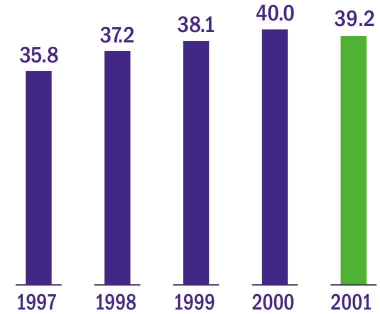
MAKING LIFE BETTER

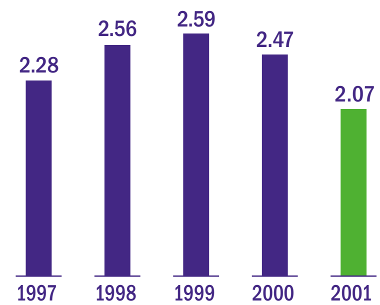
2001 Annual Report

P&G's mission is to make life better for nearly five billion consumers in more than 130 countries around the world. P&G's more than 250 brands include Pampers, Tide, Ariel, Always, Whisper, Pantene, Bounty, Pringles, Folgers, Charmin, Downy, Lenor, Iams, Olay, Crest, Vicks and Actonel. P&G employs nearly 106,000 people in more than 80 countries worldwide.

NET SALES
billions of dollars



DILUTED NET EARNINGS
per common share



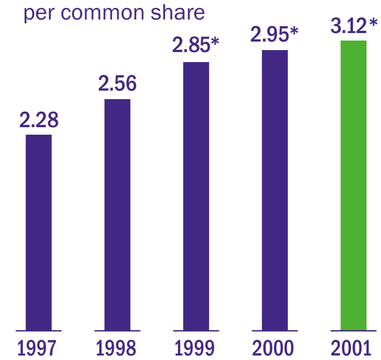
Financial Highlights

Amounts in millions except per share amounts — Years ended June 30

	2001	2000	% Change
Net Sales	**$39,244**	$39,951	-2%
Operating Income	**4,736**	5,954	-20%
Core Operating Income†	**6,586**	6,768	-3%
Net Earnings	**2,922**	3,542	-18%
Core Net Earnings†	**4,397**	4,230	4%
Per Common Share			
Diluted Net Earnings	**2.07**	2.47	-16%
Core Diluted Net Earnings†	**3.12**	2.95	6%
Dividends	**1.40**	1.28	9%

† Excludes restructuring costs.

CORE DILUTED NET EARNINGS
per common share



*Excludes after-tax restructuring costs per share of $1.05 in 2001, $.48 in 2000 and $.26 in 1999.

To Our Shareholders:

When we began the 2000/2001 fiscal year, Job One was getting P&G's business back on track and growing again.

We have refocused on our biggest, and fastest growing brands, in our biggest markets, with our leading customers. We've strengthened the value of our brands for consumers. We've made strategic choices about which businesses P&G should be in, and which it should not. And we've improved P&G's competitiveness by controlling costs and managing cash more effectively. We believe these are the choices that will deliver superior Total Shareholder Return, which is the key measure of our progress and our underlying commitment to P&G shareholders.

A. G. Lafley and John E. Pepper

Making Progress

We've made progress, although there's more to do.

- Sales were $39.2 billion, down slightly from last year but up 2% excluding the effects of unfavorable exchange rates.
- Net earnings were $2.9 billion. Core net earnings, which exclude restructuring charges, were $4.4 billion – up 4% – while earnings per share were $3.12, up 6%.
- Business trends improved during the year. Fourth quarter unit volumes grew 3% and we made significant progress on costs, delivering core operating income growth of 12%.
- Operating cash flow increased over $1 billion.

Progress in the U.S. – our largest market – is particularly encouraging. A year ago, only three of our top 10 U.S. brands were growing share; at the end of the 2000/2001 fiscal year, eight of 10 were growing share.

This progress isn't limited to the U.S.

- In Latin America, 3% volume growth drove earnings to record levels.
- Profits rebounded in China during the year and market shares are now growing broadly.
- Elsewhere in Asia, we grew volume in virtually every country; in the Philippines, for example, our Fabric and Home Care business turned in an exceptional year with record volume and profits while regaining volume-share leadership for the past six months.
- In Central and Eastern Europe, Russia bounced back from the 1998 economic and currency crises: volume, sales and market shares are all rebounding with solid profits.

While we are pleased with this progress, we know we still have a lot of hard work ahead of us. Diapers and Feminine Protection – both of which are core,

P&G's Billion Dollar Brands
In 2000/2001, Iams joined P&G's "Billion Dollar Club." The Company now has 11 brands with more than a billion dollars in sales.

multi-billion-dollar businesses – are not performing satisfactorily. Western Europe – our second largest market – also lags expectations. We have improvements planned for each of these businesses.

Getting Competitive

Cost competitiveness improved.

- We reduced P&G's overhead costs in 2000/2001 for the first time in five years.
- We reduced marketing spending in 2000/2001 – for the first time in five years.
- We reduced capital spending from 7.6% of sales last fiscal year to 6.3% this year, and revised our goal to 6% of sales by 2002/2003, one year ahead of plan.

We also announced plans to broaden our Organization 2005 restructuring program to drive costs to best-in-class levels, rationalize our manufacturing capacity and address under-performing businesses. This includes a reduction in force of 9,600 jobs, in addition to 7,800 remaining from our original Organization 2005 program. We are on track to achieve the nearly $2 billion in savings expected from this program by fiscal year 2004.

Strategic Choices

Last year, we identified the need to make clearer, tougher choices. Again, we've made progress.

Here's where P&G will focus:

1. **Build existing core businesses into stronger global leaders.** Baby Care, Fabric Care, Feminine Protection and Hair Care are our top-priority core businesses. These are categories in which P&G is #1 in global sales and market share, and where the Company believes it can consistently grow earnings at double-digit rates. Together, these four businesses represent about two-thirds of P&G sales and an even greater percentage of profit.
2. **Grow big brands, big countries, leading customers.** With this focus, we intend to grow sales, market shares and profits at rates that exceed Company averages. We'll concentrate on our billion-dollar and soon-to-be billion-dollar brands, and on our top customers in our top 10 countries.
3. **Develop faster-growing, higher-margin, more asset-efficient businesses with global leadership potential.** These are businesses – such as Personal Health Care and Beauty Care – that are high Total Shareholder Return performers. We'll develop them through internal innovation, as we're doing with Crest Whitestrips, and through acquisitions and alliances that are in or adjacent to core P&G categories, such as Clairol, which we announced our intention to acquire in May.
4. **Regain growth momentum and leadership in Western Europe.** We'll restore P&G leadership in Western Europe by focusing on core categories and on our biggest brands, leading customers, biggest countries.
5. **Drive growth in key developing markets.** We expect growth in the coming decade to come from a balanced mix of developed and developing markets. We'll win in our high-priority developing markets by tailoring low-income offerings in core P&G categories.

In all these areas, innovation will continue to be the primary driver of P&G growth. We intend to be the innovation leader in new and established businesses alike, and in both developed and developing markets.

In 2000, for example, P&G had five of the top new U.S. consumer products, as reported in the Information Resources, Inc. (IRI) annual study. Over the past eight years, we have averaged three to four of the top 10 new items each year. In fact, over the last four years, P&G has launched 13 new products in the U.S., each of which has exceeded $100 million in sales – nearly a third of all new consumer products during that time that beat the $100 million mark.

Importantly, P&G innovation doesn't stop with products. We define innovation broadly, and consistently strive to innovate in every part of the business – with new business models, such as Reflect.com; new organization models, such as the Global Business Services shared-service organization; and new approaches to consumer and customer marketing. Innovation is a deliberate process at P&G. We organize for it, catalyze it and apply it broadly.

Bottom line: We're focusing on being the leader in our core categories, with our big brands – brands that are big today and brands that have the potential to be big tomorrow; we're taking steps to ensure that P&G brands provide the best consumer value; we're shifting our mix to categories with higher growth and higher margins; we're focusing on big countries in both developed and developing markets, and on our leading global customers.

Improving Everyday Life

In all we do, the consumer is boss. We win when we understand consumers better than our competitors. And it's with that recognition that we have committed ourselves to making P&G the most consumer-driven company in the world.

Our mission as a company is to improve everyone's quality of life every day, everywhere. We have a relentless quest to be the best – and our dedication to that quest has never been more evident than in the past year. P&G people have risen to the challenges our Company has faced with a sense of pride, resourcefulness and dogged determination. The spirit of our people is a tremendous driver of our confidence in P&G's future.

We enter this new fiscal year with renewed dedication to fulfill our mission and to deliver our commitments to you, our fellow owners of Procter & Gamble.

A. G. Lafley
President and Chief Executive
August 7, 2001

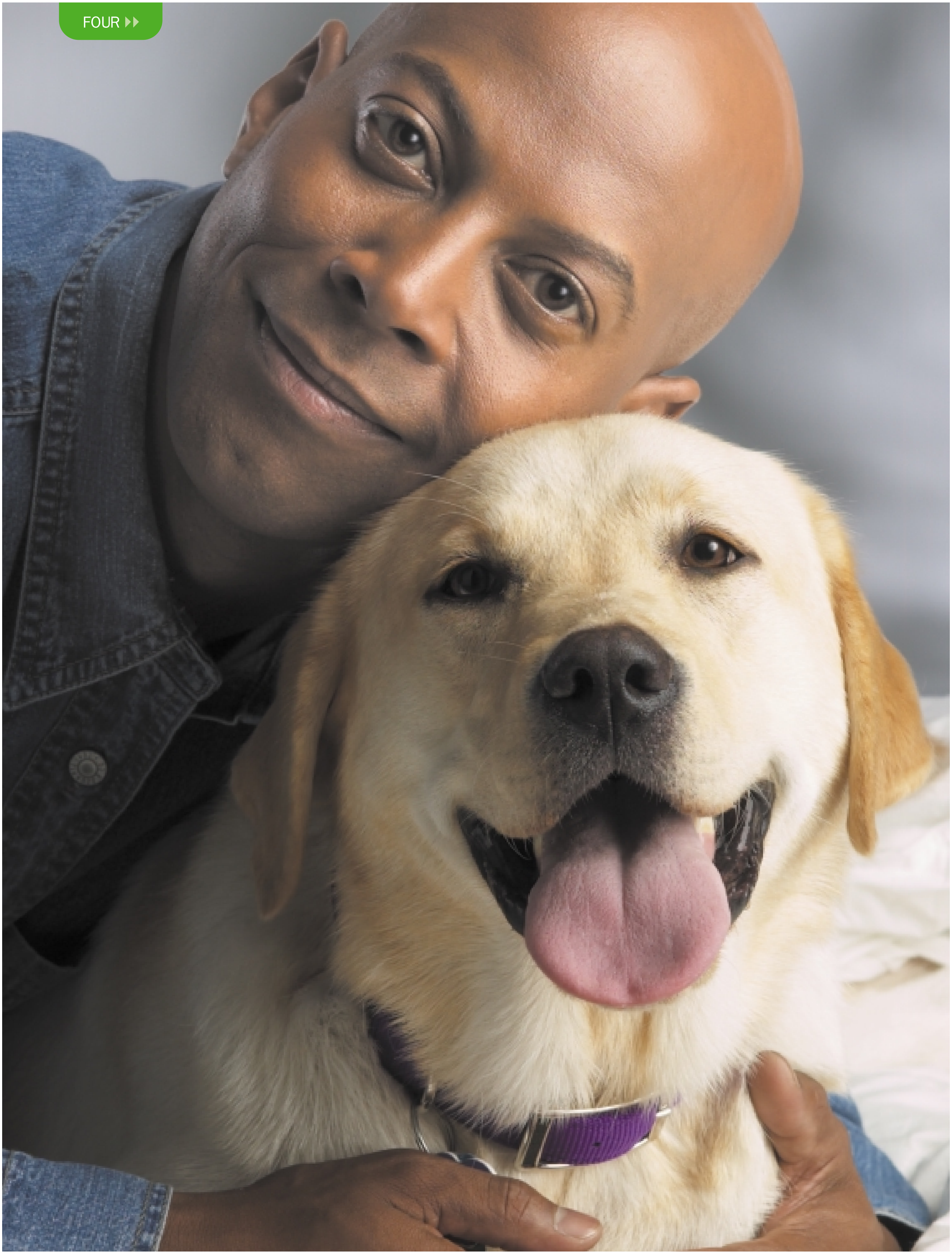
John E. Pepper
Chairman of the Board
August 7, 2001

MORE THAN JUST GREAT BRANDS. GREAT LEADERSHIP.

