH 31, 2004				
	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	
FABRIC AND HOME CARE	$ 3,581	17%	$ 830	10%	$
BEAUTY CARE	4,465	48%	910	33%	
BABY AND FAMILY CARE	2,707	9%	357	7%	
HEALTH CARE	1,719	20%	320	41%	
SNACKS AND BEVERAGES	800	6%	92	6%	
TOTAL BUSINESS SEGMENT	13,272	24%	2,509	20%	
CORPORATE	(243)	n/a	(303)	n/a	
TOTAL COMPANY	13,029	22%	2,206	19%	

	NINE MONTHS ENDED MARCH 31, 2004				
	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	
FABRIC AND HOME CARE	$ 10,381	12%	$ 2,505	8%	$
BEAUTY CARE	12,710	39%	2,870	29%	
BABY AND FAMILY CARE	7,987	8%	1,273	8%	
HEALTH CARE	5,355	22%	1,226	40%	
SNACKS AND BEVERAGES	2,627	7%	442	17%	
TOTAL BUSINESS SEGMENT	39,060	19%	8,316	19%	
CORPORATE	(615)	n/a	(946)	n/a	
TOTAL COMPANY	38,445	18%	7,370	19%	

FABRIC AND HOME CARE

For the quarter, Fabric and Home Care unit volume was up 12 percent behind growth on established brands such as Tide, Ariel and Gain and the continued success of initiatives including Mr. Clean Magic Eraser, Mr. Clean AutoDry, Swiffer Duster, Gain Fabric Enhancer, and the expansion of Lenor in Japan. Net sales increased 17 percent to $3.58 billion. Sales growth includes a positive five percent foreign exchange impact. Pricing of negative one percent was primarily driven by the continuation of prior period actions to maintain competitive shelf pricing. Positive mix of one percent was due to the higher growth in the home care business which has a higher sales per unit rate than the segment average, which was partially offset by developing market growth. Net earnings increased 10 percent to $548 million. Earnings margin was impacted by the mix effect of strong developing market growth which has a lower gross margin than the segment average, marketing investments and startup costs to support initiative activity, and startup costs for manufacturing optimization.

For the nine months ended March 31, 2004, Fabric and Home Care volume increased 10 percent. Volume was driven by growth in the fabric care business, particularly in developing regions, and growth in the home care business behind initiatives. Net sales increased 12 percent to $10.38 billion, including a positive foreign exchange impact of four percent. Mix reduced sales by one percent driven primarily by double-digit growth in developing markets. Net earnings were $1.68 billion, an increase of eight percent, due to volume growth and base business cost savings, partially offset by the mix effect of strong developing market growth which has a lower gross margin than the segment average, the aforementioned pricing actions and higher costs, including marketing support for initiatives.

BEAUTY CARE

Beauty Care unit volume in the January - March quarter increased 41 percent. Excluding the impact of Wella, unit volume increased 13 percent. Global hair care volume grew in all regions with particular progress in the Head & Shoulders, Pantene, and Herbal Essences brands. In feminine care, volume growth was driven by Always/Alldays and Naturella in Latin America. Olay delivered double-digit growth. Net sales increased 48 percent to $4.47 billion, including a positive foreign exchange impact of six percent. Positive mix contributed two percent to sales growth due to higher growth rates in premium priced products with a higher sales per unit rate than the segment average, including Wella, Olay Regenerist and fine fragrances. Net earnings increased 28 percent to $593 million. While the higher marketing and administrative expense ratio for Wella impacts margins, earnings growth reflects volume and continued marketing investments to support the base businesses and initiatives. Key initiatives include the geographic expansion of Herbal Essences and Head & Shoulders, as well as support for Lacoste Red and Olay Regenerist. The Wella acquisition was accretive to Beauty Care earnings in the quarter, but slightly dilutive to the Company as the interest and amortization expenses related to Wella are included in Corporate.

