



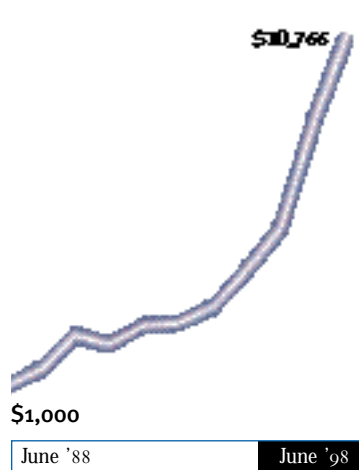
Maynard Danker knows a **big idea** when he sees one

**ABOUT PROCTER & GAMBLE** Deep consumer understanding and leading-edge science and technologies go hand-in-hand at Procter & Gamble. Every day, the people of P&G work hard to provide products of superior quality and value – products that improve the lives of consumers around the world. Procter & Gamble markets approximately 300 brands to nearly five billion consumers, including Tide, Pampers, Ariel, Crest, Always, Whisper, Vicks, Didronel, Pantene Pro-V, Oil of Olay and Pringles. P&G employs 110,000 people worldwide, with world and North American headquarters in Cincinnati, Ohio, USA, and regional headquarters in Europe, Asia and Latin America.

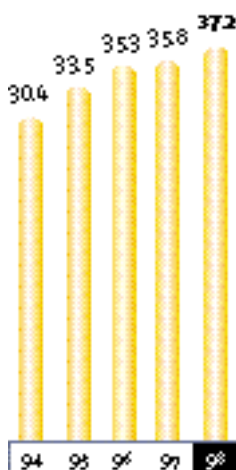
## FINANCIAL HIGHLIGHTS

Millions of Dollars Except Per Share Amounts	For Years Ended June 30		
	1998	1997	Percent Change
Net Sales	\$37,154	\$35,764	4%
Operating Income	6,055	5,488	10%
Net Earnings	3,780	3,415	11%
Per Common Share			
Basic Net Earnings	2.74	2.43	13%
Diluted Net Earnings	2.56	2.28	12%
Dividends	1.01	.90	12%

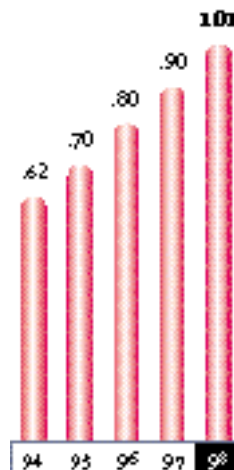
**Value of \$1,000 Invested  
in P&G Stock in June 1988**  
(With Dividend Reinvestment)



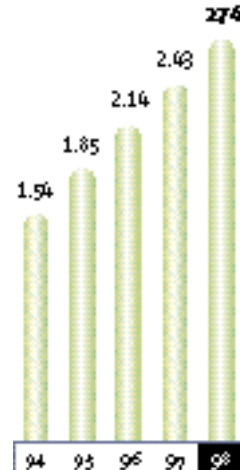
**Net Sales**  
(Billions of Dollars)




**Dividends**  
(Per Common Share)



**Basic Net Earnings**  
(Per Common Share)



A headshot of John E. Pepper, a middle-aged man with short brown hair and glasses, wearing a dark suit, light blue shirt, and a patterned tie. He is smiling slightly against a solid blue background.

**John E. Pepper**  
Chairman and Chief Executive Officer

A headshot of Durk I. Jager, a middle-aged man with short brown hair and glasses, wearing a dark suit, white shirt, and a red patterned tie. He is smiling slightly against a solid blue background.

**Durk I. Jager**  
President and Chief Operating Officer

...and Olean is a very big idea. Maynard Danker, an Iowa farmer, remembers the first day he heard about Olean. “The folks who make Crisco were going to start with soybeans like mine to come up with a new kind of cooking oil. It fries up snacks that are a little healthier, without adding any fat. Makes them taste good, too. That’s something that’s never been done before.” 🌱 Improving consumers’ lives by doing things that have never been done before is what Procter & Gamble is all about. In more than 140 countries around the world, we work to understand what consumers want and need. Then we develop innovative brands to serve those needs – creating new products, new categories and new growth opportunities for our Company. 🌱 More than 110,000 P&G employees around the world, committed to breakthrough innovation and superior execution, drive our growth. Again this year, we delivered record performance: net earnings of \$3.78 billion, up 11%; basic net earnings per common share of \$2.74, up 13%; and worldwide net sales of \$37.2 billion, up 4% on 6% unit volume growth. 🌱 These results fueled solid performance in the areas that matter most to you, our shareholders. Over the past three years, we’ve delivered an average annual Total Shareholder Return (TSR) of 37%, compared to a TSR of 30% for the S&P 500. And we concluded the 1997/1998 fiscal year by increasing common share dividends 13% to \$1.14 – marking the 43rd consecutive year of increased dividend payments.





### FASTER, BIGGER INNOVATION

These results are good, yet we can and must do better. In particular, we are not satisfied with our rate of volume and sales growth. We must significantly accelerate our progress if we are to achieve the goals we've reported here in previous years:

- To double our business in 10 years,
- To grow shares in categories representing the majority of our volume, and
- To remain consistently among the top third of our peer companies in TSR performance.

We know the key is faster, bigger innovation in every part of our business. And we've made important strides in the past year to strengthen our pipeline of innovations on established brands and on new brands entering test market. But there is much more we intend to do. We must bring even better products to more markets with greater speed than ever before. And we must release the untapped power of our organization.

### IMPORTANT CHANGES TO ACCELERATE GROWTH

For some time, we've been examining how our organization should evolve, and in the coming weeks, we will announce details of a comprehensive plan to simplify the way we're structured and to strengthen how we operate. The changes, while consistent with the direction in which we've been growing, are significant and will improve our ability to create and build even more profitable leadership brands around the world.

# We make every day better in every



Four changes, in particular, are worth noting here:

- We will move from our current regional business units to product-based, global business units – a direction we've been heading since the late 1980s with the start of Global Category Management.
- We will strengthen our already-strong, country-based organizations to provide even deeper knowledge of local consumers and stronger partnerships with our customers. These local market organizations will be essential to bringing our product initiatives to consumers with the highest impact possible.
- We will create a new Global Business Services organization to support the global business units and the local market organizations. This move will bring together business services that are currently dispersed throughout the organization. It will also help us achieve significant economies of scale, while improving the overall quality and speed of these services.
- And finally, we will streamline our corporate staff. We will align many corporate resources with the business units and refocus others on developing the cutting-edge, functional knowledge and innovation important to our future growth and success.

To support these new structural advantages, we are also making important changes in our culture and in our reward system – all to encourage greater speed, innovation and flexibility in the organization.

Taken together, we believe these improvements will enable us to build stronger global brands; achieve faster, bigger innovation; produce accelerated business growth; and result in greater satisfaction for our people. These are the kinds of changes we've made throughout P&G's 161-year history – changes always designed to get us closer to consumers and to keep our business growing at a level we – and you – have every right to expect, given the extraordinary caliber of the men and women of Procter & Gamble.

#### A BIG IDEA

It's been a good year. And we are committed to making the future even better. We owe it to people like Maynard Danker. And we owe it to you, the fellow owners of our Company. We want to ensure that whenever and wherever people see P&G or its brands, they can say to themselves, "Now *that's* a big idea."



**John E. Pepper**  
Chairman and Chief Executive Officer



**Durk I. Jager**  
President and Chief Operating Officer

July 30, 1998

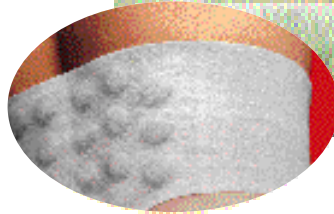
way we can for **people** around the world.



	Laundry & Cleaning Products	Paper Products	Beauty Care Products	Health Care Products	Food & Beverage Products
KEY BRANDS	ACE BLEACH ARIEL BOUNCE CASCADE CHEER DAWN DOWNY FAIRY JOY LENOR MR. CLEAN TIDE	ALWAYS/WHISPER BOUNTY CHARMIN LUVS PAMPERS PAMPERS WIPES PUFFS TAMPAX TEMPO	COVER GIRL HEAD & SHOULDERS IVORY MAX FACTOR OIL OF OLAY OLD SPICE PANTENE PRO-V PERT PLUS REJOICE SAFEGUARD SECRET SK-II VIDAL SASSOON ZEST	ASACOL BLEND-A-MED CHLORASEPTIC CREST DIDRONEL MACROBID NYQUIL PEPTO-BISMOL SCOPE VICKS FORMULA 44 VICKS VAPORUB	CRISCO FOLGERS HAWAIIAN PUNCH JIF MILLSTONE OLEAN PRINGLES PUNICA SUNNY DELIGHT



**ThermaCare: Ease your pain – with wearable heat**  
 ThermaCare ultra-thin wraps fit comfortably under your clothes for soothing heat that helps relieve pain all day long.



**Dryel: Care for "dry clean only" fabrics – at home**

For less than a \$1 a garment and about 30 minutes a load, Dryel helps clean and freshen wool, rayon, silk and other "dry clean only" clothes in your home dryer.





**Olean:** Enjoy great tasting snacks – with less fat  
Our Crisco people came up with a cooking oil that fries up great tasting snacks without adding any fat or a single calorie.



# new to the world brands...

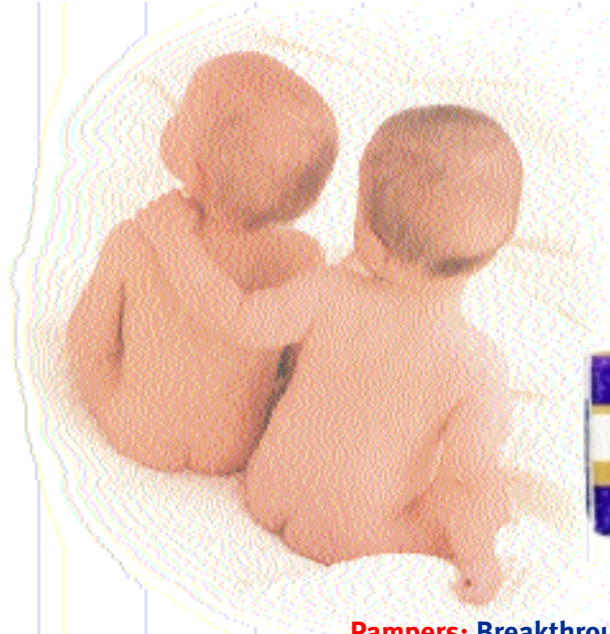


The fine mist penetrates fibers, cleaning away odors as it evaporates.

**Febreze:** Clean bad smells out of fabrics – for good  
Just spray Febreze on furniture, carpets, rugs, car interiors, clothing, even shoes – and odors trapped in fabrics are gone.

