PROCTER & GAMBLE CO
Form DEF 14A
August 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Procter & Gamble Company

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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THE PROCTER & GAMBLE COMPANY

Notice of Annual Meeting

and

Proxy Statement

Procter & Gamble Hall

at the Aronoff Center for the Arts

Annual Meeting of Shareholders

October 14, 2008

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THE PROCTER & GAMBLE COMPANY

P.O. Box 599

Cincinnati, Ohio 45201-0599

August 29, 2008

Fellow Procter & Gamble Shareholders:

It is my pleasure to invite you to this year s annual meeting of shareholders, which will be held on Tuesday, October 14, 2008.

The meeting will start at 9:00 a.m., Eastern Daylight Time, at the Procter & Gamble Hall at the Aronoff Center for the Arts, 650 Walnut Street, in Cincinnati.

I appreciate your continued confidence in our Company and look forward to seeing you on October 14.

Sincerely,

A. G. LAFLEY

CHAIRMAN OF THE BOARD AND

CHIEF EXECUTIVE OFFICER

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THE PROCTER & GAMBLE COMPANY

P.O. Box 599

Cincinnati, Ohio 45201-0599

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

August 29, 2008

Date:	Tuesday, October 14, 2008
Time:	9:00 a.m., Eastern Daylight Time
Place:	Procter & Gamble Hall at the Aronoff Center for the Arts 650 Walnut Street, Cincinnati, Ohio

Purposes of the meeting:

To review the minutes of the 2007 annual meeting of shareholders;

To receive reports of officers;

To elect twelve members of the Board of Directors;

To vote on a proposal to ratify the appointment of the independent registered public accounting firm;

To vote on a proposal to amend the Company s Amended Articles of Incorporation to adopt majority voting for the election of directors in non-contested elections;

To vote on two shareholder proposals; and

To consider any other matters properly brought before the meeting.

Who may attend the meeting:

Only shareholders, persons holding proxies from shareholders, and invited representatives of the media and financial community may attend the meeting.

Shareholders attending the meeting who are hearing-impaired should identify themselves during registration so they can sit in a special section where an interpreter will be available.

What to bring:

If your shares are registered in your name, and you requested and received a printed copy of the proxy materials, you should bring the enclosed Admission Ticket to the meeting. If you received a Notice of Internet Availability of Proxy Materials and will not be requesting a printed copy of the proxy materials, please bring that Notice with you as your Admission Ticket.

If your shares are held in the name of a broker, trust, bank, or other nominee, you will need to bring a proxy or letter from that broker, trust, bank, or nominee that confirms that you are the beneficial owner of those shares.

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Webcast of the annual meeting:

If you are not able to attend the meeting in person, you may join a live video and audiocast of the meeting on the Internet by visiting www.pg.com/investors at 9:00 a.m., Eastern Daylight Time on October 14, 2008.

Record Date:

August 15, 2008 is the record date for the meeting. This means that owners of Procter & Gamble stock at the close of business on that date are entitled to:

- receive notice of the meeting; and
- vote at the meeting and any adjournments or postponements of the meeting.

Information About the Notice of Internet Availability of Proxy Materials

This year, instead of mailing a printed copy of our proxy materials, including our Annual Report, to each shareholder of record, we have decided to provide access to these materials in a fast and efficient manner via the Internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all shareholders. Accordingly, on August 29, 2008, we began mailing a Notice of Internet Availability of Proxy Materials (the Notice) to all shareholders of record as of August 15, 2008, and posted our proxy materials on the website referenced in the Notice (www.proxyvote.com). As more fully described in the Notice, all shareholders may choose to access our proxy materials on the website referred to in the Notice or may request to receive a printed set of our proxy materials. In addition, the Notice and website provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Householding Information

We have adopted a procedure approved by the Securities and Exchange Commission (SEC) called householding. Under this procedure, shareholders of record who have the same address and last name and have not previously requested electronic delivery of proxy materials will receive a single envelope containing the Notices for all shareholders having that address. The Notice for each shareholder will include that shareholder s unique control number needed to vote his or her shares. This procedure will reduce our printing costs and postage fees.

If, in the future, you do not wish to participate in householding and prefer to receive your Notice in a separate envelope, please call us toll-free at 1-800-742-6253 in the U.S., or inform us in writing at: The Procter & Gamble Company, Shareholder Services, P.O. Box 5572, Cincinnati, OH 45201-5572. We will respond promptly to such requests.

For those shareholders who have the same address and last name and who request to receive a printed copy of the proxy materials by mail, we will send only one copy of such materials to each address unless one or more of those shareholders notifies us, in the same manner described above, that they wish to receive a printed copy for each shareholder at that address.