P&G BRANDS & PEOPLE MAKING LIFE BETTER

We take our mission seriously. Through P&G brands and people, we are committed to improving the quality of life for consumers around the world. In fact, we want to come through for people when they need help caring for themselves, their families and their homes.

In the pages that follow, we feature three P&G employees – a scientist from Iams, a Consumer Relations agent from Olay, a marketer from Crest – whose passion made a difference in the lives of three families. These stories are only an example of how P&G people and products are helping make life better. There are literally thousands of such stories throughout our Company.



IAMS AND A PRECIOUS EXTRA YEAR

Joan and Peter from London, Ontario, Canada, wrote to Iams about their 14-year-old Bearded Collie, Maxwell. Their pet had suffered kidney failure, was refusing all food, had lost 10 pounds, and was too weak to walk. Sadly, he wasn't expected to live much longer.

Maxwell's veterinarian recommended Eukanuba Veterinary Diets Nutritional Kidney Formula Advanced Stage/Canine Food, made by Iams. This is part of a special line of diets created to manage health conditions, such as kidney failure or joint problems, through nutrition.

Iams is the world leader in premium dog and cat nutritional healthcare. For over 50 years the company has been making an ever-widening range of pet food products to meet the needs of almost any dog or cat. The Iams team of nutritionists, veterinarians

Iams has a complete line of cat and dog food products.

Maxwell benefited from Eukanuba's special Veterinary Diets.

and food scientists are constantly looking for, and finding, new ways to help dogs and cats live longer, healthier lives.

Which is where we should go back to Maxwell. Joan began feeding Maxwell the Eukanuba by hand. "I could not believe it," Joan wrote. "He ate through almost the entire bag." Within two months Maxwell had gained weight, began playing Frisbee again, and looked almost his old self.

To quote Joan, "I am convinced the Eukanuba food helped Maxwell live longer! Thank you so much for providing a product so effective. Our most cherished Christmas gift this past year was our Beardie. We never thought he would be here to share our Christmas season. Thank you, thank you, thank you for the precious extra year."

Joan, Peter and Maxwell's story is particularly dramatic, but Iams gets letters and e-mails every day from people saying that their pets' health, shiny coats, glistening eyes and alert behavior come from their Iams or Eukanuba diet.

MORE THAN JUST GREAT BRANDS. GREAT RESEARCH.

UNDERSTANDING IS KEY TO QUALITY OF LIFE

Dr. Greg Reinhart has two dogs, two cats and a horse. His wife is a veterinarian and they and their three kids are all deeply committed to improving the lives of animals. They often find homes for strays. There's a very significant overlap between Greg's home life and his professional life.

www.iams.com

He's an Iams researcher and he knows how the right nutrition can make a tremendous improvement in the quality of life for a dog or cat. "Understanding a pet's needs at different stages and in different life conditions is key to what we do at Iams," Greg says. "Even irreversible diseases, such as kidney failure, can respond to a new approach. Eukanuba Nutritional Kidney Formula is a good example of how we can slow down the decline and increase the quality of life."

Greg's passion for pets bridges his home and professional lives. He knows, from personal experience, just how special pets like Maxwell are to their families.


SIX

LIKE MOTHER, LIKE DAUGHTER, LIKE DAUGHTERS

One of Olay's most faithful users lives in Colorado. This is how Betty Jean described her maternal grandmother, Lydia, before going on to say that, "she just celebrated her 99th birthday. My Grandma has been using Olay products for as long as I can remember. She uses Olay cream morning and night." And guess what Betty Jean's gift to Lydia was on her birthday? New Olay Age Defying Cream.

Very appropriate, but using Olay isn't limited to the oldest member of the family. Lydia's daughter and five granddaughters have followed her example and become enthusiastic about using Olay, too. In Betty Jean's words, "I consider myself very fortunate to have such a strong woman as my Grandma. Her continued concern with her daily skin regimen has certainly proved heartening for all the women in my family."

Lydia's faithful Olay use has helped keep her skin looking years younger.

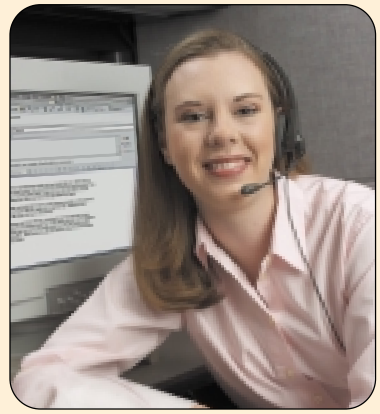
While Olay has been helping generations of women care for their skin, P&G researchers have assured the Olay brand never ages.

Last year, for instance, Olay launched Daily Facials, and also Total Effects, Olay's most advanced anti-aging skin care yet. Daily Facials were the first lathering cloths to offer multiple skincare benefits. One easy-to-use product takes care of cleansing, make-up removal, gentle exfoliation and conditioning. Total Effects is a complete skin care system for the entire body, with moisturizers and cleansers working together in an integrated fight against the multiple signs of aging.

Betty Jean's message about her grandmother wasn't an isolated case. Comments like this, from another consumer, have become pleasingly frequent: "Upon approaching my 52nd birthday, I decided to try Total Effects. My skin tone had started to look uneven. I have been using the product and I now swear by it. My skin looks radiant, smooth and healthy. This product is all one needs to have the best-looking skin. Thank you, Olay!"

Olay continues to develop new products designed for women of all ages.

MORE THAN JUST GREAT BRANDS. GREAT SERVICE.



A VITAL LINK TO CONSUMERS

P&G's Consumer Services Representative **Kate Davis** loves getting spontaneous messages like the one from Lydia's granddaughter. "Hearing that someone was so satisfied with a product that they influenced their family to use it is really gratifying."

www.olay.com

Kate approaches her role with great thoughtfulness and enthusiasm. "I like being able to help people find just the right product to meet their needs." But she often goes much further, sending website links to consumers looking for particular information, for example.

Consumers often tell Kate that they're pleasantly surprised to hear from her – that they never expected anyone from a large company like P&G to respond to them as helpfully and thoroughly as Kate does. And P&G hears from more than five million consumers all over the world each year!

NEW CREST WHITESTRIPS RENEW A SMILE

Crest Whitestrips gave Joe a reason to smile in his senior picture.

Imagine you're 17 years old. You've had orthodontics worth thousands of dollars, you've been wearing braces for three years, and now they're coming off.

The good news is, your teeth are straight. The bad news is, they're stained. The worse news is you're due to have your senior picture taken very soon. You don't have a lot to smile about. You try normal dental cleaning. It makes little impression on the stained teeth.

This is the true story of Joe, as told to us by his mom, Nancy.

And it's at this point that the story takes a turn for the better. Nancy heard about new Crest Whitestrips and bought Joe a pack. "Within a few days most of the stains from the braces were gone!" she said. "Crest Whitestrips seemed made for Joe. They were exactly what he needed, when he needed it, and at a price I could afford. It gave him confidence again in his bright smile – it really made a difference!"

Joe's sincere, natural, happy smile, captured in his senior photograph, confirms this.

Crest Whitestrips are now in stores across the U.S. and a professional version is available from dentists. There are plans to make the product global. Users who wear the strips for 30 minutes twice a day can look forward to a whiter smile in just 14 days. Crest Whitestrips whiten 10 times better than the leading whitening toothpaste, a level of teeth whitening which usually was achieved only through a dentist.

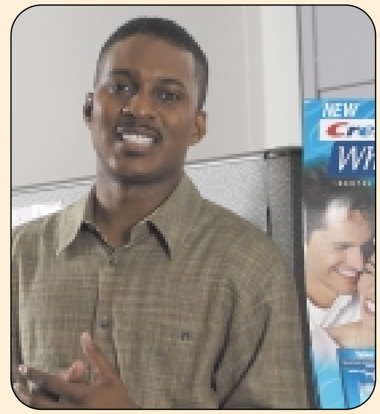
Consumers have not been shy about telling Crest what a difference Whitestrips have made for them: "I love them. Made my teeth look better than ever. I want to buy more!"

"They are so convenient."

"I finally feel good about my smile!"

Crest products – creating smiles every day.

MORE THAN JUST GREAT BRANDS. GREAT INSPIRATION.



GIVING AN INNOVATIVE PRODUCT EXTRA BITE

Vince Hudson of Oral Care Marketing really got his teeth into Crest Whitestrips early.

Consumers began seeing the product on store shelves for the first time in May. However, for almost a year beforehand, Vince led his team in a new approach, placing Whitestrips in dentists' offices, on home shopping TV Channels and on the Internet, because consumers were hungry for this innovation before enough could be made for a national store launch. And he went a step further, making himself a walking (and smiling) demonstration of the product's effectiveness. Vince used Crest Whitestrips on his top teeth but not his bottom teeth.

www.crest.com

The dramatic difference was there for all to see, including those who saw Vince on "The Today Show." Others heard about Whitestrips on "Rosie," CNN, *USA Today* and *People* and on local news outlets. His effort and commitment resulted in 15% market awareness before the product was even launched.

Financial Review

RESULTS OF OPERATIONS

Fiscal 2001 was a year of progress – in making choices, establishing realistic goals and delivering on commitments. The Company also made considerable progress on strengthening its cost structure and improving cash efficiency. This was despite a tough year that included weakening economies in some major geographies, significant currency impacts, rising commodity prices and an increasingly competitive environment.

To accelerate long-term growth, the Company has made and will continue to make tough, clear choices about where to play and how to win. The Company is focused on building superior shareholder return – by creating and building big brands with top-line results, sales margins and cash flow at the best competitive benchmarks.

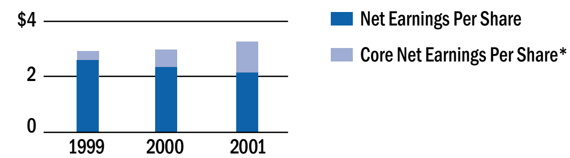
During the past year, the Company refocused on its core categories to develop high-margin growth businesses with global leadership potential. The Company also expanded its restructuring program, initiated in June 1999, in conjunction with Organization 2005, to drive further enrollment reductions and address under-performing businesses. These actions are critical to delivering on the Company's long-term goals to consistently grow earnings and earnings per share at double-digit rates.

Net Earnings

Reported net earnings were $2.92 billion or $2.07 per share in 2001. This compared to $3.54 billion or $2.47 per share in 2000, and $3.76 billion or $2.59 per share in 1999. Current year results include charges of $1.48 billion after tax for restructuring program costs. These costs were $688 million and $385 million in 2000 and 1999, respectively. This program covers a significant reduction in enrollment, manufacturing consolidations and portfolio choices to scale back or discontinue under-performing businesses and initiatives.