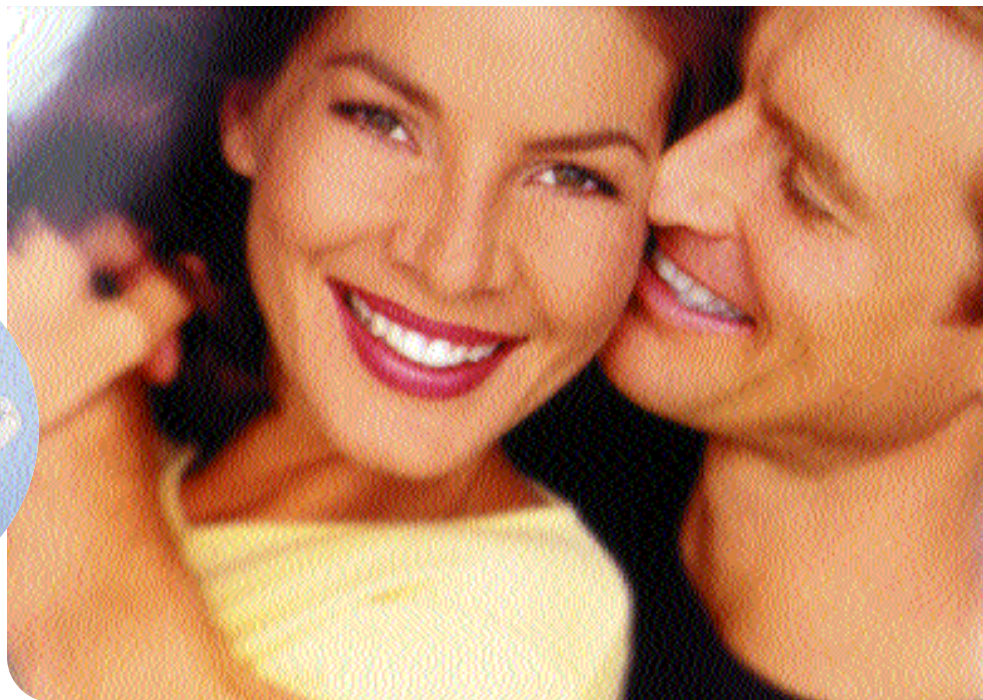






**Pampers:** Breakthrough technology advances baby skin care. With its unique Gentle Touch Liner, Pampers has surpassed competition to become the U.S. share leader in premium diapers.

# new to the brand innovations

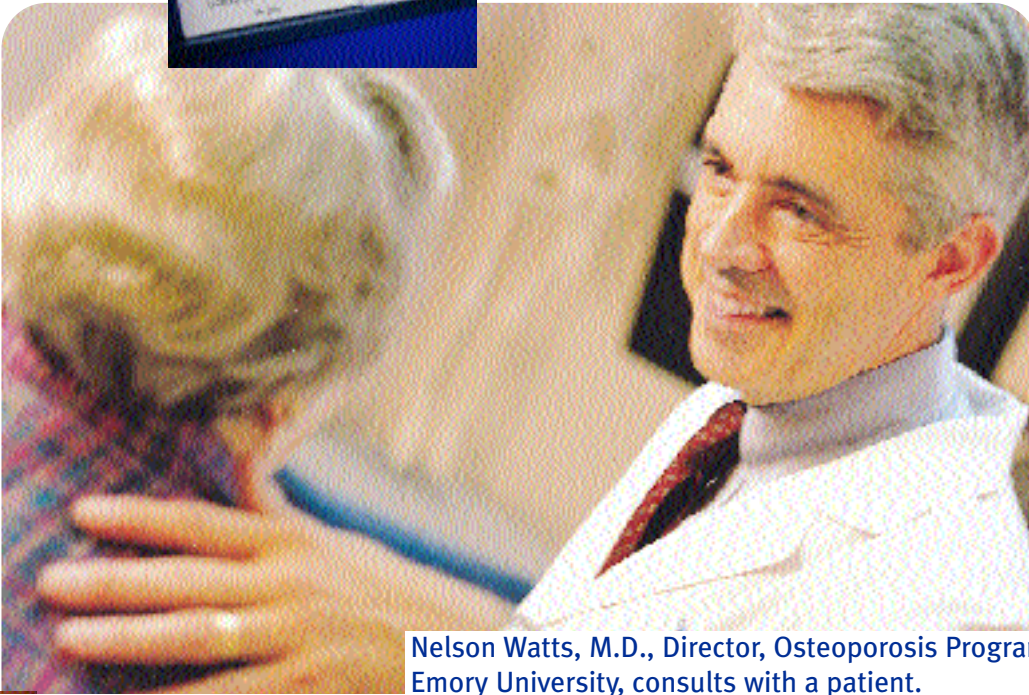


**Crest:** Breakthrough ingredient introduced in Crest Extra Whitening. Its patented, enamel-safe soft silica helps remove surface stains to let the natural whiteness of your teeth shine through.





**Actonel:** New standard of care for Paget's Disease, the second most common metabolic bone disorder  
FDA approves remission indication with only 1/3 the treatment time of current leading therapies, moving Actonel closer to regulatory submission for osteoporosis.



Nelson Watts, M.D., Director, Osteoporosis Program, Emory University, consults with a patient.

**Fairy Liquid:** First anti-bacterial dish soap in the U.K. Fairy received Royal Institute of Public Health and Hygiene certification for its innovative, germ-killing property that fights cross-contamination.



**Pantene Elastesse:** First major breakthrough in hair spray technology in over 40 years The natural, touchable, flexible hold meets consumer needs and grows our global dollar share to #1.



## Financial Results



A tradition of growth through innovation.

9	18	19	24
Financial Review	Responsibility for the Financial Statements and Report of Independent Accountants	Consolidated Financial Statements	Notes to Consolidated Financial Statements

## Results of Operations

The Company achieved record sales, unit volume and net earnings for the year ended June 30, 1998. Basic net earnings per common share increased 13% to \$2.74. Worldwide net earnings for the year were \$3.78 billion, an 11% increase over the prior year earnings of \$3.42 billion.

Worldwide net sales for the current year were \$37.15 billion, an increase of 4% on worldwide unit volume growth of 6%. The difference between the sales and volume growth rates was primarily due to weaker currencies in Europe and Asia. Excluding these impacts, sales increased 8%.

Worldwide gross margin for the current year was 43.3% compared to 42.7% in the prior year. The current year improvement reflects cost savings, primarily from the Company's ongoing simplification and standardization program, as ongoing cost savings generated

by the program exceeded the net cost to fund current year projects.

Worldwide marketing, research and administrative expenses were \$10.04 billion compared to \$9.77 billion in the prior year. This equates to 27.0% of sales, compared with 27.3% in the prior year. The 3% increase in total spending was primarily due to increased marketing support behind new brands, such as Tampax and Fat Free Pringles, and the expansion of existing brands into new markets.

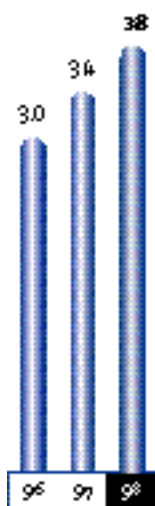
Operating income grew 10%, primarily reflecting sales growth and cost-control efforts. The Company's net earnings margin increased from 9.5% to 10.2%, the highest level in 57 years.

Interest expense increased 20% to \$548 million on increased debt, due mainly to acquisitions. Other income, net, which consists primarily of interest and investment income, contributed \$201 million in the current year. In the prior year, other income, net, was \$218 million.

The Company's effective tax rate for the year was 33.8% compared to 34.9% in the prior year. The decline reflects the benefits of lower tax rates in Europe, increased research and development tax credits in North America, and continued emphasis on effective tax planning.

In 1997, the Company completed its \$2.4 billion restructuring program started in 1993, with annual cost savings in excess of \$600 million after tax. The Company is continuing an ongoing program of simplification and standardization, which includes projects to consolidate selected manufacturing facilities, re-engineer manufacturing and distribution processes, redesign organizations, simplify product line-ups and divest non-strategic brands and assets. This program did not have a significant impact on 1998 net earnings, as the aggregate pre-tax cost of projects was offset by gains on sales of non-strategic brands and other assets. The net cost of these activities in 1997 was offset by increased licensing activity in the Health Care sector.

**Net Earnings**  
(Billions of Dollars)



**Net Sales**  
(Billions of Dollars)





The following provides perspective on the year ended June 30, 1997 versus the prior year:

Worldwide net earnings increased 12% to \$3.42 billion in 1997. Net earnings for 1996 were \$3.05 billion and included the settlement of the Bankers Trust lawsuit, profit from the sale of the Company's share of a health care joint venture, a reserve for estimated losses on a supply agreement entered into as part of the previous divestiture of the commercial pulp business, and adoption of FASB Statement No. 121 covering recognition of impairment of long-lived assets. If these items had been excluded from 1996 earnings, the growth rate for the year ended June 30, 1997 would have been 13%.



Worldwide net sales in 1997 were \$35.76 billion, up 1% from the prior year on unit volume growth of 3%. The difference between sales and volume growth rates was primarily due to weaker currencies in Europe and Asia.

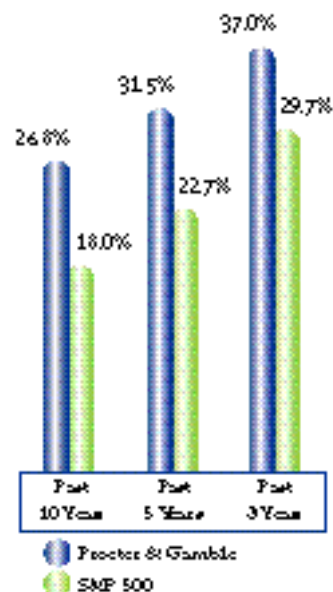
Worldwide gross margin increased to 42.7% from 40.7% in 1996, reflecting cost savings from the Company's simplification and standardization efforts and the continuing benefits of the restructuring project initiated in 1993.

Worldwide marketing, research and administrative expenses were 27.3% of sales compared with 27.0% in 1996, primarily due to increases in advertising and research.

Other income, net, was \$218 million in 1997. In 1996, other income, net, was \$338 million and included a \$120 million benefit from reversing the reserve for two interest rate swap contracts following settlement of a lawsuit against Bankers Trust; a \$185 million gain on the sale of the Company's 50% share of a health care joint venture to its venture partner; and a \$230 million charge to increase the reserve for estimated losses on a supply agreement entered into as part of the previous sale of the Company's commercial pulp business.

Net earnings margin increased to 9.5% in 1997 from 8.6% in 1996, reflecting unit volume growth and continued emphasis on cost control through the Company's simplification and standardization program.

**Total Shareholder Return Relative to S&P 500**



### Financial Condition

Cash flow from operations was \$4.89 billion, \$5.88 billion and \$4.16 billion in 1998, 1997 and 1996, respectively. Operating cash flow provided the primary source of funds to finance operating needs, capital expenditures and the share repurchase programs. Operating cash flow, combined with additional borrowings, provided the primary source of funds to finance current year acquisitions.

Cash and cash equivalents decreased \$801 million in the current year to \$1.55 billion, primarily due to acquisitions and increased capital expenditures.

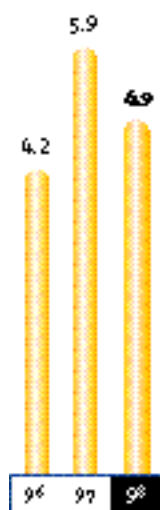
Capital expenditures were \$2.56 billion in 1998, \$2.13 billion in 1997, and \$2.18 billion in 1996. Current year expenditures included capacity expansions in the paper and food businesses, primarily in tissue and towel and snacks. Capital expenditures are expected to increase during the upcoming year, reflecting planned capacity increases and technological advances, primarily in the paper and laundry businesses.



1946: First heavy-duty synthetic laundry detergent

Net cash used for acquisitions completed during 1998 totaled \$3.27 billion, the highest level in the Company's history. Acquisitions were largely concentrated in paper businesses, and included Tambrands, Inc. and its global leading brand, Tampax, the Loreto y Peña paper company in Mexico, and the Ssangyong Paper Company in Korea. The Company also increased ownership of various ventures in Asia and Latin America. Current year acquisitions were funded through a combination of existing cash balances and the issuance of debt. Net cash used for acquisition activities in 1997 and 1996 totaled \$150 million and \$358 million, respectively. The Company continued to divest certain non-strategic brands in 1998 in order to focus organizational resources on the Company's core businesses. The proceeds from these sales, the most significant of which was Duncan Hines, and other asset sales, generated \$555 million in cash flow in the current year, compared to \$520 million and \$402 million in 1997 and 1996, respectively.