Beneficial shareholders can request information about householding from their banks, brokers or other holders of record.

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Proxy Voting:

Your vote is important. Please vote your proxy promptly so your shares can be represented, even if you plan to attend the annual meeting. You can vote by Internet, by telephone, or by requesting a printed copy of the proxy materials and using the enclosed proxy card.

Our proxy tabulator, Broadridge Financial Solutions, must receive any proxy that will not be delivered in person to the annual meeting by 11:59 p.m., Eastern Daylight Time on Monday, October 13, 2008.

By order of the Board of Directors,

STEVEN W. JEMISON

Chief Legal Officer and Secretary

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Proxy Statement

As more fully described in the Notice, the Board of Directors of The Procter & Gamble Company (the Company) has made these materials available to you over the Internet or, upon your request, has mailed you printed versions of these materials in connection with the Company s 2008 annual meeting of shareholders, which will take place on October 14, 2008. The Notice was mailed to Company shareholders beginning August 29, 2008, and our proxy materials were posted on the website referenced in the Notice on that same date. The Company, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2008 annual meeting of shareholders. We solicit proxies to give all shareholders of record an opportunity to vote on matters that will be presented at the annual meeting. In this proxy statement, you will find information on these matters, which is provided to assist you in voting your shares.

Voting Information

Who can vote?

You can vote if, as of the close of business on Friday, August 15, 2008, you were a shareholder of record of the Company s:

- Common Stock;
- Series A ESOP Convertible Class A Preferred Stock; or
- Series B ESOP Convertible Class A Preferred Stock.

Each share of Company stock gets one vote. On August 15, 2008, there were issued and outstanding:

- 2,999,885,257 shares of Common Stock;
- 76,826,663 shares of Series A ESOP Convertible Class A Preferred Stock; and
- 64,751,804 shares of Series B ESOP Convertible Class A Preferred Stock.

For The Procter & Gamble Shareholder Investment Program participants:

If you are a participant in The Procter & Gamble Shareholder Investment Program, you can vote shares of common stock held for your account through the custodian for that program.

For participants in The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan and/or The Procter & Gamble Savings Plan:

If you are a participant in The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan and/or The Procter & Gamble Savings Plan, you can instruct the Trustees how to vote the shares of stock that are allocated to your account. If you do not vote your shares, the Trustees will vote them in proportion to those shares for which they have received voting instructions. Likewise, the Trustees will vote shares held by the trust that have not been allocated to any account in the same manner.

How do I vote by proxy?

Most shareholders can vote by proxy in three ways:

By Internet You can vote by Internet by following the instructions in the Notice or by accessing the Internet at www.proxyvote.com and following the instructions contained on that website;

By Telephone In the United States and Canada you can vote by telephone by following the instructions in the Notice or by calling 1-800-690-6903 (toll free) and following the instructions; or

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- By Mail You can vote by mail by requesting a full packet of proxy materials be sent to your home address. Upon receipt of the materials, you may fill out the enclosed proxy card and return it per the instructions on the card.

Please see the Notice or the information your bank, broker, or other holder of record provided you for more information on these options.

If you authorize a proxy to vote your shares over the Internet or by telephone, you should not return a proxy card by mail (unless you are revoking your proxy).

If you vote by proxy, your shares will be voted at the annual meeting in the manner you indicate on your proxy card. If you sign your proxy card but do not specify how you want your shares to be voted, they will be voted as the Board of Directors recommends.

Can I change or revoke my vote after I return my proxy card?

Yes. You can change or revoke your proxy by Internet, telephone, or mail at any time before the annual meeting or by attending the annual meeting and voting in person.

Can I vote in person at the annual meeting instead of voting by proxy?

Yes. However, we encourage you to vote your proxy by Internet, telephone, or mail prior to the meeting.

Voting Procedures

Election of Directors The twelve candidates receiving the most votes will be elected as members of the Board of Directors. In accordance with the By Laws of the Board of Directors, if a Director nominee receives, in any non-contested election of Directors, a greater number of votes withheld from his or her election than votes for such election, he or she will immediately tender his or her resignation as a Director to the Board of Directors. Within 90 days, the Board will decide, after taking into account the recommendation of the Governance & Public Responsibility Committee (in each case excluding the nominee in question), whether to accept the resignation. Absent a compelling reason for the Director to remain on the Board, the Board of Directors shall accept the resignation. The Board s explanation of its decision shall be promptly disclosed on a Form 8-K submitted to the SEC.