Core net earnings, which exclude restructuring program costs, increased to $4.40 billion in 2001 from $4.23 billion in 2000 and $4.15 billion in 1999. Core net earnings per share were $3.12, compared to $2.95 per share in 2000 and $2.85 per share in 1999. Core net earnings per share increased 6% in 2001, compared to 4% in 2000. Core net earnings progress was significant in light of product cost increases and exchange impacts, which were offset by pricing benefits, lower taxes and gains from the divestiture of non-strategic brands. Growth in the prior year was affected by significant investments in new initiatives.

NET EARNINGS PER SHARE
(on a diluted basis)

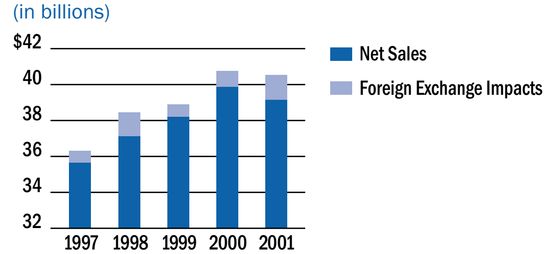


*Excludes restructuring program costs.

Net Sales

Reported net sales were $39.24 billion, compared to $39.95 billion in 2000 and $38.13 billion in 1999. Excluding an unfavorable exchange rate impact of over 3% in the current year, net sales grew 2%, reflecting improved pricing in beauty care, fabric and home care and paper, primarily family care. Unit volume was flat in 2001, as exceptionally strong performance by new businesses in health care was offset by softness in food and beverage. Unit volume grew 4% in 2000, while net sales excluding a 2% unfavorable exchange impact increased 7%. This growth reflected strong product initiative activity, the acquisition of the Iams pet health and nutrition business and progress on flagship brands, largely in fabric and home care.

NET SALES AND EXCHANGE IMPACTS
(in billions)



Financial Review (continued)

Operating Costs

Consistent with its commitment to reduce its cost structure to more competitive levels, in the fourth quarter, the Company broadened its restructuring program to deliver further cost reductions by reducing overheads, consolidating manufacturing operations and addressing under-performing businesses and initiatives. Given the nature and magnitude of the charges related to this program, the following discussions include supplemental information on a "core" basis – excluding restructuring charges.

Cost of products sold was $22.10 billion in 2001, compared to $21.51 billion and $21.03 billion in 2000 and 1999, respectively. Restructuring costs included in cost of products sold were $1.14 billion in 2001, $496 million in 2000 and $443 million in 1999. Excluding restructuring charges, cost of products sold was flat versus the prior year, as a disciplined cost focus overcame commodity cost increases, such as energy. Core cost of products sold was up 2% in 2000.

Marketing, research and administrative expense was $12.41 billion versus $12.48 billion in 2000 and $10.85 billion in 1999. These include restructuring costs of $583 million in 2001, $318 million in 2000 and $38 million in 1999, primarily due to employee separation expenses. Excluding restructuring charges, marketing, research and administrative expense was $11.82 billion in the current year versus $12.17 billion in 2000 and $10.81 billion in 1999. As a percent of net sales, this was 30.0% in 2001, 30.4% in 2000 and 28.3% in 1999. The decrease in the current year was due to a reduction in overhead costs, as well as marketing support efficiencies. The increase in 2000 reflects the high level of initiative investment.

Margins

In 2001, gross margin was 43.7%, compared to 46.1% in 2000 and 44.8% in 1999. Gross margin included restructuring charges that consisted primarily of accelerated depreciation, asset write-downs and employee separation costs for manufacturing employees. Excluding these charges, gross margin was 46.8%, 47.4% and 46.0% in 2001, 2000 and 1999, respectively, reflecting rising material costs despite the benefit of pricing actions and effective cost management.

Operating margin was 12.1%, compared to 14.9% in 2000 and 16.4% in 1999. Excluding restructuring charges, core operating margin was 16.7%, compared to 16.9% in 2000 and 17.7% in 1999.

Net earnings margin was 7.4% versus 8.9% in 2000 and 9.9% in 1999. Excluding restructuring charges, core net earnings margin was 11.2%, up from 10.6% in 2000 and 10.9% in 1999. The margin increase in 2001 reflects the gains from minor brand divestitures and lower taxes, partially offset by increased product costs and unfavorable exchange impacts. In 2000, the core net earnings margin decreased, reflecting increased spending, primarily from initiative investments.

Non-Operating Items

Interest expense was $794 million in 2001, compared to $722 million in 2000 and $650 million in 1999. The interest expense trend reflects higher average debt levels, primarily due to share repurchases and acquisitions.

Other income, net, which consists primarily of interest and investment income and divestiture gains contributed $674 million, compared to $304 million in 2000 and $235 million in 1999. Increased gains from the divestiture of minor brands drove the year-to-year changes.

The Company's effective tax rate for the current year was 36.7%, compared to 36.0% in 2000 and 35.5% in 1999. Excluding restructuring costs and related tax effects, the effective tax rate was 32.0%, compared to 33.4% in 2000 and 34.4% in 1999. This change reflects the continuing benefit of the implementation of the Company's new global business unit structure.

Financial Review (continued)

FINANCIAL CONDITION

One of the Company's focus areas is to improve its cash efficiency as a key element of achieving superior shareholder return.

Cash

Operating cash flow provides the primary source of funds to finance operating needs, capital expenditures and shareholder dividends. This is supplemented by additional borrowings to provide funds to finance the share repurchase program and acquisitions.

Cash flow from operations was $5.80 billion, $4.68 billion and $5.54 billion in 2001, 2000 and 1999, respectively. Operating cash flow trends were primarily impacted by working capital changes, including the impact of restructuring program accruals.

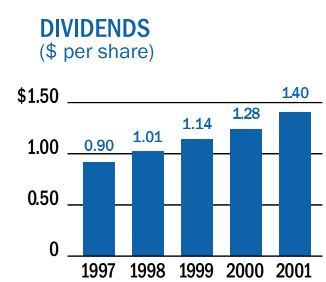
Cash and cash equivalents increased $891 million in the current year to $2.31 billion, reflecting reduced capital expenditures and improved working capital. Cash and cash equivalents were $1.42 billion in 2000 and $2.29 billion in 1999. The decrease in 2000 reflected acquisition spending and lower net earnings, partially offset by the issuance of debt.

Net cash used for acquisitions completed during 2001 totaled $138 million. This compares to acquisition spending of $2.97 billion in 2000 and $137 million in 1999. Spending in fiscal 2000 was primarily related to the acquisitions of The Iams Company and Affiliates, Recovery Engineering, Inc. and a joint venture ownership increase in China. In May 2001, the Company announced its intent to acquire the Clairol business, pending regulatory clearance. A substantial portion of the $4.95 billion purchase price will be financed with debt.

The Company continues its program to divest certain non-strategic brands in order to focus resources on core businesses. The proceeds from these and other asset sales generated $788 million in cash flow in the current year, compared to $419 million and $434 million in 2000 and 1999, respectively.

The Company maintains a share repurchase program, which authorizes the purchase of shares annually on the open market to mitigate the dilutive impact of employee compensation programs. The Company also has a discretionary buy-back program under which it may repurchase additional outstanding shares. Current year purchases under the combined programs were $1.25 billion, compared to $1.77 billion in 2000 and $2.53 billion in 1999. The Company issued equity put options in 2001 for one million shares at approximately $74 per share and for 12 million shares at prices ranging from $60 to $71 per share in 2000, which reduce the Company's cash outlay for share repurchases.

Common share dividends grew 9% to $1.40 per share in 2001, compared to $1.28 and $1.14 in 2000 and 1999, respectively. For the coming year, the annual dividend rate will increase to $1.52 per common share, marking the 46th consecutive year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were $1.94 billion, $1.80 billion and $1.63 billion in 2001, 2000 and 1999, respectively.



Total debt was fairly stable at $12.03 billion at June 30, 2001 and $12.25 billion at June 30, 2000. A number of factors influenced the various debt components, including issuance of long-term debt, reductions in short-term debt, currency effects and mark-to-market impacts of derivative financial instruments.

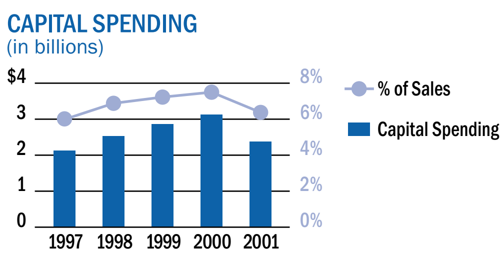
Long-term borrowing available under the Company's shelf registration statement filed in 1995, as amended in July 1997 and

Financial Review (continued)

September 1999, was $489 million at June 30, 2001. Additionally, the Company is able to issue commercial paper at favorable rates and to access general bank financing.

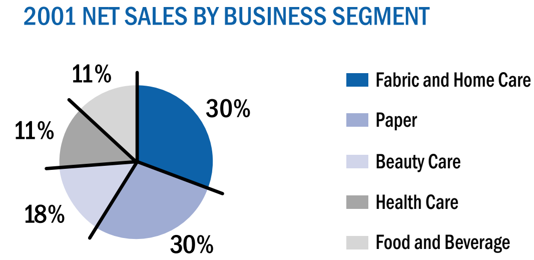
Capital Spending

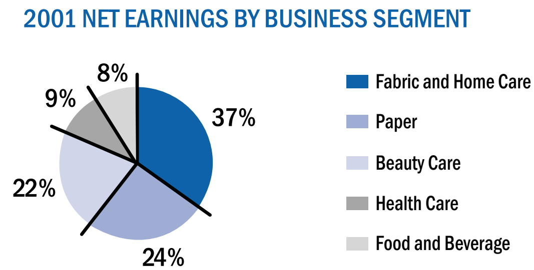
Significant progress was made in 2001, as capital expenditures decreased to $2.49 billion compared to $3.02 billion in 2000 and $2.83 billion in 1999. Current year spending is 6.3% of net sales, compared to 7.6% and 7.4% in 2000 and 1999. During 2001, capital spending declined in most segments due to more choiceful investments, increased efficiencies and favorable currency impacts. The Company has revised its goal to reduce capital spending to 6% of net sales by fiscal 2003, one year ahead of plan.



The following pages provide perspective on the Company's business segments. Product-based segment results exclude items that are not included in measuring business performance for management reporting purposes, most notably certain financing, investing and employee benefit costs, goodwill amortization and restructuring costs.

Sales in companies over which the Company exerts significant influence, but does not control the financial and operating decisions, are reported for segment purposes in a manner similar to consolidated subsidiaries. Taxes are reflected in the business segments at local statutory tax rates. The effects of these conventions are eliminated in the corporate segment to adjust management reporting conventions to accounting principles generally accepted in the United States of America.





FABRIC AND HOME CARE

Fabric and home care trends reflect the significant effort to restore historical margins through innovation combined with necessary pricing, disciplined cost focus and more efficient marketing. Net sales were $11.66 billion, down 4% versus a strong year ago base which included new brand introductions. Excluding a 3% unfavorable foreign exchange impact, net sales decreased 1%. Unit volume decreased 2% due to heavy competitive activity, primarily in Western Europe.

Despite the volume decline, net earnings increased 13% to $1.64 billion. Net earnings growth was significant in light of product cost increases and exchange impacts, which were offset by the benefits of laundry pricing actions and lower taxes. Latin America delivered particularly strong earnings progress, reflecting disciplined cost management.

Fabric and home care is the Company's most profitable segment, accounting for nearly a third of net sales and an even greater percentage of profits.

Financial Review (continued)

The Company is committed to strengthening the business in Western Europe. Strategic plans are in place to improve the business through a differentiated portfolio of brands that provide superior value, meet a variety of consumer needs and build to a total leadership position.