**Operating Cash Flow**  
(Billions of Dollars)



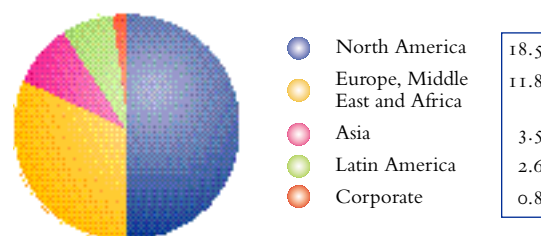
The Company initiated a share repurchase program in 1995 which authorized the Company to purchase shares annually to mitigate the dilutive impact of management compensation programs. The Company also initiated discretionary buy-back programs to repurchase additional outstanding shares of up to \$1 billion per year during 1997 and 1998, in addition to purchases made under the 1995 program. Current year purchases under the repurchase programs totaled \$1.93 billion compared to \$1.65 billion in the prior year. The Company has announced plans to increase and accelerate its discretionary share repurchase programs in 1999 beyond its previous annual target of \$1 billion.

Common share dividends grew 12% to \$1.01 per share in 1998, compared to \$.90 and \$.80 in 1997 and 1996, respectively. For the coming year, the annual dividend rate will increase to \$1.14 per common share, marking the forty-third consecutive year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were \$1.46 billion, \$1.33 billion and \$1.20 billion in 1998, 1997 and 1996, respectively.

Total debt was up \$3.06 billion to \$8.05 billion, primarily due to the issuance of commercial paper to fund current year acquisitions.

Long-term borrowing available under the Company's shelf registration statement filed in 1995, as amended in July 1997, was \$2.0 billion at June 30, 1998. Additionally, the Company has the ability to issue commercial paper at favorable rates.

**Net Sales by Geographic Region**  
(Billions of Dollars)



*The following pages provide perspective on the Company's geographic operating segments. Geographic segments exclude corporate items, most notably certain financing and employee benefit costs, goodwill amortization, segment eliminations and projects related to the Company's simplification and standardization program.*



## North America Region

The North America region continued to deliver solid progress, achieving record sales, unit volume and net earnings.

Net sales for the year were \$18.46 billion, an increase of 5% from the prior year level of \$17.63 billion, on unit volume growth of 4%.

Net earnings for the region were up 10% to \$2.47 billion. The region achieved this earnings growth through increased unit volume, a continued focus on

cost control through simplification and standardization, and a lower tax rate, primarily related to increased research and development tax credits, partially offset by increased spending on product initiatives. Prior year net earnings were \$2.25 billion, which represented a 15% increase over 1996. Net earnings margin for the region was 13.4%, compared to 12.8% and 11.3% in 1997 and 1996, respectively.

The Paper sector led the region's current year volume progress, generating 10% unit volume growth versus the prior year and delivering over half of the region's total unit volume increase. This unit volume growth was achieved behind the strength of the feminine protection business, driven by the Tambrands acquisition; diapers, due to initiative programs; and tissue and towel, as a result of prior year capacity

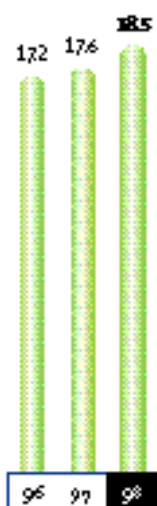
increases. The Paper sector also led the region's profit improvements, driven by volume growth, increased pricing in tissue and towel, and cost reduction from the ongoing simplification and standardization program. In the prior year, operating results were driven by the diaper category, behind the acquisition of baby wipes and the introduction of Pampers Baby-Dry, and by tissue and towel capacity increases.

The Laundry and Cleaning sector was also a strong contributor to the region's current year unit volume progress, with a 3% increase over a strong prior year base period. The volume gains were driven by laundry, which also contributed heavily to the sector's earnings progress, and by fabric conditioners.

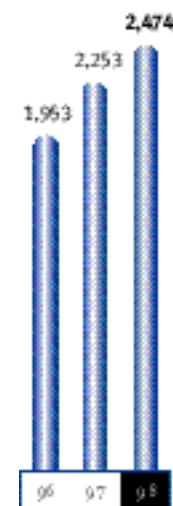
The Food and Beverage sector achieved 1% unit volume growth in the current year, despite reduced coffee volumes resulting from commodity-based price increases and the sale of Duncan Hines. The snacks category posted the highest increase, behind the launch of Fat Free Pringles. The sector's earnings were negatively impacted by the loss of profit contribution from Duncan Hines, and by investments in new initiatives. In 1997, unit volume growth was led by the snacks category, which achieved double-digit growth behind new production capacity.

Unit volume in the Beauty Care sector grew 2% during the year, led by hair care and deodorants. Net earnings for the sector increased over a strong prior year base, driven by the skin care and personal cleansing and the cosmetics and fragrances categories. Earnings growth declined from the double-digit increases of prior years, due to intense competition in hair care and deodorants, and increased investments in the development of future product initiatives.

**North America  
Net Sales**  
(Billions of Dollars)



**North America  
Net Earnings**  
(Millions of Dollars)



1956: First scouring cleanser with effective bleaching



Unit volume in the Health Care sector was down 1%, as volume softness caused by intense competitive activity in oral care was partially offset by improved volume in the pharmaceuticals category. The sector's unit volume posted a 3% decline in 1997 compared to 1996. Earnings declined in 1998, as the sector continued to invest in research and development, primarily in pharmaceuticals, and in marketing support in the highly competitive oral care category. The sector will continue to invest heavily in research and development, with a pipeline for launching new pharmaceutical drugs in the coming years and a renewed focus on future innovations in other health care products.

### Europe, Middle East and Africa Region

Record unit volume, sales and earnings in the Europe, Middle East and Africa region were driven by continued expansion into developing markets, increased pricing, cost improvements and lower tax rates.

Net sales grew 2% to \$11.84 billion, on 8% unit volume growth. Excluding the effects of unfavorable exchange rates, primarily in Western Europe, sales grew 10%, ahead of volume. During the prior year, sales increased 1% to \$11.59 billion, which trailed the 7% unit volume growth rate due to unfavorable exchange rates.

The region's net earnings progress continued in the current year, growing 14% to \$1.09 billion. Net earnings in 1997 were \$956 million, a 21% increase over 1996. Current year earnings growth was driven by the region's volume growth, continued efforts to reduce cost via simplification and

standardization and lower tax rates, partially offset by negative exchange impacts. The net earnings margin progress also continued in the current year to 9.2%, from 8.3% and 6.9%, in 1997 and 1996, respectively.

Central and Eastern Europe led the region's unit volume growth, with a 25% increase, driven by growth in emerging markets. This follows a 42% growth rate in 1997. Earnings increased as a result of unit volume growth, reduced costs and economies of scale, partially offset by continued investment in new product initiatives and new markets to facilitate future growth.

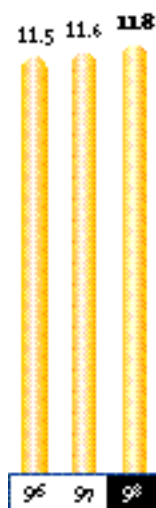
Middle East and Africa, which includes the region's snack business, increased unit volume 18% over the prior year base period, which also generated a double-digit increase over 1996. Unit volume progress was broadly based across countries and key categories, led by increased snack sales.

Western Europe unit volume increased 2%, reflecting the net impact of the Tambrands acquisition and the divestiture of non-strategic local brands, primarily in health and beauty care. Net earnings increased well above volume growth, due to cost savings, primarily in laundry and cleaning products, and lower tax rates, partially offset by increased spending to promote new brand launches.

**Europe, Middle East and Africa Net Earnings**  
(Millions of Dollars)



**Europe, Middle East and Africa Net Sales**  
(Billions of Dollars)



## Asia Region

The Asia region was negatively impacted by a general market contraction caused by the currency and economic crises in Korea and the ASEAN countries (Thailand, Malaysia, Philippines, Indonesia and Singapore) and the continuing economic recession in Japan.

Net sales for the region were \$3.45 billion, 3% below the prior year on 4% unit volume growth. Current year volume growth was driven by acquisitions, including Ssangyong, a paper business in Korea, and increased ownership of a venture in China, which more than offset volume declines in the rest of the region. Net sales lagged volume growth as the impact of improved pricing and product mix were more than offset by the impact of unfavorable exchange rate movements. Excluding adverse exchange effects, sales grew 10%, primarily due to pricing aimed at recovering the currency devaluation effects. In the prior year, net sales declined 8% to \$3.57 billion on a 7% unit volume decline. Excluding exchange effects in 1997, sales were down 2% versus 1996.

The region's net earnings were \$174 million, a 37% decrease from the prior year. Current year earnings were impacted by lower sales, increased investment in new product initiatives and the currency crisis. The prior year net earnings of \$275 million represented a 1% increase over 1996. Net earnings margin for the current year was 5.0%, compared to 7.7% in 1997 and 7.0% in 1996. The 1998 margin decline reflects lower sales, exchange impacts and initiative investments.

Greater China's unit volume was up 6% versus the prior year. Volume increases were driven by increased ownership of a joint venture. Net earnings were higher as the impact of increased volume was partially offset by unfavorable sales mix and investment behind new product introductions.

In Japan, unit volume was relatively flat, reflecting the continued depressed state of the Japanese economy. Despite the economic troubles, the Company continued to invest in new product initiatives and was successful in increasing market shares during the second half of the year. Net earnings were lower due to unfavorable sales mix, investment in new products and the weakened yen.

The balance of Asia was positively impacted by the acquisition of the Ssangyong Paper Company in Korea. The increased volume in Korea resulting from this acquisition more than offset volume declines brought about by the economic crisis. Earnings, however, declined as a result of the currency crisis.

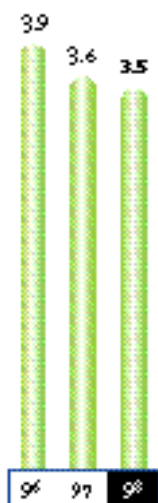
The Asian markets are expected to remain weak through at least fiscal 1999. Because the Asia region accounted for less than 10% of the Company's total sales and 5% of the Company's total earnings in fiscal 1998, the economic situation is not expected to be significant to the Company's overall growth rate for the coming year. While the region is expected to recover from these difficulties, the depth and duration of the economic effects are still uncertain.

## Latin America Region

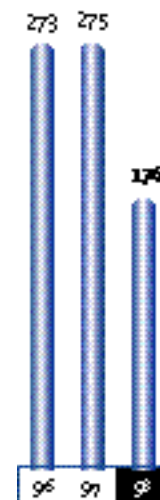
Latin America continued its positive trends in net sales and net earnings, with current year results being driven by acquisitions and the continued strengthening in Mexico and Venezuela.

Net sales in the region grew 14% to \$2.64 billion on 12% unit volume growth, as pricing outpaced the negative impact of currency devaluation. Volume gains resulted from the acquisition of Loreto y Peña, a paper

**Asia Net Sales**  
(Billions of Dollars)

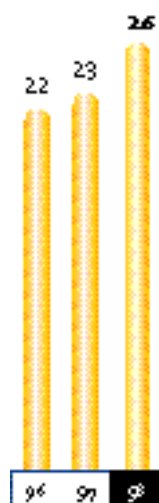


**Asia Net Earnings**  
(Millions of Dollars)



**1961: First successful, mass-marketed disposable diaper**

**Latin America  
Net Sales**  
(Billions of Dollars)



company in Mexico, the buy-out of a paper joint venture in the Southern Cone (Brazil, Argentina, Chile), the prior year acquisition of a laundry and cleaning business in Brazil, and the strengthening of the base business in Mexico, Venezuela and Argentina. In the prior year, sales for the region grew 6% to \$2.31 billion, while unit volume was down 2%, reflecting inflation-driven pricing action. In Mexico, the Company's largest operation in the region, business results were strong. Unit volume increased 16%, behind the acquisition of the Loreto y Peña paper company and a general economic recovery in the market.