Board Proposal Passage of the Board s proposal to amend the Company s Amended Articles of Incorporation requires the affirmative vote of a majority of the Company s issued and outstanding shares. Accordingly, abstentions and broker non-votes have the same effect as votes against this proposal.

Other Proposals The affirmative vote of a majority of shares participating in the voting on each proposal is required for adoption. Abstentions and broker non-votes will not be counted as participating in the voting, and will therefore have no effect.

Who pays for this proxy solicitation?

The Company does. We have hired Georgeson Shareholder Communications, Inc., a proxy solicitation firm, to assist us in soliciting proxies for a fee of $22,000 plus reasonable expenses. In addition, Georgeson and the Company s Directors, officers, and employees may also solicit proxies by mail, telephone, personal contact, email or other online methods. We will reimburse their expenses for doing this.

We will also reimburse brokers, fiduciaries and custodians for their costs in forwarding proxy materials to beneficial owners of Company stock. Other proxy solicitation expenses that we will pay include those for preparing, mailing, returning and tabulating the proxies.

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Election of Directors

Based on a proposal adopted by the Company s shareholders at the 2005 annual meeting of shareholders, this will be the first year in which all of the Board s nominees for Director will be elected for a one-year term. Accordingly, the terms of Kenneth I. Chenault, Scott D. Cook, Rajat K. Gupta, A. G. Lafley, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., Johnathan A. Rodgers, Ralph Snyderman, Margaret C. Whitman, Patricia A. Woertz and Ernesto Zedillo expire at the 2008 annual meeting. The Board has nominated each of these individuals for new terms that will expire at the 2009 annual meeting.

Each of the nominees has accepted the nomination and agreed to serve as a Director if elected by the shareholders. If any nominee becomes unable or unwilling to serve between the date of the proxy statement and the annual meeting, the Board may designate a new nominee and the persons named as proxies will vote for that substitute nominee.

The Board of Directors recommends a vote FOR Kenneth I. Chenault, Scott D. Cook, Rajat K. Gupta, A. G. Lafley, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., Johnathan A. Rodgers, Ralph Snyderman, Margaret C. Whitman, Patricia A. Woertz and Ernesto Zedillo as Directors to hold office until the 2009 annual meeting of shareholders and until their successors are elected.

Nominees for Election as Directors with Terms Expiring in 2009

Kenneth I. Chenault Director since 2008
Mr. Chenault is Chairman and Chief Executive Officer of the American Express Company (financial services). Mr. Chenault was appointed to the Board on April 21, 2008. He is also a Director of International Business Machines Corporation. Age 57.

Member of the Audit and Compensation & Leadership Development Committees.

Scott D. Cook Director since 2000
Mr. Cook is Chairman of the Executive Committee of the Board of Intuit Inc. (software and web services). He is also a Director of eBay Inc. Age 56.

Member of the Compensation & Leadership Development and Innovation & Technology Committees.

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Rajat K. Gupta Director since 2007

Mr. Gupta is Senior Partner Emeritus at McKinsey & Company (international consulting). He is also a Director of The Goldman Sachs Group, Inc., Genpact, Ltd. and American Airlines. Age 59.

Member of the Audit and Innovation & Technology Committees.

A. G. Lafley Director since 2000

Mr. Lafley is Chairman of the Board and Chief Executive Officer of the Company. He is also a Director of General Electric Company and Dell Inc. Age 61.

Charles R. Lee Director since 1994

Mr. Lee is retired Chairman of the Board and Co-Chief Executive Officer of Verizon Communications Inc. (telecommunication services). He is also a Director of The DIRECTV Group, Inc., Marathon Oil Corporation, United Technologies Corporation and U.S. Steel Corporation. Age 68.

Chair of the Audit Committee and member of the Compensation & Leadership Development Committee.

Lynn M. Martin Director since 1994

Ms. Martin is a former Professor at the J. L. Kellogg Graduate School of Management, Northwestern University and former Chair of the Council for the Advancement of Women and Advisor to the firm of Deloitte & Touche LLP for Deloitte s internal human resources and minority advancement matters. She is also a Director of AT&T Inc., Ryder System, Inc., Dreyfus Funds and Constellation Energy Group, Inc. Age 68.

Member of the Governance & Public Responsibility and Innovation & Technology Committees.

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W. James McNerney, Jr. Director since 2003

Mr. McNerney is Chairman of the Board, President and Chief Executive Officer of The Boeing Company (aerospace, commercial jetliners and military defense systems). Age 59.

Presiding Director, Chair of the Compensation & Leadership Development Committee and member of the Governance & Public Responsibility Committee.