In 2000, net sales for fabric and home care were $12.16 billion, an increase of 7% over 1999. Excluding unfavorable foreign exchange impacts, primarily in Western Europe, net sales grew 9% on 5% unit volume growth. Top-line growth was spurred by the introduction of new brands and solid base business performance. Net earnings for the segment were $1.45 billion, down 3% versus the prior year, primarily due to investments in product initiatives.

PAPER

The paper segment, which includes baby, feminine and family care, reflected mixed results. Net sales were $11.99 billion, compared to $12.04 billion in 2000. Excluding a 4% negative impact of exchange rates, primarily the euro, net sales increased 4%. Unit volume grew 2%, driven by family care and baby care. Commodity-related cost increases and weaker foreign currencies resulted in net earnings decreasing 2% to $1.04 billion, despite progress in family care and feminine care. These were partially offset by pricing actions and lower overhead and marketing spending.

Family care volume grew 3% due to new product introductions and base business growth in North America. Net sales increased 10%, excluding a 2% unfavorable impact of exchange, resulting from commodity-driven global pricing actions on Charmin and Bounty.

Baby care volume increased 3% driven by Latin America and Central and Eastern Europe. Excluding a 5% negative exchange impact, net sales increased 1%.

Feminine care volume declined 3% due to a challenging competitive environment in North America and Northeast Asia, partially offset by growth in developing markets. Net sales were comparable to the prior year – excluding a 5% negative exchange impact.

In 2000, paper segment net sales were $12.04 billion, down 1% from the prior year on flat unit volume. Excluding the impact of exchange rates, primarily the euro, net sales were up 1%. Excluding the impact of the Attends divestiture in 1999, unit volume increased 2%. Net earnings were $1.07 billion, down 16%, reflecting family care expansion in Western Europe, investments in new product initiatives on Charmin, a tough competitive environment in baby care and feminine care businesses, increased capacity and unfavorable raw and packing material cost trends.

Looking forward, initiative programs are currently underway to drive future growth. Though challenges remain, a continued focus on innovation and cost reductions should lead to stronger performance.

BEAUTY CARE

Beauty care increased profitability behind innovative, high-margin, global brands. Net sales were $7.26 billion, down 2% versus $7.39 billion in 2000. Excluding a 4% impact of unfavorable exchange rates, primarily in Western Europe and Asia, net sales increased 2%. Unit volume was down 1% versus the prior year. Excluding the impact of divestitures, volume was flat. Volume growth in hair care and skin care was offset by competitive activity in deodorants and bar soaps. Net earnings were $972 million, a 9% improvement behind the successful expansion of high-performance, premium-priced products.

Positive results in hair care were primarily driven by the global restage of Pantene and Head & Shoulders. Latin America, in particular, posted record results on double-digit top-line growth.

Financial Review (continued)

Skin care delivered record net sales and share growth led by the launch of Olay Daily Facials and Olay Total Effects.

In the past year, Cover Girl has built share in the United States behind superior products. The cosmetics business posted strong results behind recently launched Cover Girl Outlast and Max Factor Lipfinity, breakthrough long-wearing lipsticks.

During the year, the Company announced the intent to acquire the Clairol business, a world leader in hair color and hair care products with prominent brands such as Herbal Essences, Aussie, Infusium, Nice 'n Easy and Natural Instincts. The pending Clairol acquisition will represent the Company's entry into the fast growing hair-colorant category.

In 2000, net sales were $7.39 billion, comparable to the prior year, but up 1% excluding the impact of unfavorable exchange rates, primarily in Western Europe. Unit volume declined 2%, impacted by a difficult competitive environment in key European markets and significant contraction of the market in China. Net earnings were $894 million, a 3% decrease from the prior year due to initiative investments.

HEALTH CARE

Health care delivered exceptional growth on the expansion of new products. Net sales were $4.35 billion, up 11%. Excluding a 3% unfavorable exchange impact, net sales grew 14%. Unit volume increased 15%, driven by the excellent performance of Iams pet health and nutrition, pharmaceuticals and oral care businesses. Net earnings were $390 million, a 16% increase over fiscal 2000, consistent with volume growth.

Health care net sales in North America grew behind volume progress on the strength of new businesses.

The Iams Company and Affiliates again posted record results, with net sales up double-digits behind continued growth in North America and expansion into new retail channels in the United Kingdom, Italy and Japan.

Pharmaceutical net sales grew primarily due to the strength of Actonel, the Company's post-menopausal osteoporosis drug, which achieved $150 million in total global sales. Actonel was launched in 2000 and is now approved in 47 countries and currently marketed in 30 countries.

Oral care top-line growth reflected the benefits of broadening the appeal of core brands beyond cavity and tartar protection into new whitening and cleaning products. Crest Whitestrips and Crest Spinbrush are driving the trends toward at-home whitening and powered brushing, respectively.

Western Europe health care net sales were below year ago, primarily due to the weak euro. The expansion of Crest Spinbrush and the continued growth of Actonel are expected to improve Western Europe results next year.

In 2000, health care net sales were $3.91 billion, with growth resulting primarily from acquisitions. Volume and net sales increased 34% and 36%, respectively, versus the prior year. Unfavorable exchange rates impacted net sales by 2%. Net earnings were $335 million, a 38% increase over 1999.

Financial Review (continued)

FOOD AND BEVERAGE

Food and beverage results were below year ago, as strong sales and earnings in coffee were offset by soft snacks and juice results. Net sales were $4.14 billion, down 11%. Excluding a 1% impact of divestitures and a 2% unfavorable foreign exchange impact, net sales declined 8%. Unit volume declined 10% including a 2% impact from divestitures. Unit volume was negatively affected by reduced trade merchandising and snacks pricing actions in North America and Western Europe, and the divestiture of institutional shortening and oils. Net earnings were $333 million, down 9% versus last year.

The coffee business had a record year with Folgers achieving its strongest volume increase in a decade.

In snacks and juice, North America results are showing signs of stabilizing as merchandising returned to competitive levels. Lower net earnings in Western Europe were primarily due to investments in Sunny Delight and the impact of a strong U.S. dollar.

During the year, P&G and The Coca-Cola Company announced the intent to form a new venture to maximize the growth potential of the snacks and juice business on a global basis. Both parties are committed to completing a mutually-agreed transaction; however, the parties anticipate that any transaction will likely contain terms different from those announced previously. The Company also separately announced its intent to explore strategic options for its peanut butter and retail shortening and oils business.

In 2000, net sales were flat versus the prior year at $4.63 billion, including a 1% negative exchange impact. Unit volume also was flat. Excluding the 1999 divestiture of Hawaiian Punch, unit volume increased 5% behind strong growth in Western Europe and Northeast Asia, partially due to the expansion of Pringles. Net earnings increased to $364 million, up 11% versus the previous year, primarily due to gross margin improvement.

CORPORATE

The corporate segment includes both operating and non-operating elements such as financing and investing activities, goodwill amortization, employee benefit costs, charges related to restructuring, segment eliminations and other general corporate items.

Corporate includes adjustments from management reporting conventions to conform with accounting principles generally accepted in the United States of America. These primarily affect the treatment of unconsolidated investees and income taxes, which are reflected in the business segments using applicable local statutory tax rates.

Corporate results reflect one-time gains from the Company's non-strategic brand divestiture program, increased restructuring costs, reduced overhead spending and corporate hedging gains, partially offset by higher employee benefit costs, and certain tax impacts not reflected in the business segments.

HEDGING AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage the volatility relating to these exposures, the Company nets the exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, the Company enters into various derivative transactions pursuant to the Company's hedging policies. The financial impacts of these hedging instruments are offset in part or in whole by corresponding changes in the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes. Note 6 to the consolidated financial statements includes a discussion of the Company's accounting policies for financial instruments.

Financial Review (continued)

Derivative positions are monitored using techniques including market value, sensitivity analysis and value at risk modeling. The tests for interest rate and currency rate exposures discussed below are based on a Monte Carlo simulation value at risk model using a one year horizon and a 95% confidence level. The model incorporates the impact of correlation and diversification from holding multiple currency and interest rate instruments and assumes that financial returns are normally distributed. Estimates of volatility and correlations of market factors are drawn from the RiskMetrics™ dataset as of June 30, 2001. In cases where data is unavailable in RiskMetrics™ a reasonable proxy is included.

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 as hedges of the Company's foreign net investments.

Based on the Company's overall interest rate exposure as of and during the year ended June 30, 2001, including derivative and other instruments sensitive to interest rates, a near-term change in interest rates, at a 95% confidence level based on historical interest rate movements, would not materially affect the Company's financial statements.

CURRENCY RATE EXPOSURE

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 Company's major foreign currency exposures involve the markets in Western and Eastern Europe, Asia, Mexico and Canada. The primary purpose of the Company's foreign currency hedging activities is to manage 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 maturities of less than 18 months.

In addition, the Company enters into certain foreign currency swaps with maturities of up to five years to hedge intercompany financing transactions. The Company also utilizes purchased foreign currency options with maturities of generally less than 18 months and forward exchange contracts to hedge against the effect of exchange rate fluctuations on royalties and income from international operations.

Based on the Company's overall currency rate exposure as of and during the year ended June 30, 2001, including derivative and other instruments sensitive to foreign currency movements, a near-term change in currency rates, at a 95% confidence level based on historical currency rate movements, would not materially affect the Company's financial statements.

COMMODITY PRICE EXPOSURE

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. The Company uses futures, option and swap contracts to manage the volatility related to certain of these exposures. Commodity hedging activity is not material to the Company's financial statements.

Financial Review (continued)

RESTRUCTURING PROGRAM

Beginning in 1999 – concurrent with the Company's reorganization into product-based global business units – the Company initiated its Organization 2005 restructuring program. The program was expanded in the current year to deliver further cost reductions through reduced overheads, further manufacturing consolidations, and discontinuation of under-performing businesses and initiatives. This significant, multi-year program also is discussed in Note 2 to the consolidated financial statements.

The total cost of the program is expected to be $5.6 billion before tax ($4.4 billion after tax). Remaining costs will be incurred through fiscal 2004, with a significant amount of separation related costs expected to occur in the next fiscal year. Given the nature and duration of the program, costs to be incurred in future years are subject to varying degrees of estimation for key assumptions, such as actual timing of execution, currency effects, enrollment impacts and other variables. All restructuring costs are reported in the corporate segment for management and external reporting.

Summary of Restructuring Charges

	Years ended June 30		
(in millions)	**2001**	2000	1999
Separations	**$ 341**	$ 153	$ 45
Accelerated Depreciation	**276**	386	208
Asset Write-Downs	**731**	64	217
Other	**502**	211	11
Total (before tax)	**1,850**	814	481
Total (after tax)	**1,475**	688	385

Separations represent the cost of packages offered to employees to reduce overhead and manufacturing costs, which are accrued upon employee acceptance. The separation packages, predominantly voluntary, are formula driven based on salary levels and past service. Separation costs are charged to costs of products sold for manufacturing employees and marketing, research and administrative expense for all others.

Total separations under the program are expected to be approximately 24,600. Approximately 9,200 separations have been provided for through June 30, 2001, as follows: 6,000 in 2001, 2,800 in 2000 and 400 in 1999. While all geographies and businesses are impacted by the enrollment reduction programs, a higher number of United States employees are affected, given the concentration of operations. Net enrollment for the Company may decline by less than the total separations, as terminations will be offset by increased enrollment at remaining sites, acquisitions and other impacts.

Accelerated depreciation relates to long-lived assets that will be taken out of service prior to the end of their normal service period due to manufacturing consolidations, technology standardization, plant closures or strategic choices to discontinue initiatives. The Company has shortened the estimated useful lives of such assets, resulting in incremental depreciation expense. For segment and management reporting purposes, normal depreciation expense is reported by the business segments, with the incremental accelerated depreciation reported in the corporate segment. Accelerated depreciation and write-downs are charged to cost of products sold for manufacturing assets and marketing, research and administrative expense for all other assets.