Net earnings for the region were \$274 million, a 7% increase. Current year earnings lagged behind sales growth due

to increased investment to support brand expansion in the Southern Cone. Excluding these geographies, the balance of the region's earnings grew in double digits. Prior year net earnings were \$256 million, a 17% increase over 1996. Net earnings margin for the current

year was 10.4% compared to 11.1% and 10.1% in 1997 and 1996, respectively, reflecting initiative investments.

Prior to January 1, 1998, both Brazil and Peru were highly inflationary economies, and accordingly, the results of the Company's subsidiaries in Brazil and Peru were measured using the United States dollar as their functional currency. Effective January 1, 1998, neither Brazil nor Peru qualified as a highly inflationary economy. The impact of this change was not material.

**Latin America  
Net Earnings**  
(Millions of Dollars)



## Hedging and Derivative Financial Instruments

The Company is exposed to market risk, including changes in interest rates, currency exchange rates and commodity prices. To manage the volatility relating to these exposures on a consolidated basis, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. The financial impacts of these hedging instruments are offset by corresponding changes in the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes. Note 5 to the consolidated financial statements includes a discussion of the Company's accounting policies for financial instruments.

Derivative positions are monitored using techniques including market value, sensitivity analysis and a value at risk model. The tests for interest rate and currency rate exposures discussed below are based on a variance/co-variance value at risk model using a one-year horizon and a 95% confidence level. The model assumes that financial returns are normally distributed and approximates the financial return for options and other non-linear instruments. The model also reflects the impact of correlation and diversification from holding multiple currency and interest rate instruments. Estimates of volatility and correlations of market factors are drawn from the JP Morgan RiskMetrics™ dataset as of June 30, 1998. In cases where data is unavailable in RiskMetrics™, a reasonable approximation is included. The effect of these estimates did not significantly change the total value at risk.

The Company's market risk exposures relative to interest and currency rates, as discussed below, have not changed materially versus the previous reporting period. In addition, the Company is not aware of any facts or circumstances that would significantly impact such exposures in the near-term.





### Interest Rate Exposure

Interest rate swaps are used to hedge underlying debt obligations. Certain currency interest rate swaps are designated to hedge the foreign currency exposure of the Company's related foreign net investments.

Based on the Company's overall interest rate exposure as of and during the year ended June 30, 1998, including derivative and other interest rate sensitive instruments, a near-term change in interest rates, within a 95% confidence level based on historical interest rate movements, would not materially affect the consolidated financial position, results of operations or cash flows.

### Currency Rate Exposures

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The major foreign currency exposures involve the markets in Western Europe, Mexico and Canada. The primary purpose of the Company's foreign currency hedging activities is to protect against the volatility associated with foreign currency purchases of materials and other assets and liabilities created in the normal course of business. Corporate policy prescribes the range of allowable hedging activity. The Company primarily utilizes forward exchange contracts and purchased options with durations of generally less than 12 months.

In addition, the Company enters into foreign currency swaps to hedge intercompany financing transactions, and utilizes purchased foreign currency options with durations of generally less than 18 months and forward exchange contracts to hedge against the effect of exchange rate fluctuations on royalties and foreign source income.

Based on the Company's overall currency rate exposure as of and during the year ended June 30, 1998, including derivative and other foreign currency sensitive instruments, a near-term change in currency rates, within a 95% confidence level based on historical currency rate movements, would not materially affect the consolidated financial position, results of operations or cash flows.

### Commodity Price Exposure

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions and other unpredictable factors. The Company uses futures and options contracts, primarily in food and beverage products, to manage the volatility related to certain of these exposures. Gains and losses relating to qualifying hedges of firm commitments or anticipated inventory transactions are deferred in prepaid expenses and are included in the basis of the underlying transactions. Commodity hedging activity is not material to the Company's consolidated financial position, results of operations or cash flows.

### Organization 2005

The Company is currently designing Organization 2005, a realignment of the organization structure, work processes and culture to accelerate growth and innovation. While the details are not final, the design will likely include:

- A move from current geographic business units to product-based Global Business Units (GBUs).
- The further strengthening of country-based organizations to provide even greater focus on deep local level consumer and customer knowledge.
- The establishment of centers of excellence for key administrative, logistics and support functions.
- Changes in the culture and reward systems to encourage greater speed, innovation and flexibility.

The nature, timing and implications related to this design change have not yet been determined. The Company expects to finalize plans and to make available further details of the Organization 2005 changes in Fall 1998.

### Year 2000

The Company has developed plans to address the possible exposures related to the impact on its computer systems of the Year 2000. Key financial, information and operational systems, including equipment with embedded microprocessors, have been inventoried and assessed, and detailed plans are in place for the required systems modifications or replacements.



**1968:** First uniformly shaped, stackable potato chip

Progress against these plans is monitored and reported to management and to the Audit Committee of the Board of Directors on a regular basis. Implementation of required changes to critical systems is expected to be completed during fiscal 1999. Testing and certification of critical systems, which includes review of documented remediation work and test results by technical experts, key users and a central project team, is expected to be successfully completed by December 31, 1999. In addition, the Company's Internal Controls organization plans to review the testing and certification process and observe the testing of selected critical systems in each region.

#### *Critical Systems Description*

	% of Applications Year 2000 Compliant		
	Actual as of June 1998	Planned December 1998	Planned June 1999
Critical manufacturing, operating and control systems	44%	90%	100%
All other critical systems	56%	100%	100%

Incremental costs, which include contractor costs to modify existing systems and costs of internal resources dedicated to achieving Year 2000 compliance, are charged to expense as incurred. Costs are expected to total approximately \$100 million, of which 34% has been spent to date.

The Company is also in contact with suppliers and customers to assess the potential impact on operations if key third parties are not successful in converting their systems in a timely manner. Risk assessment, readiness evaluation, action plans and contingency plans related to these third parties are expected to be completed by December 1998.

The Company's risk management program includes emergency backup and recovery procedures to be followed in the event of failure of a business-critical system. These procedures will be expanded to include specific procedures for potential Year 2000 issues. Contingency plans to protect the business from Year 2000-related interruptions are being developed. These plans will be complete by June 1999 and will include, for example, development of backup procedures, identification of alternate suppliers and possible increases in safety inventory levels.

The Company is taking reasonable steps to prevent major interruptions in the business due to Year 2000 issues. The effect, if any, on the Company's results of operations if the Company, its customers or its suppliers are not fully Year 2000 compliant is not reasonably estimable. The Company believes its global presence and broad-based manufacturing capability help mitigate the risk.

#### **Forward-Looking Statement**

The Company has made and will make certain forward-looking statements in the Annual Report and in other contexts relating to volume growth, increases in market shares, Year 2000 compliance, financial goals and cost reduction, among others.

These forward-looking statements represent challenging goals for the Company and are based on certain assumptions and estimates regarding the worldwide economy, technological innovation, competitive activity, pricing, currency movements, product introductions, governmental action and the development of certain markets. Among the key factors necessary to achieve the Company's goals are: (1) the achievement of lower costs and increases in reliability and capacity utilization, resulting from simplification and standardization; (2) the ability to improve results despite high levels of competitive activity and the economic downturn in Asia; (3) the successful implementation of ECR and the ability to maintain key customer relationships in important developed markets; (4) the continuation of substantial growth in significant developing markets such as China, Mexico, Brazil and the countries of Central and Eastern Europe; (5) obtaining successful outcomes in regulatory, tax and legal matters; (6) the ability to continue technological innovation; and (7) the timely resolution of the Year 2000 issue by the Company and its customers and suppliers. 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 performance could vary materially from the forward-looking statements made herein.

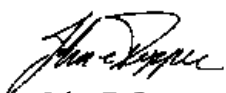


Consolidated financial statements and financial information included in this report are the responsibility of Company management. This includes preparing the statements in accordance with generally accepted accounting principles and necessarily includes estimates based on management's best judgments.

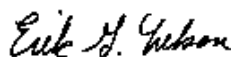
To help insure the accuracy and integrity of Company financial data, management maintains internal controls designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded and that assets are properly safeguarded. These controls are monitored by an ongoing program of internal audits. These audits are supplemented by a self-assessment program that enables individual organizations to evaluate the effectiveness of their controls. Careful selection of employees and appropriate divisions of responsibility are designed to achieve control objectives. The Company's "Worldwide Business Conduct Manual" sets forth management's commitment to conduct its business affairs with the highest ethical standards.

Deloitte & Touche LLP, independent public accountants, have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with generally accepted auditing standards.

The Board of Directors, acting through its Audit Committee composed entirely of outside directors, oversees the adequacy of internal controls. The Audit Committee meets periodically with representatives of Deloitte & Touche LLP and internal financial management to review internal control, auditing and financial reporting matters. The independent auditors and the internal auditors also have full and free access to meet privately with the Audit Committee.



John E. Pepper  
Chairman and Chief Executive



Erik G. Nelson  
Chief Financial Officer

## REPORT OF INDEPENDENT ACCOUNTANTS



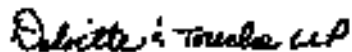
250 East Fifth Street  
Cincinnati, Ohio 45202

To the Board of Directors and Shareholders of The Procter & Gamble Company:

We have audited the accompanying consolidated balance sheets of The Procter & Gamble Company and subsidiaries as of June 30, 1998 and 1997 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at June 30, 1998 and 1997 and the results of its operations and cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.



July 30, 1998



# CONSOLIDATED STATEMENTS OF EARNINGS

The Procter & Gamble Company and Subsidiaries

Amounts in Millions Except Per Share Amounts	Years Ended June 30		
	1998	1997	1996
<b>Net Sales</b>	\$37,154	\$35,764	\$35,284
Cost of products sold	21,064	20,510	20,938
Marketing, research and administrative expenses	10,035	9,766	9,531
<b>Operating Income</b>	6,055	5,488	4,815
Interest expense	548	457	484
Other income, net	201	218	338
<b>Earnings Before Income Taxes</b>	5,708	5,249	4,669
Income taxes	1,928	1,834	1,623
<b>Net Earnings</b>	\$ 3,780	\$ 3,415	\$ 3,046
<b>Basic Net Earnings Per Common Share</b>	\$ 2.74	\$ 2.43	\$ 2.14
<b>Diluted Net Earnings Per Common Share</b>	\$ 2.56	\$ 2.28	\$ 2.01
<b>Dividends Per Common Share</b>	\$ 1.01	\$ .90	\$ .80
See accompanying Notes to Consolidated Financial Statements.			



Amounts in Millions Except Per Share Amounts	June 30	
	1998	1997
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,549	\$ 2,350
Investment securities	857	760
Accounts receivable	2,781	2,738
Inventories		
Materials and supplies	1,225	1,131
Work in process	343	228
Finished goods	1,716	1,728
Deferred income taxes	595	661
Prepaid expenses and other current assets	1,511	1,190
<b>Total Current Assets</b>	<b>10,577</b>	<b>10,786</b>
<b>Property, Plant and Equipment</b>		
Buildings	3,660	3,409
Machinery and equipment	15,953	14,646
Land	539	570
	20,152	18,625
Accumulated depreciation	(7,972)	(7,249)
<b>Total Property, Plant and Equipment</b>	<b>12,180</b>	<b>11,376</b>
<b>Goodwill and Other Intangible Assets</b>		
Goodwill	7,023	3,915
Trademarks and other intangible assets	1,157	1,085
	8,180	5,000
Accumulated amortization	(1,169)	(1,051)
<b>Total Goodwill and Other Intangible Assets</b>	<b>7,011</b>	<b>3,949</b>
<b>Other Non-Current Assets</b>	<b>1,198</b>	<b>1,433</b>
<b>Total Assets</b>	<b>\$30,966</b>	<b>\$27,544</b>
See accompanying Notes to Consolidated Financial Statements.		