Johnathan A. Rodgers Director since 2001

Mr. Rodgers is President and Chief Executive Officer of TV One, LLC (media and communications). He is also a Director of Nike, Inc. Age 62.

Member of the Innovation & Technology Committee.

Ralph Snyderman, M.D. Director since 1995

Dr. Snyderman is Chancellor Emeritus, James B. Duke Professor of Medicine at Duke University. He is also a Director of Targacept, Inc. and a Venture Partner of NEA. Age 68.

Chair of the Innovation & Technology Committee and member of the Audit Committee.

Margaret C. Whitman Director since 2003

Ms. Whitman is the former President and Chief Executive Officer of eBay Inc. (global internet company that includes online marketplaces, payments and communications). She is also a Director of eBay Inc. and Dreamworks Animation SKG, Inc. Age 52.

Chair of the Governance & Public Responsibility Committee and member of the Compensation & Leadership Development Committee.

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Patricia A. Woertz Director since 2008

Ms. Woertz is Chairman, Chief Executive Officer and President of Archer Daniels Midland Company (agricultural processors of oilseeds, corn, wheat and cocoa). Ms. Woertz was appointed to the Board on January 8, 2008. Age 55.

Member of the Audit and Governance & Public Responsibility Committees.

Ernesto Zedillo Director since 2001

Dr. Zedillo is the former President of Mexico, Director of the Center for the Study of Globalization and Professor in the field of International Economics and Politics at Yale University. He is also a Director of Alcoa Inc. and Electronic Data Systems Corporation. Age 56.

Member of the Governance & Public Responsibility and Innovation & Technology Committees.

Messrs. Chenault, Lafley and Rodgers have been executive officers of their respective employers for more than the past five years. Messrs. Cook and Lee have been retired from executive officer positions with their respective former employers for more than the past five years.

Mr. Gupta was named Senior Partner Emeritus at McKinsey & Company in 2007, where he previously held the positions of Senior Partner Worldwide and Managing Director. Ms. Martin was a Professor at Northwestern University from 1993 until her retirement in 1999. Prior to his election as Chairman of the Board, President and Chief Executive Officer of The Boeing Company, Mr. McNerney was Chairman of the Board and Chief Executive Officer of 3M Company from 2001 until July 2005. Dr. Snyderman previously served as Chancellor for Health Affairs and Dean of the Duke University School of Medicine from 1985 until 2004. Ms. Whitman previously served as President and Chief Executive Officer of eBay from March 1998 to March 2008. Prior to her election as Chairman, Chief Executive Officer and President of Archer Daniels Midland Company, Ms. Woertz was Executive Vice President of Chevron Texaco from 2001 until 2006. Dr. Zedillo was President of Mexico from 1994 until 2000.

Messrs. Cook, Lee and McNerney and Dr. Zedillo were elected by shareholders to a three-year term in 2005. Mses. Martin and Whitman, Messrs. Gupta, Lafley and Rodgers and Dr. Snyderman were elected by shareholders to a one-year term in 2007. Ms. Woertz was appointed by the Board of Directors on January 8, 2008 and Mr. Chenault was appointed by the Board of Directors on April 21, 2008.

The Board of Directors

The Board of Directors has general oversight responsibility for the Company s affairs pursuant to Ohio s General Corporation Law, the Company s Amended Articles of Incorporation and Code of Regulations and the Board of Directors By Laws. In exercising its fiduciary duties, the Board of Directors represents and acts on behalf of the Company s shareholders. Although the Board of Directors does not have responsibility for the day-to-day management of the Company, it stays informed about the

Company s business and provides guidance to Company management through periodic meetings, site visits and other interactions. The Board is deeply involved in the Company s strategic planning process, leadership development and succession planning. Additional details concerning the role and structure of the Board of Directors are contained in the Board s Corporate Governance Guidelines, which can be found in the corporate governance section of the Company s website at www.pg.com/investors.

Committees of the Board

To facilitate deeper penetration of certain key areas of oversight, the Board of Directors has established four Committees. Membership on these Committees, as of June 30, 2008, is shown in the following chart.

Audit	Compensation & Leadership Development	Governance & Public Responsibility	Innovation & Technology
Mr. Lee*	Mr. McNerney*	Ms. Whitman*	Dr. Snyderman*
Mr. Chenault[1]	Mr. Chenault[1]	Ms. Martin	Mr. Cook
Mr. Gupta	Mr. Cook	Mr. McNerney	Mr. Gupta
Dr. Snyderman	Mr. Lee	Ms. Woertz[2]	Ms. Martin
Ms. Woertz[2]	Ms. Whitman	Dr. Zedillo	Mr. Rodgers
			Dr. Zedillo

* Committee Chair

1 Joined the Board in April 2008.
2 Joined the Board in January 2008.

The Company s Committee Charter Appendix applies to all Committees and can be found in the corporate governance section of the Company s website at www.pg.com/investors.