Asset write-downs relate to establishment of new fair-value bases for assets held for sale or disposal and for assets whose future cash flow expectations have declined significantly as a direct result of restructuring decisions. Assets held for sale or disposal represent excess capacity that is in the process of being removed from service and businesses held for sale within the next 12 months. Such assets are written down to the net amount expected to be realized upon sale or disposal. Assets expected to continue to be operated, but whose nominal cash flows are no longer sufficient to recover existing book values, are written down to estimated fair value, generally determined by reference to discounted expected future cash flows. Write-downs of assets that will continue to be used were

Financial Review (continued)

approximately $160 million before tax ($133 million after tax) in 2001, $0 in 2000 and $160 million before tax ($100 million after tax) in 1999. Asset write-downs are not expected to significantly impact future annual depreciation expense.

Other contains charges incurred as a direct result of restructuring decisions, including relocation, training, the establishment of global business services and the new legal and organization structure of Organization 2005, and discontinuation of initiatives. These costs are charged to the applicable income statement line item based on the underlying nature of the charge.

Most restructuring accruals represent current liabilities. Reserve balances were $460 million, $88 million and $44 million at June 30, 2001, 2000 and 1999, respectively. During the current year, approximately 40% of restructuring charges were cash. Going forward, approximately 70% of future charges are expected to be cash – primarily separations.

Savings from the restructuring program are difficult to estimate, given the nature of the activities, the corollary benefits achieved, timing and the degree of reinvestment. Overall, the program is expected to deliver nearly $2 billion after tax of annual savings by fiscal 2004. Estimated incremental savings were $235 million in 2001 and $65 million in 2000. Savings are expected to ramp up during 2002 and are estimated to increase by approximately $600 million after tax.

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, Organization 2005, financial goals and cost reduction, among others.

These forward-looking statements are based on assumptions and estimates regarding competitive activity, pricing, product introductions, economic conditions, technological innovation, currency movements, governmental action and the development of certain markets. Among the key factors necessary to achieve the Company's goals are: (1) the successful execution of Organization 2005, including achievement of expected cost and tax savings and successful management of organizational and work process restructuring; (2) the ability to achieve business plans, including volume growth and pricing plans, despite high levels of competitive activity, especially with respect to the product categories and geographical markets in which the Company has chosen to focus; (3) the ability to maintain key customer relationships; (4) the achievement of growth in significant developing markets such as China, Korea, Mexico, the Southern Cone of Latin America and the countries of Central and Eastern Europe; (5) the ability to successfully manage regulatory, tax and legal matters, including resolution of pending matters within current estimates; (6) the successful and timely execution of planned brand divestitures; (7) the ability to successfully implement cost improvement plans in manufacturing and overhead areas; (8) the timely execution of definitive agreements and the receipt of timely and successful regulatory clearances with respect to a transaction with The Coca-Cola Company; (9) the timely and successful receipt of regulatory clearances and subsequent successful integration of the Clairol business; and (10) the ability to successfully manage currency, interest rate and certain commodity cost exposures. 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.

Responsibility for the Financial Statements

Consolidated financial statements and financial information included in this report are the responsibility of Company management. This includes preparing the statements in accordance with accounting principles generally accepted in the United States of America 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, independent auditors, have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with auditing standards generally accepted in the United States of America.

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 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.

A. G. Lafley
President and Chief Executive

Clayton C. Daley Jr.
Chief Financial Officer and Comptroller

Independent Auditors' Report

Deloitte & Touche

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, 2001 and 2000 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2001. 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2000 and the results of its operations and cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 7, 2001

Consolidated Statements of Earnings

Amounts in millions except per share amounts	Years ended June 30		
	2001	2000	1999
Net Sales	$39,244	$39,951	$38,125
Cost of products sold	22,102	21,514	21,027
Marketing, research and administrative expense	12,406	12,483	10,845
Operating Income	4,736	5,954	6,253
Interest expense	794	722	650
Other income, net	674	304	235
Earnings Before Income Taxes	4,616	5,536	5,838
Income taxes	1,694	1,994	2,075
Net Earnings(1)	$ 2,922	$ 3,542	$ 3,763
Basic Net Earnings Per Common Share(1)	$ 2.15	$ 2.61	$ 2.75
Diluted Net Earnings Per Common Share(1)	$ 2.07	$ 2.47	$ 2.59
Dividends Per Common Share	$ 1.40	$ 1.28	$ 1.14

(1) Net earnings include an after-tax charge for restructuring costs of $1,475 in 2001, $688 in 2000 and $385 in 1999. Basic and diluted net earnings per share include restructuring charges of $1.14 and $1.05 in 2001, $.52 and $.48 in 2000 and $.29 and $.26 in 1999, respectively.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Amounts in millions	June 30 2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,306	$ 1,415
Investment securities	212	185
Accounts receivable	2,931	2,910
Inventories		
Materials and supplies	1,096	1,254
Work in process	373	394
Finished goods	1,915	1,842
Total Inventories	3,384	3,490
Deferred income taxes	397	309
Prepaid expenses and other current assets	1,659	1,837
Total Current Assets	10,889	10,146
Property, Plant and Equipment		
Buildings	4,148	4,259
Machinery and equipment	18,165	18,366
Land	508	596
	22,821	23,221
Accumulated depreciation	(9,726)	(9,529)
Total Property, Plant and Equipment	13,095	13,692
Goodwill and Other Intangible Assets		
Goodwill	8,805	9,080
Trademarks and other intangible assets	1,331	1,305
	10,136	10,385
Accumulated amortization	(1,836)	(1,599)
Total Goodwill and Other Intangible Assets	8,300	8,786
Other Non-Current Assets	2,103	1,742
Total Assets	$34,387	$34,366

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Amounts in millions	June 30 2001	June 30 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 2,075	$ 2,209
Accrued and other liabilities	4,631	3,766
Taxes payable	907	925
Debt due within one year	2,233	3,241
Total Current Liabilities	9,846	10,141
Long-Term Debt	9,792	9,012
Deferred Income Taxes	894	625
Other Non-Current Liabilities	1,845	2,301
Total Liabilities	22,377	22,079
Shareholders' Equity		
Convertible Class A preferred stock, stated value $1 per share (600 shares authorized)	1,701	1,737
Non-Voting Class B preferred stock, stated value $1 per share (200 shares authorized)	–	–
Common stock, stated value $1 per share (5,000 shares authorized; shares outstanding: 2001 – 1,295.7 and 2000 – 1,305.9)	1,296	1,306
Additional paid-in capital	2,057	1,794
Reserve for Employee Stock Ownership Plan debt retirement	(1,375)	(1,418)
Accumulated other comprehensive income	(2,120)	(1,842)
Retained earnings	10,451	10,710
Total Shareholders' Equity	12,010	12,287
Total Liabilities and Shareholders' Equity	$34,387	$34,366

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

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
Balance June 30, 1998	1,337,461	$1,337	$1,821	$ 907	$(1,616)	$(1,357)	$11,144	$12,236	
Net earnings							3,763	3,763	$3,763
Other comprehensive income:									
Financial statement translation						(237)		(237)	(237)
Net investment hedges, net of $4 tax						5		5	5
Other, net of tax						(17)		(17)	(17)
Total comprehensive income									$3,514
Dividends to shareholders:									
Common							(1,517)	(1,517)	
Preferred, net of tax benefit							(109)	(109)	
Treasury purchases	(29,924)	(30)					(2,503)	(2,533)	
Employee plan issuances	9,605	10		393				403	
Preferred stock conversions	2,612	3	(40)	37				–	
ESOP debt guarantee reduction					64			64	
Balance June 30, 1999	1,319,754	1,320	1,781	1,337	(1,552)	(1,606)	10,778	12,058	
Net earnings							3,542	3,542	$3,542
Other comprehensive income:									
Financial statement translation						(449)		(449)	(449)
Net investment hedges, net of $88 tax						150		150	150
Other, net of tax						63		63	63
Total comprehensive income									$3,306
Dividends to shareholders:									
Common							(1,681)	(1,681)	
Preferred, net of tax benefit							(115)	(115)	
Treasury purchases	(24,296)	(24)		72 [1]			(1,814)	(1,766)	
Employee plan issuances	7,592	7		344				351	
Preferred stock conversions	2,817	3	(44)	41				–	
ESOP debt guarantee reduction					134			134	
Balance June 30, 2000	1,305,867	1,306	1,737	1,794	(1,418)	(1,842)	10,710	12,287	
Net earnings							2,922	2,922	$2,922
Other comprehensive income:									
Financial statement translation						(715)		(715)	(715)
Net investment hedges, net of $276 tax						460		460	460
Other, net of tax						(23)		(23)	(23)
Total comprehensive income									$2,644
Dividends to shareholders:									
Common							(1,822)	(1,822)	
Preferred, net of tax benefit							(121)	(121)	
Treasury purchases	(18,238)	(18)		6 [1]			(1,238)	(1,250)	
Employee plan issuances	5,924	6		223				229	
Preferred stock conversions	2,185	2	(36)	34				–	
ESOP debt guarantee reduction					43			43	
Balance June 30, 2001	1,295,738	$1,296	$1,701	$2,057	$(1,375)	$(2,120)	$10,451	$12,010	

[1] Premium on equity put options.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Amounts in millions	Years ended June 30		
	2001	2000	1999
Cash and Cash Equivalents, Beginning of Year	$ 1,415	$ 2,294	$ 1,549
Operating Activities			
Net earnings	2,922	3,542	3,763
Depreciation and amortization	2,271	2,191	2,148
Deferred income taxes	(102)	463	(60)
Change in accounts receivable	(122)	64	(207)
Change in inventories	(67)	(176)	(96)
Change in accounts payable, accrued and other liabilities	801	(883)	792
Change in other operating assets and liabilities	57	(404)	(926)
Other	44	(122)	130
Total Operating Activities	5,804	4,675	5,544
Investing Activities			
Capital expenditures	(2,486)	(3,018)	(2,828)
Proceeds from asset sales	788	419	434
Acquisitions	(138)	(2,967)	(137)
Change in investment securities	(7)	221	356
Total Investing Activities	(1,843)	(5,345)	(2,175)
Financing Activities			
Dividends to shareholders	(1,943)	(1,796)	(1,626)
Change in short-term debt	(1,092)	243	689
Additions to long-term debt	1,356	4,196	986
Reductions of long-term debt	(226)	(1,409)	(334)
Proceeds from stock options	141	336	212
Treasury purchases	(1,250)	(1,766)	(2,533)
Total Financing Activities	(3,014)	(196)	(2,606)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(56)	(13)	(18)
Change in Cash and Cash Equivalents	891	(879)	745
Cash and Cash Equivalents, End of Year	$ 2,306	$ 1,415	$ 2,294

Supplemental Disclosure			
Cash payments for:			
Interest, net of amount capitalized	$ 735	$ 700	$ 640
Income taxes	1,701	1,712	1,743
Liabilities assumed in acquisitions	108	236	38

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 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 over which the Company exerts significant influence, but does not control the financial and operating decisions, are accounted for using the equity method. These investments are managed as integral parts of the Company's business units, and segment reporting reflects such investments as consolidated subsidiaries.

Use of Estimates: Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

New Pronouncements: The Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which was adopted by the Company effective July 1, 2000. See further discussion in Note 6.

The Securities and Exchange Commission issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements," which became effective in the fourth quarter.

During 2000 and 2001, the Emerging Issues Task Force issued: EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs" addressing the statement of earnings classification of shipping and handling costs billed to customers; EITF No. 00-14, "Accounting for Certain Sales Incentives" addressing the recognition, measurement and statement of earnings classification of certain sales incentives; and EITF No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" addressing the statement of earnings classification of consideration from a vendor to an entity that purchases the vendor's products for resale.