1975: First contour-shaped diaper

Amounts in Millions Except Per Share Amounts	June 30	
	1998	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,051	\$ 2,203
Accrued and other liabilities	3,942	3,802
Taxes payable	976	944
Debt due within one year	2,281	849
<b>Total Current Liabilities</b>	<b>9,250</b>	<b>7,798</b>
<b>Long-Term Debt</b>	<b>5,765</b>	<b>4,143</b>
<b>Deferred Income Taxes</b>	<b>428</b>	<b>559</b>
<b>Other Non-Current Liabilities</b>	<b>3,287</b>	<b>2,998</b>
<b>Total Liabilities</b>	<b>18,730</b>	<b>15,498</b>
<b>Shareholders' Equity</b>		
Convertible Class A preferred stock, stated value \$1 per share (600 shares authorized)	1,821	1,859
Non-Voting Class B preferred stock, stated value \$1 per share (200 shares authorized; none issued)	—	—
Common stock, stated value \$1 per share (5,000 shares authorized; shares outstanding: 1998—1,337.4 and 1997—1,350.8)	1,337	1,351
Additional paid-in capital	907	559
Reserve for employee stock ownership plan debt retirement	(1,616)	(1,634)
Accumulated other comprehensive income	(1,357)	(819)
Retained earnings	11,144	10,730
<b>Total Shareholders' Equity</b>	<b>12,236</b>	<b>12,046</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$30,966</b>	<b>\$27,544</b>





# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

The Procter & Gamble Company and Subsidiaries

Dollars in Millions/Shares in Thousands	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-in Capital	Reserve for ESOP Debt Retirement	Accumulated Other Comprehensive Income	Retained Earnings	Total	Total Comprehensive Income
<b>Balance June 30, 1995</b>	1,373,148	\$1,373	\$1,913	\$129	\$(1,734)	\$ 65	\$ 8,843	\$10,589	
Net earnings							3,046	3,046	\$3,046
Other comprehensive income:									
Currency translation, net of \$80 tax						(483)		(483)	(483)
Other, net of tax						1		1	1
Reclassifications to net earnings						(1)		(1)	(1)
Total comprehensive income									<u>\$2,563</u>
Dividends to shareholders:									
Common							(1,099)	(1,099)	
Preferred, net of tax benefit							(103)	(103)	
Treasury purchases	(10,468)	(10)					(422)	(432)	
Employee plan issuances	6,514	6		140				146	
Preferred stock conversions	1,952	2	(27)	25				0	
ESOP debt guarantee reduction					58			58	
<b>Balance June 30, 1996</b>	1,371,146	1,371	1,886	294	(1,676)	(418)	10,265	11,722	
Net earnings							3,415	3,415	\$3,415
Other comprehensive income:									
Currency translation, net of \$38 tax						(416)		(416)	(416)
Other, net of tax						13		13	13
Reclassifications to net earnings						2		2	2
Total comprehensive income									<u>\$3,014</u>
Dividends to shareholders:									
Common							(1,225)	(1,225)	
Preferred, net of tax benefit							(104)	(104)	
Treasury purchases	(30,875)	(31)					(1,621)	(1,652)	
Employee plan issuances	8,801	9		240				249	
Preferred stock conversions	1,771	2	(27)	25				0	
ESOP debt guarantee reduction					42			42	
<b>Balance June 30, 1997</b>	1,350,843	1,351	1,859	559	(1,634)	(819)	10,730	12,046	
Net earnings							3,780	3,780	\$3,780
Other comprehensive income:									
Currency translation, net of \$25 tax						(537)		(537)	(537)
Other, net of tax						(1)		(1)	(1)
Total comprehensive income									<u>\$3,242</u>
Dividends to shareholders:									
Common							(1,358)	(1,358)	
Preferred, net of tax benefit							(104)	(104)	
Treasury purchases	(24,716)	(25)					(1,904)	(1,929)	
Employee plan issuances	8,777	9		312				321	
Preferred stock conversions	2,557	2	(38)	36				0	
ESOP debt guarantee reduction					18			18	
<b>Balance June 30, 1998</b>	1,337,461	\$1,337	\$1,821	\$907	\$(1,616)	\$(1,357)	\$11,144	\$12,236	

See accompanying Notes to Consolidated Financial Statements.



**1985:** Superior paper-making technology yields stronger, more absorbent paper towels

# CONSOLIDATED STATEMENTS OF CASH FLOWS

The Procter & Gamble Company and Subsidiaries

Amounts in Millions	Years Ended June 30		
	1998	1997	1996
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 2,350</b>	<b>\$ 2,074</b>	<b>\$ 2,028</b>
<b>Operating Activities</b>			
Net earnings	3,780	3,415	3,046
Depreciation and amortization	1,598	1,487	1,358
Deferred income taxes	(101)	(26)	328
Change in accounts receivable	42	8	17
Change in inventories	(229)	(71)	202
Change in accounts payable, accrued and other liabilities	(3)	561	(948)
Change in other operating assets and liabilities	(65)	503	(134)
Other	(137)	5	289
<b>Total Operating Activities</b>	<b>4,885</b>	<b>5,882</b>	<b>4,158</b>
<b>Investing Activities</b>			
Capital expenditures	(2,559)	(2,129)	(2,179)
Proceeds from asset sales	555	520	402
Acquisitions	(3,269)	(150)	(358)
Change in investment securities	63	(309)	(331)
<b>Total Investing Activities</b>	<b>(5,210)</b>	<b>(2,068)</b>	<b>(2,466)</b>
<b>Financing Activities</b>			
Dividends to shareholders	(1,462)	(1,329)	(1,202)
Change in short-term debt	1,315	(160)	242
Additions to long-term debt	1,970	224	339
Reductions of long-term debt	(432)	(724)	(619)
Proceeds from stock options	158	134	89
Treasury purchases	(1,929)	(1,652)	(432)
<b>Total Financing Activities</b>	<b>(380)</b>	<b>(3,507)</b>	<b>(1,583)</b>
<b>Effect of Exchange Rate Changes</b>			
<b>on Cash and Cash Equivalents</b>	<b>(96)</b>	<b>(31)</b>	<b>(63)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(801)</b>	<b>276</b>	<b>46</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,549</b>	<b>\$ 2,350</b>	<b>\$ 2,074</b>
<b>Supplemental Disclosure</b>			
Cash payments for:			
Interest, net of amount capitalized	\$ 536	\$ 449	\$ 459
Income taxes	2,056	1,380	1,339
Liabilities assumed in acquisitions	808	42	56
See accompanying Notes to Consolidated Financial Statements.			



Millions of Dollars Except Per Share Amounts

## 1 | Summary of Significant Accounting Policies

*Basis of Presentation:* The consolidated financial statements include The Procter & Gamble Company and its controlled subsidiaries (the Company). Investments in companies that are at least 20% to 50% owned, and over which the Company exerts significant influence but does not control the financial and operating decisions, are accounted for by the equity method. These investments are managed as integral parts of the Company's segment operations, and the Company's share of their results is included in net sales for the related segments.

*Use of Estimates:* Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from estimates.

*Accounting Changes:* In 1998, the Company adopted several FASB statements. Statement No. 128, "Earnings per Share," which revises the manner in which earnings per share is calculated, did not impact the Company's previously reported earnings per share. Statement No. 130, "Reporting Comprehensive Income," requires the components of comprehensive income to be disclosed in the financial statements. Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires certain information to be reported about operating segments on a basis consistent with the Company's internal organizational structure. Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises the disclosures for pensions and other postretirement benefits and standardizes them into a combined format. Required disclosures have been made and prior years' information has been reclassified for the impact of FASB Statements 130, 131 and 132.

*New Pronouncements:* In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which revises the accounting for derivative financial instruments. In March 1998, the AICPA issued SOP 98-1,

"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which revises the accounting for software development costs and will require the capitalization of certain costs which the Company has historically expensed. The Company is currently analyzing the impacts of these statements, which are required to be adopted in 2000, and does not expect either statement to have a material impact on the Company's financial position, results of operations or cash flows.

*Currency Translation:* Financial statements of subsidiaries outside the U.S. generally are measured using the local currency as the functional currency. Adjustments to translate those statements into U.S. dollars are accumulated in a separate component of shareholders' equity. For subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency. Remeasurement adjustments for highly inflationary economies and other transactional exchange gains (losses) are reflected in earnings and were \$0, \$1 and \$(28) for 1998, 1997 and 1996, respectively.

*Cash Equivalents:* Highly liquid investments with maturities of three months or less when purchased are considered cash equivalents.

*Inventory Valuation:* Inventories are valued at cost, which is not in excess of current market price. Cost is primarily determined by either the average cost or the first-in, first-out method. The replacement cost of last-in, first-out inventories exceeds carrying value by approximately \$91 and \$122 at June 30, 1998 and 1997, respectively.

*Goodwill and Other Intangible Assets:* The cost of intangible assets is amortized, principally on a straight-line basis, over the estimated periods benefited, generally 40 years for goodwill and periods ranging from 10 to 40 years for other intangible assets. The realizability of goodwill and other intangibles is evaluated periodically when events or circumstances indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses, including cash flow and profitability projections that incorporate the impact of existing Company businesses. The analyses necessarily involve significant management judgment to evaluate the capacity of an acquired business to perform within projections. Historically, the Company has generated sufficient returns from acquired businesses to recover the cost of the goodwill and other intangible assets.



1986: First complete shampoo and conditioner in one



**Property, Plant and Equipment:** Property, plant and equipment are recorded at cost reduced by accumulated depreciation. Depreciation expense is provided based on estimated useful lives using the straight-line method.

**Selected Operating Expenses:** Research and development costs are charged to earnings as incurred and were \$1,546 in 1998, \$1,469 in 1997 and \$1,399 in 1996. Advertising costs are charged to earnings as incurred and were \$3,704 in 1998, \$3,466 in 1997 and \$3,254 in 1996.

**Net Earnings Per Common Share:** Net earnings less preferred dividends (net of related tax benefits) are divided by the weighted average number of common shares outstanding during the year to calculate basic net earnings per common share. Diluted net earnings per common share are calculated to give effect to stock options and convertible preferred stock.

Basic and diluted net earnings per share are reconciled as follows:

	Years Ended June 30		
	1998	1997	1996
Net earnings available to common shareholders	\$3,676	\$3,311	\$2,943
Effect of dilutive securities			
Preferred dividends, net of tax benefit	104	104	103
Preferred dividend impact on funding of ESOP	(25)	(32)	(39)
Diluted net earnings	3,755	3,383	3,007
Basic weighted average common shares outstanding	1,343.4	1,360.3	1,372.6
Effect of dilutive securities			
Conversion of preferred shares	99.8	101.9	103.8
Exercise of stock options	22.3	24.8	19.8
Diluted weighted average common shares outstanding	1,465.5	1,487.0	1,496.2

**Stock Split:** In July 1997, the Company's board of directors approved a two-for-one stock split that was effective for common and preferred shareholders of record as of August 22, 1997. The financial statements, notes and other references to share and per-share data reflect the stock split for all periods presented.

**Fair Values of Financial Instruments:** Fair values of cash equivalents, short and long-term investments and short-term debt approximate cost. The estimated fair values of

other financial instruments, including debt and risk management instruments, have been determined using available market information and valuation methodologies, primarily discounted cash flow analysis. These estimates require considerable judgment in interpreting market data, and changes in assumptions or estimation methods may significantly affect the fair value estimates.

**Major Customer:** The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 11% and 10% of consolidated net sales in 1998 and 1997, respectively. These sales occurred primarily in the North America segment.

**Reclassifications:** Certain reclassifications of prior years' amounts have been made to conform with the current year presentation, primarily related to certain component parts of research and development costs.

## 2 | Acquisitions

In July 1997, the Company acquired Tambrands, Inc., a company in the feminine protection category, for approximately \$1,844 in cash. Other acquisitions in 1998 totaled \$1,425 and included the acquisition of paper businesses and increased ownership in various ventures in Latin America and Asia. These acquisitions, all of which were accounted for using the purchase method, resulted in goodwill of \$3,335. Acquisitions accounted for as purchases in 1997 and 1996 totaled \$150 and \$358, respectively.