Upon Mr. Norman Augustine s retirement from the Board following the August 14, 2007 Board meeting, Mr. McNerney became Chair of the Compensation & Leadership Development Committee. Mr. Joseph T. Gorman retired from the Board, and the Board dissolved the Finance Committee at its October 9, 2007 Board meeting. The Board revised its Committee membership to reflect the appointments of Ms. Woertz and Mr. Chenault, and the retirement of Mr. John F. Smith, Jr. from the Board at its April 21, 2008 meeting. Prior to that date, Mr. Smith was Chair of the Audit Committee and Mr. Lee was Chair of the Governance & Public Responsibility Committee. At that time, Mr. Lee became Chair of the Audit Committee, and Ms. Whitman became Chair of the Governance & Public Responsibility Committee.

The **Audit Committee** met eight times during the fiscal year ended June 30, 2008 to carry out its responsibilities under its charter. At all of these meetings, Deloitte & Touche LLP, the Company s independent registered public accounting firm, and financial management were present to review accounting, control, auditing and financial reporting matters. All members of the Committee are independent under the New York Stock Exchange (NYSE) listing standards and the Board of Directors Guidelines for Determining the Independence of its Members (the Independence Guidelines, which can be found in the corporate governance section of the Company s website at www.pg.com/investors). The Audit Committee has the responsibilities set forth in its charter with respect to the quality and integrity of the Company s financial statements; the Company s compliance with legal and regulatory requirements; the Company s overall risk management process; the independent registered public accounting firm s qualifications and independence; the performance of the Company s internal audit function and the independent registered public accounting firm; preparing the annual Report of the Audit Committee to be included in the Company s proxy statement; and assisting the Board of Directors and the Company in interpreting and applying the Company s *Worldwide Business Conduct Manual*. The Audit Committee s charter can be found in the corporate governance section of the Company s website at www.pg.com/investors.

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The **Compensation & Leadership Development Committee** met six times during the fiscal year ended June 30, 2008, during which it held four executive sessions with no member of management present. All members of this Committee are independent under the NYSE listing standards and the Independence Guidelines. The Compensation & Leadership Development Committee has a charter, under which it has full authority and responsibility for the Company s overall compensation policies, their specific application to principal officers elected by the Board of Directors (including review and evaluation of their compensation) and the compensation of the non-employee members of the Board of Directors. This Committee also assists the Board in the leadership development and evaluation of principal officers. As a practical matter, the Chief Executive Officer makes recommendations to the Committee regarding the compensation elements of the principal officers (other than his own compensation) based on Company performance, individual performance and input from Company management and the Committee s independent compensation consultant. All final decisions regarding compensation for principal officers are made by this Committee. For more details regarding principal officer compensation or this Committee s process for making decisions regarding the compensation of principal officers, please see the Compensation Discussion and Analysis section of this proxy statement found on pages 16 to 37. This Committee also approves all stock-based equity grants made under The Procter & Gamble 2001 Stock and Incentive Compensation Plan and The Gillette Company 2004 Long-Term Incentive Plan to non-principal officers. This Committee has delegated to the Chief Executive Officer the authority to make equity grants to non-principal officers and determine the specific terms and conditions of such grants within the guidelines set forth by the Committee. This Committee retains an independent compensation consultant, hired directly by the Committee, to advise it regarding executive compensation matters. For more details on this arrangement, please see the section entitled Use of Independent Compensation Committee Consultant found on page 34 of this proxy statement. The Compensation & Leadership Development Committee s charter can be found in the corporate governance section of the Company s website at www.pg.com/investors.

The **Governance & Public Responsibility Committee** met four times during the fiscal year ended June 30, 2008. All members of the Governance & Public Responsibility Committee are independent under the NYSE listing standards and the Independence Guidelines. The Governance & Public Responsibility Committee has the responsibilities set forth in its charter with respect to identifying individuals qualified to become members of the Board of Directors; recommending when new members should be added to the Board; recommending individuals to fill vacant Board positions; recommending the Director nominees for the next annual meeting of shareholders; recommending to the Board whether to accept the resignation of any Director nominee who received a greater number of withheld votes than for votes in a non-contested election; periodically developing and recommending updates to the Board s Corporate Governance Guidelines; other issues related to Director governance and ethics; evaluation of the Board of Directors and its members; and overseeing matters of importance to the Company and its stakeholders, including employees, consumers, customers, suppliers, shareholders, governments, local communities and the general public. Public responsibility topics considered by this Committee include organization diversity, sustainable development, community and government relations, product quality and quality assurance systems and corporate reputation. The Governance & Public Responsibility Committee s charter can be found in the corporate governance section of the Company s website at www.pg.com/investors.