There is no material impact on the Company's financial statements resulting from application of the above new pronouncements.

In June 2001, the FASB approved two new pronouncements: SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001. This Statement eliminates the pooling-of-interests method of accounting and further clarifies the criteria for recognition of intangible assets separately from goodwill.

SFAS No. 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with a determinable useful life will continue to be amortized. The amortization provisions apply to goodwill and other intangible assets acquired after June 30, 2001. Goodwill and other intangible assets acquired prior to June 30, 2001 will be affected upon adoption. The Company will adopt SFAS No. 142 effective July 1, 2001, which will require the Company to cease amortization of its remaining net goodwill balance and to perform an impairment test of its existing goodwill based on a fair value concept. Although the Company is still reviewing the provisions of these Statements, it is management's preliminary assessment that goodwill impairment will not result upon adoption. As of June 30, 2001, the Company has net unamortized goodwill of $7,429 and amortization expense of $224, $214 and $180 for the years ended June 30, 2001, 2000 and 1999, respectively.

Revenue Recognition: Sales are recognized when revenue is realized or realizable and has been earned. In general, revenue is recognized when risk and title to the product transfers to the customer, which usually occurs at the time shipment is made.

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 recorded in other comprehensive income. 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 and losses are reflected in earnings.

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 exceeded carrying value by approximately $55 and $83 at June 30, 2001 and 2000, respectively.

Goodwill and Other Intangible Assets: Under current accounting guidance, the cost of intangible assets is amortized, principally on a straight-line basis, over the estimated periods benefited, generally forty years for goodwill and periods ranging from three to forty 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

Notes to Consolidated Financial Statements (continued)

profitability projections that incorporate the impact of the Company's existing businesses. The analyses necessarily involve significant management judgment to evaluate the capacity of an acquired business to perform within projections.

Property, Plant and Equipment: Property, plant and equipment are recorded at cost reduced by accumulated depreciation. Depreciation expense is based on estimated useful lives using the straight-line method. Estimated useful lives are periodically reviewed, and where warranted, changes are made that result in an acceleration of depreciation.

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, equity 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.

Reclassifications: Certain reclassifications of prior years' amounts have been made to conform to the current year presentation.

NOTE 2 RESTRUCTURING PROGRAM

Beginning in 1999 – concurrent with the Company's reorganization into product-based global business units – the Company initiated its Organization 2005 restructuring program. The program was expanded in the current year to deliver further cost reductions through reduced overheads, additional manufacturing consolidations, and discontinuation of under-performing businesses and initiatives.

Costs to be incurred include separation related costs, asset write-downs or accelerated depreciation, and other costs directly related to the restructuring effort.

Due to the nature of the charges and the duration of the program, estimates of the timing and amount of costs and savings require significant judgment and may change over time. Based on current estimates, the overall program is expected to result in total charges of $5.6 billion ($4.4 billion after tax) over the six-year period that began in fiscal 1999.

Before-tax restructuring charges to date are:

	Separations	Asset Write-Downs	Accelerated Depreciation	Other	Total
1999:					
Charges	$ 45	$ 217	$ 208	$ 11	$ 481
Cash spent	(10)	–	–	(2)	(12)
Charged against assets	–	(217)	(208)	–	(425)
Reserve balance June 30, 1999	35	–	–	9	44
2000:					
Charges	153	64	386	211	814
Cash spent	(100)	–	–	(220)	(320)
Charged against assets	–	(64)	(386)	–	(450)
Reserve balance June 30, 2000	88	–	–	–	88
2001:					
Charges	**341**	**731**	**276**	**502**	**1,850**
Cash spent	**(186)**	**–**	**–**	**(199)**	**(385)**
Charged against assets	**–**	**(731)**	**(276)**	**(86)**	**(1,093)**
Reserve balance June 30, 2001	**243**	**–**	**–**	**217**	**460**

Charges for the program are reflected in the corporate segment for management and external reporting.

Separation Costs

Employee separation charges are related to severance packages for approximately 6,000 people in 2001, 2,800 people in 2000 and 400 people in 1999. The packages are predominantly voluntary and are formula driven based on salary levels and past service. Severance costs related to voluntary separations are charged to earnings when the employee accepts the offer. The current and planned separations span the entire organization, including manufacturing, selling, research and administrative positions.

Asset Write-Downs and Accelerated Depreciation

Asset write-downs relate to establishment of new fair value bases for assets held for sale or disposal that represent excess capacity in the process of being removed from service or disposed and businesses held for sale in the next 12 months. These assets were written down to the amounts expected to be realized upon sale or disposal, less minor disposal costs.

Additionally, asset write-downs included certain manufacturing assets that are expected to operate at levels significantly below their planned capacity, primarily capital expansions related to recent initiatives that have not met expectations. The projected cash flows

Millions of dollars except per share amounts

Notes to Consolidated Financial Statements (continued)

from such assets over their remaining useful lives were no longer estimated to be greater than their current carrying values; therefore, they were written down to estimated fair value, generally determined by reference to discounted expected future cash flows. Such charges represented approximately $160 before tax in 2001, $0 in 2000 and $160 in 1999.

Charges for accelerated depreciation are related to long-lived assets that will be taken out of service prior to the end of their normal service period due to manufacturing consolidations, technology standardization, plant closures or strategic choices to discontinue initiatives. The Company has shortened the estimated useful lives of such assets, resulting in incremental depreciation expense.

Other Restructuring Charges
Other costs incurred as a direct result of the program included relocation, training, establishment of global business services and the new legal and organization structure of Organization 2005, and discontinuation of initiatives.

NOTE 3 ACQUISITIONS

In 2001, acquisitions were accounted for using the purchase method and totaled $246. These acquisitions resulted in goodwill and other intangibles of $208. In 2000, the Company acquired The Iams Company and Affiliates for approximately $2,222 in cash. Other acquisitions in 2000 totaled $745 and consisted primarily of Recovery Engineering, Inc. and a joint venture ownership increase in China. The 2000 acquisitions were accounted for using the purchase method and resulted in goodwill and other intangibles of $2,508. Purchase acquisitions in 1999 totaled $137.

In May 2001, the Company announced its intent to purchase the Clairol business from Bristol-Myers Squibb Company for $4,950. The acquisition is subject to regulatory approvals.

NOTE 4 SUPPLEMENTAL FINANCIAL INFORMATION

	June 30	
	2001	2000
Accrued and Other Liabilities		
Marketing expenses	**$1,271**	$1,142
Compensation expenses	**576**	462
Organization 2005 restructuring reserves	**460**	88
Other	**2,324**	2,074
	4,631	3,766
Other Non-Current Liabilities		
Other postretirement benefits	**$ 534**	$ 824
Pension benefits	**925**	975
Other	**386**	502
	1,845	2,301

Millions of dollars except per share amounts

Selected Operating Expenses
Research and development costs are charged to earnings as incurred and were $1,769 in 2001, $1,899 in 2000 and $1,726 in 1999. Advertising costs are charged to earnings as incurred and were $3,193 in 2001, $3,793 in 2000 and $3,639 in 1999.

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		
	2001	2000	1999
Net earnings available to common shareholders	**$2,801**	$3,427	$3,654
Effect of dilutive securities			
Preferred dividends, net of tax benefit	**121**	115	109
Preferred dividend impact on funding of ESOP	**(15)**	(18)	(22)
Diluted net earnings	**2,907**	3,524	3,741

	Years ended June 30		
Shares in millions	**2001**	2000	1999
Basic weighted average common shares outstanding	**1,300.3**	1,313.2	1,328.1
Effect of dilutive securities			
Conversion of preferred shares	**91.9**	94.3	97.2
Exercise of stock options [1]	**13.4**	19.7	21.5
Diluted weighted average common shares outstanding	**1,405.6**	1,427.2	1,446.8

[1] Approximately one-third of the Company's outstanding stock options were not included in the diluted net earnings per share calculation for 2001 because to do so would have been antidilutive.

Equity Put Options
During 2001 and 2000, the Company entered into equity put options on its common stock. These agreements can be settled on a physical or net-share basis at the Company's option. The premium received from the sale of the instruments is credited to equity and reduces the Company's cash outlay for share repurchases.

The 2001 options are equivalent to one million common shares, at approximately $74 per share. They expire in the first quarter of 2002. The options entered into in 2000 were equivalent to 12 million common shares, at prices ranging from $60 to $71 per share. They expired mostly unexercised in the second quarter of 2001.

Notes to Consolidated Financial Statements (continued)

NOTE 5 SHORT-TERM AND LONG-TERM DEBT

	June 30 2001	2000
Short-Term Debt		
USD commercial paper	$ 675	$ 2,188
Non USD commercial paper	559	–
Current portion of long-term debt	414	283
Other	585	770
	2,233	3,241

The weighted average short-term interest rates were 5.3% and 4.8% as of June 30, 2001 and 2000, respectively.

	June 30 2001	2000
Long-Term Debt		
5.25% USD note due 2003	$ 750	$ 750
6.00% USD note due 2003	500	500
6.60% USD note due 2004	1,000	1,000
8.33% ESOP debentures due 2003, 2004	306	392
1.50% JPY note due 2005	441	518
5.75% EUR note due 2005	1,270	–
6.13% USD note due 2008	500	500
6.88% USD note due 2009	1,000	1,000
2.00% JPY note due 2010	401	471
9.36% ESOP debentures due 2007-2021	1,000	1,000
6.45% USD note due 2026	300	300
6.25% GBP note due 2030	705	757
All other long-term debt	2,033	2,107
Current portion of long-term debt	(414)	(283)
	9,792	9,012

Long-term weighted average interest rates were 5.0% and 6.1% as of June 30, 2001 and 2000, respectively, and include the effects of related interest rate swaps discussed in Note 6.

The fair value of the long-term debt was $10,164 and $9,024 at June 30, 2001 and 2000, respectively. Long-term debt maturities during the next five years are as follows: 2002--$622; 2003--$1,117; 2004--$1,040; 2005--$1,912 and 2006 -- $32.

NOTE 6 RISK MANAGEMENT ACTIVITIES

Effective July 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The cumulative effect of adopting SFAS No. 133 as of July 1, 2000 was not material.

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity pricing. To manage the volatility relating to these exposures, the Company nets the exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, the Company enters into various derivative transactions pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. Designation is performed on a specific exposure basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes.

Interest Rate Hedging

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.

At June 30, 2001, the Company had swaps with a fair value of $125 designated as fair value hedges of underlying fixed-rate debt obligations and recorded as long-term assets. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in the interest expense component of the income statement. All existing fair value hedges are 100% effective. As a result, there is no impact to earnings due to hedge ineffectiveness.

Non-qualifying instruments are also recorded on the balance sheet at fair value, but the impact was not material to the income statement.

Currency Rate Hedging

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 Company's major foreign currency exposures involve the markets in Western and Eastern Europe, Asia, Mexico and Canada. The primary purpose of the Company's foreign currency hedging activities is to manage the volatility associated with foreign currency purchases of materials and other assets and liabilities created in the normal course of business. The Company primarily utilizes forward exchange contracts and purchased options with maturities of less than 18 months and currency swaps with maturities up to five years.

The Company enters into certain foreign currency derivative instruments that do not meet hedge accounting criteria. These primarily are intended to protect against exposure related to intercompany financing transactions and income from international operations. The fair values of these instruments at June 30, 2001 were recorded as $136 in assets and $16 in liabilities. The net impact on marketing, research and administrative expense was a $24 after-tax gain.