The following table reflects unaudited pro forma combined results of operations on the basis that the 1998 acquisitions had taken place at the beginning of the year for each of the periods presented:

	Years Ended June 30	
	1998	1997
<b>Pro forma amounts</b>		
Net sales	\$37,476	\$37,008
Net earnings	3,756	3,409
Net earnings per common share		
Basic	2.72	2.43
Diluted	2.55	2.27

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred under the ownership and management of the Company.



Millions of Dollars Except Per Share Amounts

**3 | Supplemental Balance Sheet Information**

	June 30	
	1998	1997
<b>Accrued and Other Liabilities</b>		
Marketing expenses	\$1,109	\$1,129
Compensation expenses	485	461
Other	2,348	2,212
	<u>3,942</u>	<u>3,802</u>
<b>Other Non-Current Liabilities</b>		
Postretirement benefits	\$1,193	\$1,300
Pension benefits	843	815
Other	1,251	883
	<u>3,287</u>	<u>2,998</u>

	Currency Translation	Other	Total
<b>Accumulated Other Comprehensive Income</b>			
Balance June 30, 1995	\$ 64	\$ 1	\$ 65
Current period change	(483)	0	(483)
Balance June 30, 1996	(419)	1	(418)
Current period change	(412)	11	(401)
Balance June 30, 1997	(831)	12	(819)
Current period change	(536)	(2)	(538)
Balance June 30, 1998	(1,367)	10	(1,357)

**4 | Short-Term and Long-Term Debt**

	June 30	
	1998	1997
<b>Short-Term Debt</b>		
U.S. obligations	\$1,435	\$183
Foreign obligations	560	343
Current portion of long-term debt	286	323
	<u>2,281</u>	<u>849</u>

The weighted average short-term interest rates were 6.2% and 6.9% as of June 30, 1998 and 1997, respectively.

	Average Rate	Maturities	June 30	
			1998	1997
<b>Long-Term Debt</b>				
U.S. notes and debentures	6.96%	1998-2029	\$2,897	\$2,082
ESOP Series A	8.33%	1998-2004	545	613
ESOP Series B	9.36%	2021	1,000	1,000
U.S. commercial paper			1,207	585
Foreign obligations			402	186
Current portion of long-term debt			(286)	(323)
			<u>5,765</u>	<u>4,143</u>

Long-term weighted average interest rates in the preceding table are as of June 30, 1998 and include the effects of related interest rate swaps discussed in Note 5. Certain commercial paper balances have been classified as long-term debt based on the Company's intent and ability to renew the obligations on a long-term basis. The Company has entered into derivatives that convert certain of these commercial paper obligations into fixed-rate obligations.

The fair value of the long-term debt was \$6,412 and \$4,509 at June 30, 1998 and 1997, respectively. Long-term debt maturities during the next five years are as follows: 1999-\$286; 2000-\$387; 2001-\$339; 2002-\$427 and 2003-\$1,141.

**5 | Risk Management Activities**

The Company is exposed to market risk, including changes in interest rates, currency exchange rates and commodity prices. To manage the volatility relating to these exposures on a consolidated basis, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. The financial impacts of these hedging instruments are offset by corresponding changes in the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes.

*Interest Rate Management*

The Company's policy is to manage interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. For qualifying hedges, the interest rate differential is reflected as an adjustment to interest expense over the life of the swaps.

Certain currency interest rate swaps are designated to hedge the foreign currency exposure of the Company's related foreign net investments. Currency effects of these hedges are reflected in the accumulated other comprehensive income section of shareholders' equity, offsetting a portion of the translation of the net assets.

**1989:** First North American laundry detergent with activated bleach

The following table presents information for all interest rate instruments. The notional amount does not necessarily represent amounts exchanged by the parties and, therefore, is not a direct measure of the Company's exposure to credit risk. The fair value approximates the cost to settle the outstanding contracts. The carrying value includes the net amount due to counterparties under swap contracts, currency translation associated with currency interest rate swaps and any marked-to-market value adjustments of instruments.

	June 30	
	1998	1997
Notional amount	\$2,149	\$1,488
Fair value	\$ 7	\$ (54)
Carrying value	28	(28)
Unrecognized loss	(21)	(26)

Although derivatives are an important component of the Company's interest rate management program, their incremental effect on interest expense for 1998, 1997 and 1996 was not material.

#### *Currency Rate Management*

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The major foreign currency exposures involve the markets in Western Europe, Mexico and Canada. The primary purpose of the Company's foreign currency hedging activities is to protect against the volatility associated with foreign currency purchases of materials and other assets and liabilities created in the normal course of business. Corporate policy prescribes the range of allowable hedging activity. The Company primarily utilizes forward exchange contracts and purchased options with durations of generally less than 12 months.

In addition, the Company enters into foreign currency swaps to hedge intercompany financing transactions, and utilizes purchased foreign currency options with durations of generally less than 18 months and forward exchange contracts to hedge against the effect of exchange rate fluctuations on royalties and foreign source income.

Gains and losses related to qualifying hedges of foreign currency firm commitments or anticipated transactions are deferred in prepaid expense and are included in the basis of the underlying transactions. To the extent that a qualifying hedge is terminated or ceases to be effective as a hedge, any deferred gains and losses up to that point continue to be deferred and are included in the basis of the underlying transaction. All other foreign exchange contracts are marked-to-market on a current basis, generally to marketing, research and administration expense. To the extent anticipated transactions are no longer likely to occur, the related hedges are closed with gains or losses charged to earnings on a current basis.

Currency instruments outstanding are as follows:

	June 30	
	1998	1997
Notional amount		
Forward contracts	\$3,448	\$2,607
Purchased options	1,262	1,643
Currency swaps	217	358
Fair value		
Forward contracts	\$ 30	\$ (2)
Purchased options	16	38
Currency swaps	8	(1)

The deferred gains and losses on these instruments were not material.

In addition, in order to hedge currency exposures related to the net investments in foreign subsidiaries, the Company utilizes local currency financing entered into by the subsidiaries, and currency interest rate swaps and other foreign currency denominated financing instruments entered into by the parent. Gains and losses on instruments designated as hedges of net investments are offset against the translation effects reflected in shareholders' equity.

Currency interest rate swaps, foreign currency instruments and foreign currency denominated debt that have been designated as hedges of the Company's net investment exposure in certain foreign subsidiaries have notional amounts totaling \$1,138 and \$936 at June 30, 1998 and 1997, respectively. These hedges resulted in gains of \$42 and \$63, net of \$25 and \$38 in tax effects, reflected in shareholders' equity.





Millions of Dollars Except Per Share Amounts

*Credit Risk*

Credit risk arising from the inability of a counterparty to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company. It is the Company's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Company does not expect to incur material credit losses on its risk management or other financial instruments.

**6 | Stock Options**

The Company has stock-based compensation plans under which stock options are granted annually to key managers and directors at the market price on the date of grant. The grants are fully exercisable after one year and have a ten-year life. In 1998, the Company granted stock options to all eligible employees not covered by the key manager and director plans. These grants, which comprised 8.7 million of the 20.3 million options granted in 1998, are fully exercisable after five years and have a ten-year life. The Company issues stock appreciation rights in countries where stock options have not been approved by local governments.

Pursuant to FASB Statement 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." Accordingly, no compensation cost has been recognized for these plans. Had compensation cost for the plans been determined based on the fair value at the grant date consistent with FASB Statement No. 123, the Company's net earnings and earnings per share would have been as follows:

	Years Ended June 30		
	1998	1997	1996
Net earnings			
As reported	\$3,780	\$3,415	\$3,046
Pro forma	3,472	3,305	2,981
Net earnings per common share			
Basic			
As reported	\$ 2.74	\$ 2.43	\$ 2.14
Pro forma	2.51	2.35	2.10
Diluted			
As reported	2.56	2.28	2.01
Pro forma	2.35	2.20	1.97

The fair value of each option grant is estimated on the date of grant using the Binomial option-pricing model with the following weighted average assumptions:

	Years Ended June 30		
	1998	1997	1996
Interest rate	5.6%	6.6%	6.1%
Dividend yield	2%	2%	2%
Expected volatility	26%	22%	20%
Expected life in years	6	6	6

Stock option activity was as follows:

	Options in Thousands		
	1998	1997	1996
Outstanding, July 1	68,514	66,657	63,384
Granted	20,315	10,409	9,605
Exercised	(8,477)	(8,357)	(6,110)
Canceled	(434)	(195)	(222)
Outstanding, June 30	79,918	68,514	66,657
Exercisable	59,610	58,098	57,048
Available for grant	31,558	28,538	24,418
Average price			
Outstanding, beginning of year	\$31.00	\$24.79	\$21.36
Granted	83.26	58.72	40.87
Exercised	18.57	16.02	14.52
Outstanding, end of year	45.58	31.00	24.79
Exercisable, end of year	32.74	26.03	22.09
Weighted average grant date fair value of options	24.56	17.14	10.88

The following table summarizes information about stock options outstanding at June 30, 1998:

Range of Prices	Options Outstanding		
	Number Outstanding (Thousands)	Weighted-Avg Exercise Price	Weighted-Avg Remaining Contractual Life
\$ 8 to 30	33,626	\$22.69	3.4 years
33 to 46	16,821	37.85	7.1
57 to 71	9,349	60.42	8.5
71 to 85	20,122	83.39	9.5



1990: First tartar control toothpaste

The following table summarizes information about stock options exercisable at June 30, 1998:

Range of Prices	Options Exercisable	
	Number Exercisable (Thousands)	Weighted-Avg Exercise Price
\$ 8 to 30	33,626	\$22.69
33 to 46	16,821	37.85
57 to 71	9,163	60.24
71 to 85	—	—

## 7 | Postretirement Benefits

The Company offers various postretirement benefits to its employees.

### Defined Contribution Retirement Plans

Within the U.S., the most significant retirement benefit is the defined contribution profit sharing plan funded by an employee stock ownership plan (ESOP) and Company contributions. Annual credits to participants' accounts are based on individual base salaries and years of service, and do not exceed 15% of total participants' annual salaries and wages.

	Years Ended June 30		
	1998	1997	1996
ESOP preferred shares allocated at market value	\$235	\$247	\$200
Company contributions	58	35	75
Benefits earned	293	282	275

### Other Retiree Benefits

The Company also provides certain health care and life insurance benefits for substantially all U.S. employees who become eligible for these benefits when they meet minimum age and service requirements. Generally, the health care plans require contributions from retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. Retiree contributions change annually in line with medical cost trends. These benefits are partially funded by an ESOP, as well as certain other assets contributed by the Company.

Certain other employees, primarily outside the U.S., are covered by local defined benefit pension, health care and life insurance plans.

Summarized information on the Company's postretirement plans is as follows:

	Pension Benefits		Other Retiree Benefits	
	Years Ended June 30			
	1998	1997	1998	1997
<b>Change in Benefit Obligation</b>				
Benefit obligation at beginning of year	\$1,991	\$1,886	\$ 1,460	\$ 1,405
Service cost	106	100	42	45
Interest cost	148	131	102	109
Participants' contributions	3	5	11	12
Amendments	21	2	(6)	5
Actuarial loss (gain)	87	54	(71)	(50)
Acquisitions	154	42	1	0
Curtailments	13	0	0	0
Currency exchange	(85)	(117)	(7)	(4)
Benefit payments	(156)	(112)	(67)	(62)
Benefit obligation at end of year	2,282	1,991	1,465	1,460
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	1,229	1,019	1,828	838
Actual return on plan assets	243	180	803	999
Acquisitions	131	42	0	0
Employer contributions	103	83	37	41
Participants' contributions	3	5	11	12
Currency exchange	(30)	12	(1)	0
Benefit payments	(156)	(112)	(67)	(62)
Fair value of plan assets at end of year	1,523	1,229	2,611	1,828
<b>Funded Status</b>				
Funded status at end of year	(759)	(762)	1,146	368
Unrecognized net actuarial gain	(163)	(95)	(2,354)	(1,691)
Unrecognized transition amount	32	35	0	0
Unrecognized prior service cost	75	43	(21)	(17)
Net amount recognized	(815)	(779)	(1,229)	(1,340)
Prepaid benefit cost	\$ 34	\$ 52	\$ 1	\$ 0
Accrued benefit cost	(849)	(831)	(1,230)	(1,340)
Net liability recognized	(815)	(779)	(1,229)	(1,340)



Millions of Dollars Except Per Share Amounts

The Company's stock comprised \$2,443 and \$1,687 of other retiree plan assets, net of Series B ESOP debt, as of June 30, 1998 and 1997, respectively.