The **Finance Committee** met once during the fiscal year ended June 30, 2008. At the October 9, 2007 Board of Directors meeting, the Board elected to dissolve the Finance Committee. Some of the responsibilities of the Finance Committee were transferred to the Audit Committee. Other responsibilities were delegated to management or assumed by the full Board.

The **Innovation & Technology Committee** met twice during the fiscal year ended June 30, 2008. The Innovation & Technology Committee has the responsibilities set forth in its charter with respect to overseeing and providing counsel on matters of innovation and technology. Topics considered by this

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Committee include the Company s approach to technical and commercial innovation; the innovation and technology acquisition process; and tracking systems important to successful innovation. The Innovation & Technology Committee s charter can be found in the corporate governance section of the Company s website at www.pg.com/investors.

Board and Committee Meeting Attendance

During the fiscal year ended June 30, 2008, the Board of Directors held nine meetings and the Committees of the Board of Directors held 21 meetings for a total of 30 meetings. Average attendance at these meetings by members of the Board during the past year exceeded 94%. All Directors attended greater than 83% of the meetings of the Board and the Committees on which they serve.

Corporate Governance

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines to set forth its commitments and guiding principles concerning overall governance practices. These guidelines can be found in the corporate governance section of the Company s website at www.pg.com/investors.

Director Independence

The Board of Directors has determined that the following Directors are independent under the NYSE listing standards and the Independence Guidelines: Kenneth I. Chenault, Scott D. Cook, Rajat K. Gupta, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., Ralph Snyderman, Margaret C. Whitman, Patricia A. Woertz and Ernesto Zedillo. As noted previously, all members of the Board s Audit, Compensation & Leadership Development, and Governance & Public Responsibility Committees are independent.

In making these independence determinations, the Board applied the NYSE listing standards and the categorical independence standards contained in the Independence Guidelines. Under the Independence Guidelines, certain relationships were considered immaterial and, therefore, were not considered by the Board in determining independence but were reported to the Chair of the Governance & Public Responsibility Committee. Applying the NYSE listing standards and the Independence Guidelines, the Board determined that there are no transactions, relationships or arrangements that would impair the independence or judgment of any of the directors deemed independent by the Board.

Mr. Lafley is the Company s Chief Executive Officer and cannot be deemed independent under the NYSE listing standards and the Independence Guidelines. Mr. Rodgers is the President and CEO of TV One, LLC, a cable television network. The Board has declared Mr. Rodgers not independent under the Independence Guidelines because during 2006, the Company paid TVOne, LLC for advertising time in an amount that exceeded 2% of TVOne, LLC s gross revenue for that year.

Code of Ethics

For a number of years, the Company has had a code of ethics for its employees. The most recent version of this code of ethics, which is consistent with SEC regulations and NYSE listing standards, is contained in the *Worldwide Business Conduct Manual*, which applies to all of the Company s employees, officers and Directors, and is available on the Company s website at www.pg.com. The *Worldwide Business Conduct Manual* is firmly rooted in the Company s long-standing Purpose, Values and Principles,

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which can also be found on the Company s website at www.pg.com. During the fiscal year ended June 30, 2008, the Company continued its deployment of the *Worldwide Business Conduct Manual* throughout the Company in 29 different languages, including online training.

Review and Approval of Transactions with Related Persons

The Company s *Worldwide Business Conduct Manual* requires that all employees and Directors disclose all potential conflicts of interest and promptly take actions to eliminate any such conflict when the Company requests. In addition, the Company has adopted a written Related Person Transaction Policy that prohibits any of the Company s executive officers, Directors or any of their immediate family members from entering into a transaction with the Company, except in accordance with the policy.