For the nine months ended March 31, 2004, Beauty Care volume increased 35 percent versus the comparable prior year period. Excluding acquisitions and divestitures from year-over-year comparisons, Beauty Care volume increased 10 percent. Volume growth was broad-based behind hair care, feminine care, personal beauty and in developing markets. Net sales increased 39% to $12.71 billion. Sales growth includes a positive foreign exchange impact of five percent, partially offset by negative pricing of one percent. Pricing includes actions to support the North American hair, colorants and cosmetics and Western European feminine care businesses. Net earnings increased 25 percent to $1.89 billion. Volume benefits and lower product costs were partially offset by marketing investments to support product initiatives and the base business. Earnings margin was also negatively impacted by the higher expense ratios of Wella. Fiscal year to date, the Wella acquisition was accretive to Beauty Care earnings and a slight gain on Company earnings after including the impacts of interest and amortization expense.

BABY AND FAMILY CARE

Baby and Family Care volume increased seven percent for the quarter ended March 31. Volume was driven by double-digit growth in Pampers diaper, particularly in Western Europe and developing markets, and Bounty paper towel brands. Net sales increased nine percent to $2.71 billion, including a positive foreign exchange impact of five percent. Sales were reduced by two percent from mix driven primarily by growth of diapers in developing markets and baby wipes, which have a lower average revenue per unit than the segment average. Promotional activity, primarily in North America family care to match higher levels of competitive spending, resulted in a one percent pricing impact. Net earnings grew 10 percent to $219 million. Earnings improved behind volume strength and cost savings, partly offset by the aforementioned pricing investments and higher commodity prices.

For the nine months ended March 31, Baby and Family Care volume increased six percent driven primarily by double-digit growth in baby care, including gains in Western Europe and developing markets, and low single-digit growth in family care. Family care volume growth fiscal year to date reflects a difficult competitive environment, particularly in North America, as competitors increased promotional spending. Net sales increased eight percent to $7.99 billion versus the comparable prior year period, including a positive foreign exchange impact of five percent. Sales were negatively impacted by pricing of two percent primarily due to increased competitive promotional activity in North America family care. Net earnings increased 11 percent to $795 million as profit growth from volume and product cost savings was partially offset by pricing and increases in commodity costs. The Company recently announced North America family care will increase prices six percent effective in July to partially recover increases in commodity costs.

HEALTH CARE

For the quarter, Health Care unit volume increased 19 percent driven by pharmaceuticals, Prilosec OTC, oral care and developing markets. Net sales increased 20 percent to $1.72 billion including a positive four percent foreign exchange impact. Developing market growth in oral care and pipeline shipments for generic Macrobid, which have a lower average revenue per unit than the segment average, resulted in a negative three percent mix impact on sales. Net earnings were $215 million, an increase of 46 percent. Operating margin expansion due to volume, product mix (including the increase in pharmaceutical sales), manufacturing cost savings and lower overhead spending as a percentage of sales were the key drivers behind earnings growth versus the base period. Margin expansion was partially offset by marketing spending versus the comparable prior year period in support of Prilosec OTC and Crest whitening initiatives.

Through the first nine months of the fiscal year ended March 31, Health Care volume increased 20 percent behind initiatives. Sales increased 22 percent to $5.36 billion, and included a positive four percent impact from foreign exchange. Mix had a negative two percent impact on sales due to strong growth in developing markets and the aforementioned pipeline impact of generic Macrobid. Net earnings increased 38 percent to $824 million. Earnings growth was primarily driven by sales growth behind initiatives and margin expansion due to product mix, manufacturing cost savings and lower overhead spending as a percentage of sales. Margin expansion was negatively impacted by increased marketing spending.

SNACKS AND BEVERAGES

Snacks and Beverages unit volume increased two percent, with progress on Pringles and Folgers. Net sales increased six percent to $800 million, including a positive foreign exchange impact of five percent. Pricing, primarily coffee promotional spending, negatively impacted sales by three percent. Positive mix of two percent was due to growth in Folgers which has a higher average sales per unit rate than the segment. Net earnings were $55 million, an increase of 10 percent.