	Pension Benefits		Other Retiree Benefits	
	Years Ended June 30			
	1998	1997	1998	1997
<b>Weighted Average Assumptions</b>				
Discount rate	7.0%	7.2%	6.8%	7.5%
Expected return on plan assets	9%	9%	9%	9%
Rate of compensation increase	5%	5%	—	—
Initial health care cost trend rate*	—	—	8%	9%
*Assumed to decrease gradually to 5% in 2006 and remain at that level thereafter.				

	Pension Benefits			Other Retiree Benefits		
	Years Ended June 30					
	1998	1997	1996	1998	1997	1996
<b>Components of Net Periodic Benefit Cost</b>						
Service cost	\$ 106	\$100	\$ 96	\$ 42	\$ 45	\$ 47
Interest cost	148	131	131	102	109	102
Expected return on plan assets	(103)	(87)	(75)	(171)	(138)	(121)
Amortization of prior service cost	7	5	6	(2)	(2)	(2)
Amortization of transition amount	3	0	0	0	0	0
Curtailment loss	12	0	0	0	0	0
Recognized net actuarial gain	0	(7)	(3)	(41)	(18)	(15)
Gross benefit cost	173	142	155	(70)	(4)	11
Dividends on ESOP preferred stock	0	0	0	(78)	(79)	(79)
Net periodic benefit cost	173	142	155	(148)	(83)	(68)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$1,206, \$984 and \$155, respectively, as of June 30, 1998, and \$1,172, \$899 and \$158, respectively, as of June 30, 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	\$ 26	\$ (22)
Effect on postretirement benefit obligation	207	(181)

## 8 | Employee Stock Ownership Plan

The Company maintains the Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan (ESOP) to provide funding for two primary postretirement benefits described in Note 7: a defined contribution profit sharing plan and certain U.S. postretirement health care benefits.

The ESOP borrowed \$1,000 in 1989, which has been guaranteed by the Company. The proceeds were used to purchase Series A ESOP Convertible Class A Preferred Stock to fund a portion of the defined contribution plan. Principal and interest requirements are \$117 per year, paid by the trust from dividends on the preferred shares and from cash contributions and advances from the Company. The shares are convertible at the option of the holder into one share of the Company's common stock. The liquidation value is equal to the issue price of \$13.75 per share.

In 1991, the ESOP borrowed an additional \$1,000, also guaranteed by the Company. The proceeds were used to purchase Series B ESOP Convertible Class A Preferred Stock to fund a portion of retiree health care benefits. Debt service requirements are \$94 per year, funded by preferred stock dividends and cash contributions from the Company. Each share is convertible at the option of the holder into one share of the Company's common stock. The liquidation value is equal to the issuance price of \$26.12 per share.

	Shares in Thousands		
	1998	1997	1996
Shares Outstanding			
Series A	60,635	62,952	64,562
Series B	37,805	38,045	38,204



1992: First penetrating, pro-vitamin formula for hair with superior shine

Shares of the ESOP are allocated at original cost based on debt service requirements, net of advances made by the Company to the trust. The fair value of the Series A shares serves to reduce the Company's cash contribution required to fund the profit sharing plan contributions earned. The Series B shares are considered plan assets of the other retiree benefits plan. Dividends on all preferred shares, net of related tax benefit, are charged to retained earnings. The preferred shares held by the ESOP are considered outstanding from inception for purposes of calculating diluted net earnings per common share.

## 9 | Income Taxes

Earnings before income taxes consist of the following:

	Years Ended June 30		
	1998	1997	1996
United States	\$3,632	\$3,232	\$3,023
International	2,076	2,017	1,646
	<u>5,708</u>	<u>5,249</u>	<u>4,669</u>

The income tax provision consists of the following:

	Years Ended June 30		
	1998	1997	1996
Current tax expense			
U.S. Federal	\$ 996	\$ 967	\$ 776
International	918	805	413
U.S. State & Local	115	88	106
	<u>2,029</u>	<u>1,860</u>	<u>1,295</u>
Deferred tax expense			
U.S. Federal	51	1	220
International & other	(152)	(27)	108
	<u>(101)</u>	<u>(26)</u>	<u>328</u>
Total	<u>1,928</u>	<u>1,834</u>	<u>1,623</u>

Taxes credited to shareholders' equity for the years ended June 30, 1998 and 1997 were \$147 and \$97, respectively. Undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely were \$6,739 at June 30, 1998.

The effective income tax rate was 33.8%, 34.9% and 34.8% in 1998, 1997 and 1996, respectively, compared to the U.S. statutory rate of 35%.

Deferred income tax assets and liabilities are comprised of the following:

	June 30	
	1998	1997
Current deferred tax assets	\$ 595	\$ 661
Non-current deferred tax assets (liabilities)		
Depreciation	(1,058)	(1,031)
Postretirement benefits	435	475
Loss carryforwards	167	84
Other	28	(87)
	<u>(428)</u>	<u>(559)</u>

Included in the above are total valuation allowances of \$177 and \$113 in 1998 and 1997, respectively. The valuation allowance increased in 1998 primarily due to the generation of additional net operating loss carryforwards.

## 10 | Commitments and Contingencies

The Company has purchase commitments for materials, supplies, and property, plant and equipment incidental to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market.

The Company is subject to various lawsuits and claims with respect to matters such as governmental regulations, income taxes and other actions arising out of the normal course of business. The Company is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Accrued environmental liabilities for remediation and closure costs at June 30, 1998 were \$66, and in management's opinion, such accruals are appropriate based on existing facts and circumstances. Current year expenditures were not material.

While the effect on future results of these items is not subject to reasonable estimation because considerable uncertainty exists, in the opinion of management and Company counsel, the ultimate liabilities resulting from such claims will not materially affect the consolidated financial position, results of operations or cash flows of the Company.





Millions of Dollars Except Per Share Amounts

**11 | Segment Information**

The Company has adopted FASB Statement No. 131, "Disclosures about Segments of a Business Enterprise and Related Information." The Company is managed in four operating segments: North America, which includes the United States and Canada; Europe, Middle East and Africa; Asia; and Latin America.

Corporate operations include certain financing and employee benefits costs, goodwill amortization,

other general corporate income and expense, segment eliminations and projects included in the Company's ongoing simplification and standardization program, which includes costs for consolidation of selected manufacturing facilities, re-engineering of manufacturing and distribution processes, organization redesign and simplified product line-ups, as well as gains and losses on sales of non-strategic brands and assets. Corporate assets include primarily cash, investment securities and goodwill.

		North America	Europe, Middle East and Africa	Asia	Latin America	Corporate	Total
Net Sales	1998	\$18,456	\$11,835	\$3,453	\$2,640	\$ 770	\$37,154
	1997	17,625	11,587	3,573	2,306	673	35,764
	1996	17,230	11,458	3,881	2,173	542	35,284
Net Earnings	1998	2,474	1,092	174	274	(234)	3,780
	1997	2,253	956	275	256	(325)	3,415
	1996	1,953	793	273	219	(192)	3,046
Earnings Before Income Taxes	1998	3,789	1,540	266	329	(216)	5,708
	1997	3,516	1,446	400	326	(439)	5,249
	1996	3,055	1,137	433	236	(192)	4,669
Identifiable Assets	1998	11,063	5,998	2,499	1,519	9,887	30,966
	1997	10,280	5,433	2,726	1,389	7,716	27,544
	1996	10,382	5,853	2,770	1,270	7,455	27,730
Capital Expenditures	1998	1,433	686	266	174	-	2,559
	1997	1,163	547	287	132	-	2,129
	1996	1,080	602	322	175	-	2,179
Depreciation and Amortization	1998	755	374	174	97	198	1,598
	1997	693	405	167	83	139	1,487
	1996	633	380	143	48	154	1,358
Interest Expense	1998	-	-	-	-	548	548
	1997	-	-	-	-	457	457
	1996	-	-	-	-	484	484

*Product Net Sales Information*

The following is supplemental information on net sales by product groups, aligned as follows:

Laundry and Cleaning—dishcare, fabric conditioners, hard surface cleaners and laundry.

Paper—diapers, feminine protection, incontinence, tissue and towel, and wipes.

Beauty Care—cosmetics and fragrances, deodorants, hair care, and skin care and personal cleansing.

Food and Beverage—coffee, commercial services, juice, peanut butter, shortening and oil, and snacks.

Health Care—gastrointestinal, oral care, pharmaceuticals and respiratory care.

	Laundry and Cleaning	Paper	Beauty Care	Food and Beverage	Health Care	Corporate & Other	Total
1998	\$11,099	\$10,862	\$7,160	\$4,376	\$2,849	\$808	\$37,154
1997	10,892	10,101	7,101	4,107	2,895	668	35,764
1996	10,683	10,161	6,916	4,066	2,939	519	35,284



**1992:** Macrobid launched as a urinary tract anti-infective

**12 | Quarterly Results (Unaudited)**

		Quarters Ended				Total Year
		Sept. 30	Dec. 31	Mar. 31	June 30	
Net Sales	1997-98	\$9,355	\$9,641	\$8,881	\$9,277	\$37,154
	1996-97	8,903	9,142	8,771	8,948	35,764
Operating Income	1997-98	1,739	1,688	1,516	1,112	6,055
	1996-97	1,547	1,521	1,383	1,037	5,488
Net Earnings	1997-98	1,087	1,046	961	686	3,780
	1996-97	979	944	881	611	3,415
Basic Net Earnings Per Common Share	1997-98	.79	.76	.69	.50	2.74
	1996-97	.70	.67	.63	.43	2.43
Diluted Net Earnings Per Common Share	1997-98	.73	.71	.65	.47	2.56
	1996-97	.65	.63	.59	.41	2.28

**FINANCIAL HIGHLIGHTS**

Millions of Dollars Except Per Share Amounts

	1998	1997	1996	1995	1994
Net Sales	37,154	35,764	35,284	33,482	30,385
Operating Income	6,055	5,488	4,815	4,244	3,670
Net Earnings	3,780	3,415	3,046	2,645	2,211
Net Earnings Margin	10.2%	9.5%	8.6%	7.9%	7.3%
Basic Net Earnings Per Common Share	2.74	2.43	2.14	1.85	1.54
Diluted Net Earnings Per Common Share	2.56	2.28	2.01	1.74	1.45
Dividends Per Common Share	1.01	.90	.80	.70	.62
Research and Development Expense	1,546	1,469	1,399	1,304	1,162
Advertising Expense	3,704	3,466	3,254	3,284	2,996
Total Assets	30,966	27,544	27,730	28,125	25,535
Capital Expenditures	2,559	2,129	2,179	2,146	1,841
Long-Term Debt	5,765	4,143	4,670	5,161	4,980
Shareholders' Equity	12,236	12,046	11,722	10,589	8,832