Under our Related Person Transaction Policy, the Chief Legal Officer is charged with primary responsibility for determining whether, based on the facts and circumstances, a related person has a direct or indirect material interest in a proposed transaction. To assist the Chief Legal Officer in making this determination, the policy sets forth certain categories of transactions that are deemed not to involve a direct or indirect material interest on behalf of the related person. If, after applying these categorical standards and weighing all of the facts and circumstances, the Chief Legal Officer determines that the related person would have a direct or indirect material interest in the transaction, the Chief Legal Officer must present the proposed transaction to the Audit Committee for review or, if impracticable under the circumstances, to the Chair of the Audit Committee. The Audit Committee must then either approve or reject the transaction in accordance with the terms of the policy. In the course of making this determination, the Audit Committee shall consider all relevant information available to it and, as appropriate, must take into consideration the following:

- Whether the proposed transaction was undertaken in the ordinary course of business of the Company;
- Whether the proposed transaction was initiated by the Company or the related person;
- Whether the proposed transaction contains terms no less favorable to the Company than terms that could have been reached with an unrelated third party;
- The purpose of, and the potential benefits to the Company of, the proposed transaction;
- The approximate dollar value of the proposed transaction, particularly as it involves the related person;
- The related person s interest in the proposed transaction; and
- Any other information regarding the related person s interest in the proposed transaction that would be material to investors under the circumstances.

The Audit Committee may only approve the proposed transaction if it determines that the transaction is not inconsistent with the best interests of the Company as a whole. Further, in approving any such transaction, the Audit Committee has the authority to impose any terms or conditions it deems appropriate on the Company or the related person. Absent this approval, no such transaction may be entered into by the Company with any related person.

There were no transactions, nor are there any currently proposed transactions, in which the Company or any of its subsidiaries was or is to be a participant, the amount involved exceeded $120,000, and any Director, Director nominee, executive officer or any of their immediate family members had a direct or indirect material interest reportable under applicable SEC rules or that required approval of the Audit Committee under the Company s Related Person Transaction Policy.

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Presiding Director and Executive Sessions

After consultation with the Governance & Public Responsibility Committee, the non-employee members of the Board of Directors reappointed W. James McNerney, Jr. to serve as the Presiding Director for fiscal year 2008-09. Mr. McNerney began his service as Presiding Director on August 14, 2007, following the retirement from the Board of then-Presiding Director Norman Augustine and served in that capacity for the remainder of the fiscal year.

The Presiding Director acts as the key Board liaison with the Chief Executive Officer, assists in setting the Board agenda, chairs the executive sessions of the Board and communicates the Board of Directors feedback to the Chief Executive Officer. The non-employee members of the Board of Directors met four times during fiscal year 2007-08 in executive session (without the presence of employee Directors or other employees of the Company) to discuss various matters related to the oversight of the Company, the management of Board affairs, the Company s top management, and the Chief Executive Officer s performance. It also met in semi-executive session (with the Chief Executive Officer present for portions of the discussion) on six occasions.

Communication with Directors and Executive Officers

Shareholders and others who wish to communicate with the Board of Directors or any particular Director, including the Presiding Director, or with any executive officer of the Company, may do so by writing to the following address:

[Name of Director(s)/Executive Officer or Board of Directors]

The Procter & Gamble Company

c/o Secretary

One Procter & Gamble Plaza

Cincinnati, OH 45202-3315

All such correspondence is reviewed by the Secretary s office, which logs the material for tracking purposes. The Board of Directors has asked the Secretary s office to forward to the appropriate Director(s) all correspondence, except for items unrelated to the functions of the Board of Directors, business solicitations, advertisements and materials that are profane.

Availability of Corporate Governance Documents

In addition to their availability on the Company s website at www.pg.com, copies of all Committee Charters, the Committee Charter Appendix, the Corporate Governance Guidelines, the Independence Guidelines, the *Worldwide Business Conduct Manual*, the Company s Purpose, Values and Principles and the Related Person Transaction Policy are available in print upon request by writing to the Company Secretary at One Procter & Gamble Plaza, Cincinnati, OH 45202-3315.

Shareholder Recommendations of Board Nominees and Committee Process for Recommending Board Nominees

The Governance & Public Responsibility Committee will consider shareholder recommendations for candidates for the Board, which should be submitted to:

Chair of the Governance & Public Responsibility Committee

The Procter & Gamble Company

c/o Secretary

One Procter & Gamble Plaza

Cincinnati, OH 45202-3315

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Shareholder recommendations should include the name of the candidate, as well as relevant biographical information. The minimum qualifications and preferred specific qualities and skills required for Directors are set forth in Article II, Sections B through E of the Board s Corporate Governance Guidelines. The Committee considers all candidates using these criteria, regardless of the source of the recommendation. The Committee s process for evaluating candidates includes the considerations set forth in Article II, Section B of the Committee s Charter. After initial screening for minimum qualifications, the Committee determines appropriate next steps, including requests for additional information, reference checks and interviews with potential candidates. In addition to shareholder recommendations, the Committee also relies on recommendations from current Directors, Company personnel and others. From time to time, the Committee may engage the services of outside search firms to help identify candidates. During the fiscal year ended June 30, 2008, no such engagement existed (and none currently exists) and no funds were paid to outside parties in connection with the identification of nominees. All nominees for election as Directors who currently serve on the Board are known to the Committee in that capacity. Ms. Woertz and Mr. Chenault were recommended to the Governance & Public Responsibility Committee by various non-employee members of the Board of Directors, the Chief Executive Officer and other executive officers.