For the first nine months of the fiscal year, Snacks and Beverages volume increased two percent driven by mid-single digit volume growth on the Pringles and Folgers brands. Net sales were $2.63 billion, representing an increase of seven percent versus the comparable prior period. Sales growth includes a positive four percent impact from foreign exchange. Price and mix combined for a one percent positive impact to sales growth. Net earnings increased 14 percent to $286 million as volume and base business savings were partially offset by higher commodity costs. In April, the Company announced an agreement to sell the juice business. The transaction is expected to be completed during the July - September quarter.

CORPORATE

Corporate includes certain operating and non-operating activities, as well as eliminations to adjust management reporting principles to United States Generally Accepted Accounting Principles (U.S. GAAP). For the quarter, net sales were -$243 million compared to -$88 million in the prior period. For the first nine months of the fiscal year, net sales held in Corporate were -$615 million compared to -$273 million in the base period. For both the quarter and fiscal year to date, the change in net sales in Corporate was primarily driven by eliminations due to stronger joint venture sales.

Net earnings for the quarter were -$102 million compared to -$86 million in the prior year. For the first nine months of the fiscal year, net earnings were -$368 million compared to -$411 million in the prior year. Results for the quarter and fiscal year to date reflect lower charges versus the base period due to the completion of the restructuring program offset by higher interest and intangible asset amortization charges associated with Wella, hedging impacts and current year charges for activities to maintain a competitive cost structure.

FINANCIAL CONDITION

Operating Activities

Cash generated from operating activities for the nine months ended March 31, 2004 was $6.94 billion compared to $6.74 billion in the prior year period. Strong earnings, adjusted for non-cash items (depreciation, amortization and deferred income taxes) generated $6.74 billion of cash.

Cash generated from operating activities is up $200 million versus the prior year period as the impact of increased earnings was partially offset by an increase in working capital, the impact of dividends received from a joint venture in the base period and the impact of the timing of certain tax payments related to the prior year.

Working capital increased by $154 million year-over-year due to the impact of business growth partially offset by strong working capital performance as a result of the Company's focus on cash management. Both accounts receivable days' outstanding and inventory days improved excluding the impact of Wella.

Investing Activities

Investing activities in the current year used $6.67 billion compared to $989 million in the prior year period. The primary driver was the acquisition of Wella for approximately $5.10 billion, as well as certain smaller acquisitions such as Glide Dental Floss and fabric care brands in Western Europe and the Middle East.

Capital spending was $1.33 billion versus $967 million in the prior year period. Capital spending as a percent of sales increased versus the prior year but was still below the Company's target of four percent.

On April 26, 2004, the Company announced it had concluded a domination and profit transfer agreement with Wella AG's Supervisory Board. The agreement is subject to approval by Wella's shareholders at their annual general meeting in June. As required by German law, the Company will make a cash offer of EUR 72.86 per share to Wella AG minority shareholders for all outstanding ordinary and preference shares. As an alternative to the cash offer, minority shareholders in Wella AG have the option to receive a fixed annual payment of EUR 3.81 per ordinary share and EUR 3.83 per preference share. Assuming all remaining minority shareholders tender their shares under the offer, the total consideration paid will be approximately EUR 1.1 billion (approximately $1.3 billion based on current exchange rates).

Financing Activities

Financing activities used net cash of $828 million for the period compared to $3.66 billion in the prior year period.

Financing activities in the current year include an increase in the Company's debt position primarily to support the acquisition of Wella AG. Short term debt increased by $2.07 billion and the Company has issued $1.96 billion aggregate principal amount of notes with varying maturity dates. Additionally, long term debt reduced by $1.10 billion primarily due to the maturing of two bonds. The net change in long term debt is an increase of $859 million versus June 30, 2003.