**Directors**

Edwin L. Artzt	Retired Chairman of the Board and Chief Executive
Norman R. Augustine	Chairman of the Executive Committee, Lockheed Martin Corporation – aerospace, electronics, information management, materials and energy systems and products
Donald R. Beall	Retired Chairman and Chief Executive Officer, Rockwell International Corporation – automation, avionics and communications and semiconductor systems – and Chairman of the Executive Committee, Rockwell International Corporation
Gordon F. Brunner	Senior Vice President
Richard B. Cheney	Chairman of the Board and Chief Executive Officer, Halliburton Company – energy services, engineering and construction
Harald Einsmann	Executive Vice President
Richard J. Ferris	Retired Co-Chairman, Doubletree Corporation
Joseph T. Gorman	Chairman and Chief Executive Officer, TRW Inc. – automotive, space, defense and information systems
Durk I. Jager	President and Chief Operating Officer
Charles R. Lee	Chairman and Chief Executive Officer, GTE Corporation – telecommunication services
Lynn M. Martin	Professor, Davee Chair, J. L. Kellogg Graduate School of Management, Northwestern University
John E. Pepper	Chairman of the Board and Chief Executive
John C. Sawhill	President and Chief Executive Officer, The Nature Conservancy – an international conservation organization
John F. Smith, Jr.	Chairman, Chief Executive Officer and President, General Motors Corporation – automobile and related businesses
Ralph Snyderman	Chancellor for Health Affairs, Dean, School of Medicine at Duke University, and President/CEO of Duke University Health System
Robert D. Storey	Partner in the law firm of Thompson, Hine & Flory P.L.L.
Marina v.N. Whitman	Professor of Business Administration and Public Policy, University of Michigan

**Board Committees**

<i>Executive Committee</i>	<i>Compensation Committee</i>	<i>Board Organization and Nominating Committee</i>
E. L. Artzt, Chairman	N. R. Augustine, Chairman	M. v.N. Whitman, Chairman
J. E. Pepper	D. R. Beall	R. J. Ferris
N. R. Augustine	R. B. Cheney	C. R. Lee
D. R. Beall	J. T. Gorman	L. M. Martin
R. J. Ferris	M. v.N. Whitman	J. C. Sawhill
J. T. Gorman		J. F. Smith, Jr.
	<i>Finance Committee</i>	R. Snyderman
<i>Audit Committee</i>	R. J. Ferris, Chairman	R. D. Storey
D. R. Beall, Chairman	E. L. Artzt	
R. B. Cheney	N. R. Augustine	
C. R. Lee	J. T. Gorman	<i>Public Policy Committee</i>
J. C. Sawhill	L. M. Martin	R. D. Storey, Chairman
J. F. Smith, Jr.	M. v.N. Whitman	E. L. Artzt
R. Snyderman		R. B. Cheney
R. D. Storey		C. R. Lee
		L. M. Martin
		J. C. Sawhill
		J. F. Smith, Jr.
		R. Snyderman

## Corporate Officers

The Procter & Gamble Company and Subsidiaries

John E. Pepper	Chairman of the Board and Chief Executive
Durk I. Jager	President and Chief Operating Officer
Wolfgang C. Berndt	Executive Vice President (President – North America)
Harald Einsmann	Executive Vice President (President – Europe, Middle East and Africa)
Alan G. Lafley	Executive Vice President (President – Asia)
Jorge P. Montoya	Executive Vice President (President – Latin America)
Richard L. Antoine	Senior Vice President (Human Resources)
Gordon F. Brunner	Senior Vice President (Research and Development)
Stephen N. David	Senior Vice President (Customer Business Development)
Todd A. Garrett	Senior Vice President (Chief Information Officer)
James J. Johnson	Senior Vice President and General Counsel
Gary T. Martin	Senior Vice President (Product Supply)
Erik G. Nelson	Senior Vice President (Chief Financial Officer)
Charlotte R. Otto	Senior Vice President (Public Affairs)
Robert L. Wehling	Senior Vice President (Advertising, Market Research and Government Relations)
Robert T. Blanchard	Group Vice President (President, Beauty Care Products – North America, Procter & Gamble North America)
Brian J. Buchan	Group Vice President (President, Paper Products – Asia)
Bruce L. Byrnes	Group Vice President (President, Health Care Products – North America, Procter & Gamble North America)
R. Kerry Clark	Group Vice President (President, Laundry and Cleaning Products – North America, Procter & Gamble North America)
Michael Clasper	Group Vice President (President, Laundry Products – Europe, Procter & Gamble Europe, Middle East and Africa)
Larry G. Dare	Group Vice President (President, Paper and Beverage Products – Europe, Procter & Gamble Europe, Middle East and Africa)
Stephen P. Donovan, Jr.	Group Vice President (President, Food and Beverage Products – North America, Procter & Gamble North America)
Jeffrey D. Jones	Group Vice President on Special Assignment
Mark D. Ketchum	Group Vice President (President, Paper Products – North America, Procter & Gamble North America)
Fuad O. Kuraytim	Group Vice President (President – Middle East, Africa and General Export, Procter & Gamble Europe, Middle East and Africa)
Claude L. Meyer	Group Vice President – Europe, Middle East and Africa
Martin J. Nuechtern	Group Vice President (President – ASEAN and Australasia, Procter & Gamble Asia)
John O’Keeffe	Group Vice President (President, Health and Beauty Care Products – Europe, Procter & Gamble Europe, Middle East and Africa)
Dimitri Panayotopoulos	Group Vice President (President – China, Procter & Gamble Asia)
Herbert Schmitz	Group Vice President (President – Central and Eastern Europe, Procter & Gamble Europe, Middle East and Africa)
Clayton C. Daley, Jr.	Vice President and Treasurer
David R. Walker	Vice President and Comptroller
Terry L. Overbey	Secretary and Associate General Counsel

## Organization Changes

The following changes in the senior management of the Company were announced during the past year:

Benjamin L. Bethell, Edwin H. Eaton, Jr., and Lawrence D. Milligan retired.  
Richard L. Antoine and Stephen N. David were elected Senior Vice Presidents.  
Brian J. Buchan and Michael Clasper were elected Group Vice Presidents.  
Jacobus Groot resigned from the Company.



**If...**

- You need help with your account or if you need automated access to your account
- You are interested in our Certificate Safekeeping service
- You need to change an address or discontinue duplicate mailings
- You want to arrange for direct deposit of dividends
- A stock certificate is lost, stolen or destroyed
- You want to participate in our Shareholder Investment Program...

**Contact P&G's Shareholder Services Office in Cincinnati.**

Call: 1-800-742-6253  
1-513-983-3034 (outside the U.S.)

Write: The Procter & Gamble Company  
Shareholder Services Department  
P.O. Box 5572  
Cincinnati, Ohio 45201-5572

Financial information is available 24 hours a day. Just call 1-800-764-7483.

You can also visit us on the World Wide Web. Our address is [www.pg.com/investor](http://www.pg.com/investor)

**Common Stock Price Range and Dividends**

Quarter Ended	Price Range				Dividends	
	1997-98		1996-97		1997-98	1996-97
	High	Low	High	Low		
September 30	\$77.56	\$64.06	\$48.75	\$41.19	\$.2525	\$.2250
December 31	83.44	62.00	55.50	45.75	.2525	.2250
March 31	87.88	77.31	64.81	51.81	.2525	.2250
June 30	92.50	80.19	71.94	56.63	.2525	.2250

**Corporate Headquarters**

The Procter & Gamble Company  
P.O. Box 599  
Cincinnati, Ohio 45201-0599

**Transfer Agent/Shareholder Services**

The Procter & Gamble Company  
Shareholder Services Department  
P.O. Box 5572  
Cincinnati, Ohio 45201-5572

**Registrar**

PNC Bank, N.A.  
P.O. Box 1198  
Cincinnati, Ohio 45201-1198

**Exchange Listing**

New York, Cincinnati, Amsterdam, Paris, Basle, Geneva, Lausanne, Zurich, Frankfurt, Brussels, Tokyo

**Shareholders of Common Stock**

There were 272,723 Common Stock shareholders of record, including participants in the Shareholder Investment Program, as of July 24, 1998.

**Form 10-K**

Beginning in October 1998, shareholders may obtain a copy of the Company's 1998 report to the Securities and Exchange Commission on Form 10-K by going to P&G's investor Web site at [www.pg.com/investor](http://www.pg.com/investor) or by calling us at 1-800-742-6253. This information is also available at no charge by sending a request to Shareholder Services at the address above.

**Shareholders' Meeting**

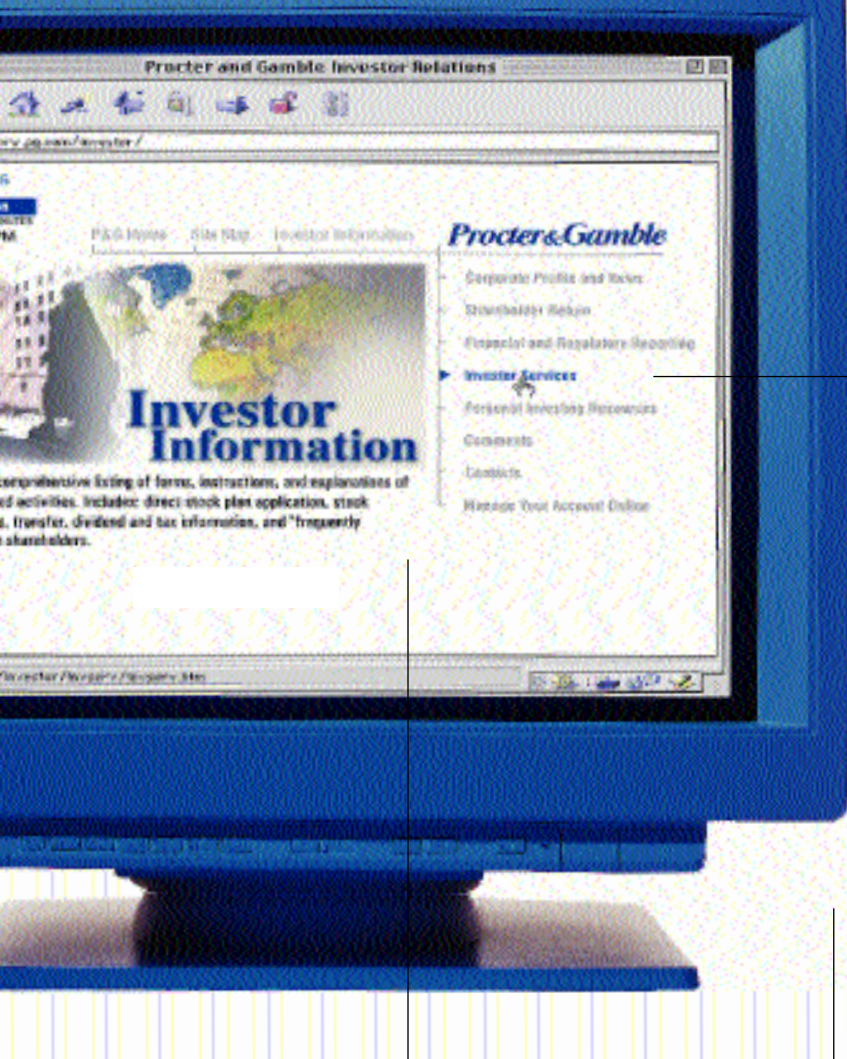
The next annual meeting of shareholders will be held on Tuesday, October 13, 1998. A full transcript of the meeting will be available from Linda D. Rohrer, Assistant Secretary, at a cost of \$10. Ms. Rohrer can be reached at One P&G Plaza, Cincinnati, Ohio 45202-3315.



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- Print forms to transfer shares, make optional cash payments and reinvest dividends

- Read stock market commentary every trading day
- Find answers to the most frequently asked shareholder questions
- Discover P&G's historical stock performance versus the S&P 500
- Find 5 to 10 years worth of key financial performance measures, such as operating margin and return on equity
- Review daily stock prices over the last 30 years
- Print a direct stock purchase plan application

## Vote P&G's proxy online

We are constantly striving to improve the quality of service for our Shareholders. You can now vote P&G's proxy online – see the enclosed proxy card for more detail.

**Procter & Gamble**