In addition, the Company utilizes purchased foreign currency options, forward exchange contracts and cross currency swaps which qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases, intercompany royalties and intercompany loans

Millions of dollars except per share amounts

Notes to Consolidated Financial Statements (continued)

denominated in foreign currency. The fair values of these instruments at June 30, 2001 were recorded as $94 in assets and $101 in liabilities. Gains and losses on these instruments are deferred in other comprehensive income (OCI) until the underlying transaction is recognized in earnings. The earnings impact is reported in either net sales, cost of products sold, or marketing research and administrative expenses, to match the underlying transaction being hedged. Qualifying cash flow hedges currently deferred in OCI are not material. These amounts will be reclassified into earnings as the underlying transactions are recognized. During the year the Company charged to earnings a $15 after-tax loss due to the change in the time value of options excluded from the hedge effectiveness test. This was prior to the change in SFAS No. 133 interpretation that allows change in time value to be included in effectiveness testing. No currency cash flow hedges were discontinued during the year due to changes in expectations on the original forecasted transactions.

Net Investment Hedging

The Company hedges its net investment position in major currencies and generates foreign currency interest payments that offset other transactional exposures in these currencies. To accomplish this, the Company borrows directly in foreign currency and designates a portion of foreign currency debt as a hedge of net investments. In addition, certain foreign currency interest rate swaps are designated as hedges of the Company's related foreign net investments. Currency effects of these hedges reflected in OCI produced a $460 after-tax gain during the year, leaving an accumulated net balance of $577.

Commodity Price Management

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. To manage the volatility related to anticipated inventory purchases, the Company uses futures and options with maturities generally less than one year and swap contracts with maturities up to five years. These market instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of products sold in the period during which the hedged transaction affects earnings. Qualifying cash flow hedges currently deferred in OCI are not material. These amounts will be reclassified into earnings as the underlying transactions are recognized. The mark-to-market gains or losses on non-qualifying, excluded and ineffective portions of hedges are recognized in cost of products sold immediately. No cash flow hedges were discontinued during the year ended June 30, 2001. Commodity hedging activity is not material to the Company's financial statements.

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.

NOTE 7 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. Grants after 1998 are fully exercisable after three years and have a fifteen-year life, while prior years' grants are fully exercisable after one year and have a ten-year life. The Company issues stock appreciation rights in countries where stock options are not permitted by local governments.

Pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to account for its employee stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Because stock options have been issued with exercise prices equal to grant date fair value, compensation cost has not been recognized. Had compensation cost for the plans been determined based on the fair value at the grant date consistent with SFAS No. 123, the Company's net earnings and earnings per share would have been as follows:

	Years ended June 30		
	2001	2000	1999
Net earnings			
As reported	**$2,922**	$3,542	$3,763
Pro forma	**2,612**	3,363	3,683
Net earnings per common share			
Basic			
As reported	**$ 2.15**	$ 2.61	$ 2.75
Pro forma	**1.92**	2.47	2.69
Diluted			
As reported	**2.07**	2.47	2.59
Pro forma	**1.85**	2.34	2.53

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

	Options Granted in Years ended June 30		
	2001	2000	1999
Interest rate	**5.8%**	6.0%	5.4%
Dividend yield	**2.0%**	1.5%	1.5%
Expected volatility	**26%**	28%	26%
Expected life in years	**9**	9	7

Millions of dollars except per share amounts

Notes to Consolidated Financial Statements (continued)

Stock option activity was as follows:

	Options in Thousands		
	2001	2000	1999
Outstanding, July 1	82,744	76,810	79,918
Granted	28,400	14,360	7,026
Exercised	(5,709)	(7,401)	(9,397)
Canceled	(1,239)	(1,025)	(737)
Outstanding, June 30	104,196	82,744	76,810
Exercisable	48,805	54,667	61,664
Available for grant	27,994	41,387	39,874
Average price:			
Outstanding, beginning of year	$61.73	$52.11	$45.58
Granted	62.20	96.10	89.72
Exercised	24.77	25.21	22.36
Outstanding, end of year	63.64	61.73	52.11
Exercisable, end of year	49.14	46.67	43.79
Weighted average fair value of options granted during the year	22.45	37.21	32.23

The following table summarizes information about stock options outstanding at June 30, 2001:

	Options Outstanding		
Range of prices	Number Outstanding (Thousands)	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life
$25 to 30	14,507	$ 26.66	1.8 years
33 to 46	14,505	37.91	4.3
55 to 76	38,675	62.11	12.0
82 to 107	36,509	90.17	10.0

The following table summarizes information about stock options exercisable at June 30, 2001:

	Options Exercisable	
Range of prices	Number Exercisable (Thousands)	Weighted Avg. Exercise Price
$ 25 to 30	14,507	$26.66
33 to 46	14,505	37.91
55 to 76	9,394	61.61
82 to 107	10,399	84.89

NOTE 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: 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. 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. The liquidation value is equal to the issue price of $13.75 per share.

	Years ended June 30		
	2001	2000	1999
ESOP preferred shares allocated at market value	$ 63	$313	$279
Company contributions	272	1	18
Benefits earned	335	314	297

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 issue price of $26.12 per share.

	Shares in Thousands		
	2001	2000	1999
Outstanding, June 30			
Series A	54,220	55,925	58,342
Series B	36,605	37,085	37,485

Shares of the ESOP are allocated at original cost based on debt service requirements, net of advances made by the Company to the trust. 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.

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. In 2001, allocated shares declined, primarily due to changes in debt service requirements; this impacted the Company's cash contribution. The Series B shares are considered plan assets of the other retiree benefits plan.

NOTE 9 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 described in Note 8.

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

Notes to Consolidated Financial Statements (continued)

from retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. Retiree contributions change annually in line with health care 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.

The elements of the net amount recognized for the Company's postretirement plans are summarized below:

Years ended June 30	Pension Benefits 2001	Pension Benefits 2000	Other Retiree Benefits 2001	Other Retiree Benefits 2000
Change in Benefit Obligation				
Benefit obligation at beginning of year	$2,627	$2,488	$1,270	$1,199
Service cost	115	120	40	39
Interest cost	149	151	101	90
Participants' contributions	4	4	18	16
Amendments	(10)	9	0	20
Actuarial loss (gain)	86	35	250	(7)
Acquisitions/(Divestitures)	(14)	47	(5)	0
Curtailments and settlements	(22)	(20)	0	0
Currency exchange	(232)	(79)	(4)	(3)
Benefit payments	(136)	(128)	(93)	(84)
Benefit obligation at end of year	2,567	2,627	1,577	1,270
Change in Plan Assets				
Fair value of plan assets at beginning of year	1,691	1,555	1,274	2,516
Actual return on plan assets	(88)	198	235	(1,178)
Acquisitions/(Divestitures)	(19)	28	0	0
Employer contributions	81	73	14	4
Participants' contributions	4	4	18	16
Settlements	(3)	(2)	0	0
Currency exchange	(98)	(37)	1	0
Benefit payments	(136)	(128)	(93)	(84)
Fair value of plan assets at end of year	1,432	1,691	1,449	1,274
Funded Status				
Funded status at end of year	(1,135)	(936)	(128)	4
Unrecognized net actuarial loss (gain)	243	(30)	(418)	(828)
Unrecognized transition amount	17	21	0	0
Unrecognized prior service cost	20	39	(8)	1
Net amount recognized	(855)	(906)	(554)	(823)

Years ended June 30	Pension Benefits 2001	Pension Benefits 2000	Other Retiree Benefits 2001	Other Retiree Benefits 2000
Prepaid benefit cost	$ 75	$ 59	$ 2	$ 2
Accrued benefit cost	(1,006)	(990)	(556)	(825)
Intangible asset	16	0	0	0
Accumulated other comprehensive income	60	25	0	0
Net liability recognized	(855)	(906)	(554)	(823)

The Company's stock comprised $1,335 and $1,123 of other retiree plan assets, net of Series B ESOP debt, as of June 30, 2001 and 2000, respectively.

Assumptions for the postretirement benefit calculations are as follows:

Years ended June 30	Pension Benefits 2001	Pension Benefits 2000	Other Retiree Benefits 2001	Other Retiree Benefits 2000
Weighted average assumptions				
Discount rate	5.9%	6.1%	7.3%	8.0%
Expected return on plan assets	8.3%	8.1%	10.0%	10.0%
Rate of compensation increase	4.1%	4.5%	–	–
Initial health care cost trend rate*	–	–	8.8%	5.8%

*Five year trend rate assumption was adjusted in 2001 to reflect market trends. Rate is assumed to decrease to 5.0% by 2007 and remain at that level thereafter.

Components of the net periodic benefit cost are as follows:

Years ended June 30	Pension Benefits 2001	Pension Benefits 2000	Pension Benefits 1999	Other Retiree Benefits 2001	Other Retiree Benefits 2000	Other Retiree Benefits 1999
Components of Net Periodic Benefit Cost						
Service cost	$ 115	$ 120	$ 111	$ 40	$ 39	$ 49
Interest cost	149	151	140	101	90	97
Expected return on plan assets	(127)	(122)	(105)	(317)	(294)	(218)
Amortization of prior service cost	5	7	8	(1)	(2)	(2)
Amortization of prior transition amount	3	4	3	0	0	0
Settlement loss (gain)	6	(6)	0	0	0	0
Curtailment gain	(13)	(3)	0	0	0	0
Recognized net actuarial loss (gain)	3	4	4	(85)	(92)	(58)
Gross benefit cost	141	155	161	(262)	(259)	(132)
Dividends on ESOP preferred stock	0	0	0	(76)	(77)	(78)
Net periodic benefit cost	141	155	161	(338)	(336)	(210)

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Notes to Consolidated Financial Statements (continued)

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 $1,414, $1,124 and $230, respectively, as of June 30, 2001, and $1,368, $1,073 and $189, respectively, as of June 30, 2000.

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:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	$ 24	$ (19)
Effect on postretirement benefit obligation	213	(175)

NOTE 10 INCOME TAXES

Earnings before income taxes consist of the following:

	Years ended June 30		
	2001	2000	1999
United States	$3,340	$3,006	$3,474
International	1,276	2,530	2,364
	4,616	5,536	5,838

The income tax provision consists of the following:

	Years ended June 30		
	2001	2000	1999
Current Tax Expense			
U.S. Federal	$ 985	$ 648	$1,080
International	721	816	934
U.S. State & Local	90	67	121
	1,796	1,531	2,135
Deferred Tax Expense			
U.S. Federal	142	241	(74)
International & other	(244)	222	14
	(102)	463	(60)
	1,694	1,994	2,075

The Company's effective income tax rate was 36.7%, 36.0% and 35.5% in 2001, 2000 and 1999, respectively, compared to the U.S. statutory rate of 35.0%. Excluding the restructuring costs and related tax effects, the effective tax rate was 32.0%, 33.4% and 34.4% in 2001, 2000 and 1999, respectively. This change reflects the execution of tax planning opportunities and country mix effects.

Taxes impacted shareholders' equity with a $155 charge for the year ended June 30, 2001 and a $59 credit for the year ended June 30, 2000. Undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely were $9,231 and $8,828 at June 30, 2001 and 2000, respectively.

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

	June 30	
	2001	2000
Current deferred tax assets	$ 397	$ 309
Non-current deferred tax assets (liabilities)		
Fixed assets	$(1,081)	$(951)
Other postretirement benefits	197	273
Loss and other carryforwards	509	512
Other	(415)	(252)
Valuation allowances	(104)	(207)
	(894)	(625)

As of June 30, 2001, net operating loss carryforwards totaling $995 were available to reduce future taxable income. If unused, $415 will expire between 2002 and 2011. The remainder, totaling $580, may be carried forward indefinitely.

NOTE 11 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 in excess of current market prices.

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 were $43 and $47 at June 30, 2001 and 2000, respectively, and, in management's opinion, such accruals are appropriate based on existing facts and circumstances. Current year expenditures were not material.