Treasury share purchases were $2.33 billion for the nine months ended March 31, 2004, an increase of $1.09 billion versus the prior year period. Treasury share purchases for the remainder of the fiscal are expected to continue at an accelerated rate versus the prior year. Actual purchases will depend on available cash balances, consistent with the Company's cash utilization strategy.

Current assets net of current liabilities declined by approximately $2.7 billion during the nine months ended March 31, 2004. This decline was primarily caused by the issuance of commercial paper to partially fund the acquisition of Wella AG. 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.

Item 4. Controls and Procedures

The Company's Chairman of the Board, President and Chief Executive, A.G. Lafley, and the Company's Chief Financial Officer, Clayton C. Daley, Jr., have evaluated the Company's internal controls and disclosure controls systems as of the end of the period covered by this report.

Messrs. Lafley and Daley have concluded that the Company's disclosure controls systems are functioning effectively to provide reasonable assurance that the Company can meet its disclosure obligations. The Company's disclosure controls system is based upon a global chain of financial, staff and general business reporting lines that converge in the world-wide headquarters of the Company in Cincinnati, Ohio. The reporting process is designed to ensure that information required to be disclosed by the Company in the reports that it files or submits with the Commission is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Consistent with SEC suggestion, the Company has a Disclosure Committee consisting of key Company personnel designed to review the accuracy and completeness of all disclosures made by the Company.

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

PART II. OTHER INFORMATION

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased Part of Publicly Announced Plans o Programs (3)
1/1/04 - 1/31/04	5,150,000	$99.37	0
2/1/04 - 2/29/04	2,257,500	$101.82	0
3/1/04 - 3/31/04	5,088,000	$103.45	0

(1) All share repurchases were made in open-market transactions. None of these transactions were made pursuant to a publicly announced repurchase plan. This table excludes shares owned and tendered by employees to meet the exercise price of option exercises and shares withheld from employees to satisfy minimum tax withholding requirements on option exercises and other equity-based transactions. The Company administers employee cashless exercises through an independent, third party broker and does not repurchase stock in connection with cashless exercises.

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

(3) No share repurchases were made pursuant to a publicly announced plan or program. The Company's strategy for cash flow utilization is to pay dividends first and then repurchase Company common stock to cover option exercises made pursuant to the Company's stock option programs. The remaining cash is then available for strategic acquisitions and discretionary repurchase of the Company's common stock.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(3-2) Regulations (Incorporated by reference to Exhibit (3-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 2003).

(11) Computation of Earnings per Share.

(12) Computation of Ratio of Earnings to Fixed Charges.

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

(32) Section 1350 Certifications.

(b) Reports on Form 8-K

During the quarter ended March 31, 2004, the Company did not file any Current Reports on Form 8-K. During the quarter ended March 31, 2004, the Company furnished reports on Form 8-K pursuant to Item 9 ("Regulation FD Disclosure") dated January 7, 2004, relating to updating previously issued guidance for the October-December 2003 quarter; and dated March 9, 2004, relating to updating previously issued guidance for the January-March 2004 quarter as well as announcing a 2-for-1 stock split and dividend increase. The Company also furnished reports on Form 8-K containing information pursuant to Item 12 ("Results of Operations and Financial Condition") dated January 28, 2004, relating to the announcement of earnings for the quarter ended December 31, 2003.

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

THE PROCTER & GAMBLE COMPANY

/S/JOHN K. JENSEN

(John K. Jensen)
Vice President and Comptroller

April 30, 2004

Date

EXHIBIT INDEX

Exhibit No.	Page No.

(3-1)	Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 2003).	
(3-2)	Regulations (Incorporated by reference to Exhibit (3-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 2003).	
(11)	Computation of Earnings per Share.	28
(12)	Computation of Ratio of Earnings to Fixed Charges.	29
(31)	Rule 13a-14(a)/15d-14(a) Certifications.	30-33
(32)	Section 1350 Certifications.	34-35