While considerable uncertainty exists, in the opinion of management and Company counsel, the ultimate liabilities resulting from such lawsuits and claims will not materially affect the Company's financial statements.

Millions of dollars except per share amounts

Notes to Consolidated Financial Statements (continued)

NOTE 12 SEGMENT INFORMATION

The Company is organized by product-based global business units. The segments manufacture and market products as follows:

- Fabric and home care includes products for laundry, dish, fabric enhancers and hard surface cleaners.
- Paper includes family care, feminine care and baby care. Products include tissues, towel, tampons, pads and liners, diapers and wipes.
- Beauty care products include cosmetics, hair care, deodorants, fragrances and other beauty products.
- Health care includes personal health care, oral care, pharmaceuticals and pet health and nutrition.
- Food and beverage includes coffee, snacks, commercial services, juice, peanut butter and shortening and oil.

The corporate segment includes both operating and non-operating elements such as financing and investing activities, goodwill amortization, employee benefit costs, charges related to restructuring, segment eliminations and other general corporate items. The segment eliminations adjust management reporting principles to accounting principles generally accepted in the United States of America and primarily affect the treatment of unconsolidated investees and income taxes, which are reflected in the business segments using applicable local statutory tax rates. Corporate assets primarily include cash, investment securities and goodwill.

		Fabric and Home Care	Paper	Beauty Care	Health Care	Food and Beverage	Corporate	Total
Net Sales	**2001**	**$11,660**	**$11,991**	**$7,257**	**$4,353**	**$4,139**	**$ (156)**	**$39,244**
	2000	12,157	12,044	7,389	3,909	4,634	(182)	39,951
	1999	11,415	12,190	7,376	2,876	4,655	(387)	38,125
Net Earnings	**2001**	**1,641**	**1,043**	**972**	**390**	**333**	**(1,457)**	**2,922**
	2000	1,450	1,069	894	335	364	(570)	3,542
	1999	1,497	1,278	917	242	328	(499)	3,763
Before-Tax Earnings	**2001**	**2,427**	**1,735**	**1,404**	**584**	**547**	**(2,081)**	**4,616**
	2000	2,318	1,817	1,393	540	566	(1,098)	5,536
	1999	2,417	2,195	1,457	372	528	(1,131)	5,838
Depreciation and Amortization	**2001**	**328**	**673**	**183**	**159**	**146**	**782**	**2,271**
	2000	354	664	194	159	153	667	2,191
	1999	293	638	198	107	149	763	2,148
Total Assets	**2001**	**5,533**	**8,629**	**3,371**	**2,290**	**2,479**	**12,085**	**34,387**
	2000	5,477	8,415	3,497	2,229	2,611	12,137	34,366
Capital Expenditures	**2001**	**516**	**1,307**	**261**	**231**	**235**	**(64)**	**2,486**
	2000	807	1,512	310	195	235	(41)	3,018

The Company had net sales in the United States of $20,334, $20,038 and $18,314 for the years ended June 30, 2001, 2000 and 1999, respectively. Assets in the United States totaled $18,318 and $17,398 as of June 30, 2001 and 2000, respectively.

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 15%, 14% and 12% of consolidated net sales in 2001, 2000 and 1999, respectively. These sales occurred primarily in the United States.

Millions of dollars except per share amounts

Notes to Consolidated Financial Statements (continued)

NOTE 13 QUARTERLY RESULTS (UNAUDITED)

		Quarters Ended				
		Sept. 30	Dec. 31	Mar. 31	June 30	Total Year
Net Sales	2000–2001	$9,969	$10,182	$9,511	$9,582	$39,244
	1999–2000	9,919	10,588	9,783	9,661	39,951
Operating Income	2000–2001	1,779	1,711	1,302	(56)	4,736
	1999–2000	1,847	1,842	1,320	945	5,954
Net Earnings	2000–2001	1,155	1,194	893	(320)	2,922
	1999–2000	1,147	1,126	753	516	3,542
Core Net Earnings[1]	2000–2001	1,240	1,314	1,006	837	4,397
	1999–2000	1,267	1,263	923	777	4,230
Diluted Net Earnings Per Common Share	2000–2001	0.82	0.84	0.63	(0.23)	2.07
	1999–2000	0.80	0.78	0 .52	0.36	2.47
Diluted Core Net Earnings per Common Share[1]	2000–2001	0.88	0.93	0.71	0.60	3.12
	1999–2000	0.88	0.88	0.64	0.55	2.95

[1] Amounts exclude restructuring costs.

Financial Summary

	2001	2000	1999	1998	1997
Net Sales	$39,244	$39,951	$38,125	$37,154	$35,764
Operating Income	4,736	5,954	6,253	6,055	5,488
Net Earnings	2,922	3,542	3,763	3,780	3,415
Core Net Earnings[2]	4,397	4,230	4,148	3,780	3,415
Net Earnings Margin	7.4%	8.9%	9.9%	10.2%	9.5%
Core Net Earnings Margin[2]	11.2%	10.6%	10.9%	10.2%	9.5%
Basic Net Earnings per Common Share	2.15	2.61	2.75	2.74	2.43
Diluted Net Earnings per Common Share	2.07	2.47	2.59	2.56	2.28
Diluted Core Net Earnings per Common Share[2]	3.12	2.95	2.85	2.56	2.28
Dividends per Common Share	1.40	1.28	1.14	1.01	.90
Research and Development Expense	1,769	1,899	1,726	1,546	1,469
Advertising Expense	3,193	3,793	3,639	3,801	3,574
Total Assets	34,387	34,366	32,192	31,042	27,598
Capital Expenditures	2,486	3,018	2,828	2,559	2,129
Long-Term Debt	9,792	9,012	6,265	5,774	4,159
Shareholders' Equity	12,010	12,287	12,058	12,236	12,046

[2] 2001, 2000 and 1999 amounts exclude restructuring costs.

Millions of dollars except per share amounts

Directors and Corporate Officers

DIRECTORS

Norman R. Augustine
Retired Chairman and Chief Executive Officer, Lockheed Martin Corporation and Chairman of the Executive Committee, Lockheed Martin (aerospace, electronics, telecommunications and information management)

Donald R. Beall
Retired Chairman and Chief Executive Officer, Rockwell International Corporation (industrial automation) and Chairman of the Board, Rockwell Collins, Inc. (avionics)

Scott D. Cook
Chairman of the Executive Committee of the Board, Intuit Inc. (a software & web services firm)

Domenico DeSole
President and Chief Executive Officer and Chairman of Management Board, Gucci Group N.V. (multibrand luxury goods company)

Richard J. Ferris
Retired Co-Chairman, Doubletree Corporation

Joseph T. Gorman
Retired Chairman of the Board and Chief Executive Officer, TRW Inc. (automotive, aerospace and information systems)

A. G. Lafley
President and Chief Executive

Charles R. Lee
Chairman and Co-Chief Executive Officer, Verizon Communications (telecommunication services)

Lynn M. Martin
Professor, J. L. Kellogg Graduate School of Management, Northwestern University

John E. Pepper
Chairman of the Board

Johnathan A. Rodgers
President, Discovery Networks, U.S. (media and communications)

John F. Smith, Jr.
Chairman of the Board, General Motors Corporation (automobile and related businesses)

Ralph Snyderman
Chancellor for Health Affairs, Executive Dean, School of Medicine at Duke University, and President/CEO of Duke University Health Systems

Robert D. Storey
Partner in the law firm of Thompson Hine, L.L.P.

Marina v.N. Whitman
Professor of Business Administration and Public Policy, University of Michigan

Ernesto Zedillo
Former President of Mexico

CORPORATE OFFICERS

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Chairman of the Board

A. G. Lafley
President and Chief Executive

Fernando Aguirre
President – Global Feminine Care

Jeffrey P. Ansell
President – Global Pet Health and Nutrition

Susan E. Arnold
President – Global Personal Beauty Care

Charles V. Bergh
President – ASEAN, Australasia & India

Wolfgang C. Berndt
Former President – Global Fabric & Home Care (retiring September 1, 2001)

Bruce L. Byrnes
President – Global Beauty Care and Global Health Care

R. Kerry Clark
President – Global Market Development & Business Operations

Stephen P. Donovan Jr.
President – Global Beverage and North American Food & Beverage

Werner Geissler
President – Northeast Asia

Deborah A. Henretta
President – Global Baby Care

Mark D. Ketchum
President – Global Baby, Feminine and Family Care

Robert A. McDonald
President – Global Fabric & Home Care

Jorge S. Mesquita
President – Global Home Care

Jorge P. Montoya
President – Global Food & Beverage & Latin America

Tom A. Muccio
President – Global Customer Teams

Martin J. Nuechtern
President – Global Hair Care

Dimitri Panayotopoulos
President – Central & Eastern Europe, Middle East and Africa

Laurent L. Philippe
President – Greater China

Charles E. Pierce
President – Global Family Care

Paul Polman
President – Western Europe

Nabil Y. Sakkab
Senior Vice President – Research & Development, Global Fabric & Home Care

Herbert Schmitz
Former President – Central & Eastern Europe, Middle East & Africa (retiring September 30, 2001)

Robert A. Steele
President – North America Market Development Organization

Richard L. Antoine
Global Human Resources Officer

G. Gilbert Cloyd
Chief Technology Officer

Clayton C. Daley Jr.
Chief Financial Officer and Comptroller

Stephen N. David
Chief Information Officer and Business-to-Business Officer

R. Keith Harrison, Jr.
Global Product Supply Officer

James J. Johnson
Chief Legal Officer

Charlotte R. Otto
Global External Relations Officer

Michael J. Power
Global Business Services Officer

James R. Stengel
Global Marketing Officer

Gretchen W. Price
Vice President & Treasurer

Terry L. Overbey
Secretary

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Shareholder Services representatives available
Monday-Friday, 9-4 EST
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Automated service available after U.S. business hours

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

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P&G ALUMNI NETWORK
There's a new independent P&G Alumni Network to advance personal and professional interests of former P&G employees through networking opportunities and shared resources. Look for a web site in early September – www.pgalums.com. The site will have a worldwide alumni directory, job postings and communications tools.

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TRANSFER AGENT/SHAREHOLDERS SERVICES
The Procter & Gamble Company
Shareholder Services Department
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Cincinnati, Ohio 45201-5572

REGISTRAR
Chase Manhattan Trust Company, N.A.
255 East Fifth Street, Suite 2115
Cincinnati, Ohio 45202

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

SHAREHOLDERS OF COMMON STOCK
There were approximately 1,090,000 common stock shareowners, including shareholders of record, participants in the Shareholder Investment Program, participants in P&G stock ownership plans and beneficial owners with accounts at banks and brokerage firms, as of July 27, 2001.

FORM 10-K
Shareholders may obtain a copy of the Company's 2001 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 or by calling us at 1-800-764-7483. This information is also available at no charge by sending a request to Shareholder Services at the address listed above.

SHAREHOLDERS' MEETING
The next annual meeting of shareholders will be held on Tuesday, October 9, 2001. A full transcript of the meeting will be available from Linda D. Rohrer, Assistant Secretary. Ms. Rohrer can be reached at One P&G Plaza, Cincinnati, Ohio 45202-3315.

COMMON STOCK PRICE RANGE AND DIVIDENDS

	Price Range				Dividends	
	2000 - 2001		1999-2000			
Quarter ended	High	Low	High	Low	2000 - 2001	1999 - 2000
September 30	$67.81	$54.19	$104.13	$84.56	$.35	$.32
December 31	79.31	66.56	115.63	92.00	.35	.32
March 31	79.19	59.25	118.38	52.75	.35	.32
June 30	68.30	55.96	72.75	53.25	.35	.32

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