Annual Meeting Attendance

The Board s expectation is that all its members attend the annual meeting of shareholders. All Directors attended the 2007 annual meeting.

Director Compensation

The following table and footnotes provide information regarding the compensation paid to the Company s non-employee Directors in fiscal year 2007-08. Directors who are employees of the Company receive no compensation for their services as Directors.

Director Compensation Table

Name	Annual Retainer[1] ($)	Committee Meeting Fees ($)	Committee Chair Fee[2] ($)	Total Fees Earned or Paid in Cash[3] ($)	Stock Awards[4] ($)	All Other Compensation[5,6] ($)	Total[7] ($)
Norman R. Augustine	12,500	4,000	1,667	18,167[8]	0	50	18,217
Kenneth I. Chenault	25,000	4,000	0	29,000	0	0	29,000
Scott D. Cook	93,750	16,000	0	109,750[9]	125,000	974	235,724
Joseph T. Gorman	27,083	6,000	3,333	36,416	0	0	36,416
Rajat K. Gupta	93,750	12,000	0	105,750	125,000	1,412	232,162
Charles R. Lee	93,750	34,000	10,833	138,583	125,000	1,100	264,683
Lynn M. Martin	93,750	12,000	0	105,750	125,000	1,030	231,780
W. James McNerney, Jr.	93,750	24,000	8,333	126,083[10]	125,000	225	251,308
Johnathan A. Rodgers	93,750	4,000	0	97,750[11]	125,000	3,985	226,735
John F. Smith, Jr.	77,083	18,000	12,500	107,583[12]	125,000	3,139	235,722
Ralph Snyderman	93,750	18,000	10,000	121,750[13]	125,000	4,195	250,945
Margaret C. Whitman	93,750	16,000	1,666	111,416	125,000	511	236,927
Patricia A. Woertz	50,000	8,000	0	58,000	0	945	58,945
Ernesto Zedillo	93,750	12,000	0	105,750[14]	125,000	3,757	234,507

1 As further described in the narrative following the table, the annual retainer was increased from $75,000 to $100,000 effective October 9, 2007. This amount is paid in quarterly increments. Directors who were paid $93,750 received $18,750 for the July-September 2007 quarter, and $25,000 for each of the remaining three quarters of the fiscal year. Each Director who retired during the fiscal year (Mr. Augustine (August), Mr. Gorman (October) and Mr. Smith (April)), received the prorated portion of the retainer calculated and paid up through his final month of service to the Board of Directors. Each new Director

appointed during the fiscal year (Mr. Chenault (April) and Ms. Woertz (January)), received the prorated portion of the retainer calculated from the month of his or her appointment to the Board.

2 Committee Chair Fees for retiring Directors and for newly appointed Chairs reflect prorated amounts based on when the change in the Chair position occurred. The Committee Chair Fee for Mr. Gorman, who was Chair of the Finance Committee until its dissolution at the October 9, 2007 Board meeting, reflects a prorated fee for July through October 2007.

3 Total Fees Earned or Paid in Cash combines the amounts in the three preceding columns.

4 Annually, upon election at the Company s annual meeting of shareholders, each Director is awarded a grant of restricted stock units (RSUs) with a grant date fair value of $125,000. This amount is recognized in the fiscal year for financial statement reporting purposes in accordance with Statement of Financial Accounting Standards 123, as revised (SFAS 123(R)). Because Mr. Augustine retired prior to the 2007 annual meeting of shareholders and Mr. Gorman did not stand for re-election at that meeting, they did not receive the annual RSU award. Ms. Woertz and Mr. Chenault were appointed in January 2008 and April 2008, respectively, and they did not receive the annual RSU award. As of the end of fiscal year 2007-08:

a. Mr. Augustine has 8,652 unvested stock awards outstanding and 16,712 option awards outstanding.
b. Mr. Cook has 13,131 unvested stock awards outstanding and 10,674 option awards outstanding.
c. Mr. Gorman has 8,652 unvested stock awards outstanding and 16,712 option awards outstanding.
d. Mr. Gupta has 1,788 unvested stock awards outstanding.
e. Mr. Lee has 34,612 unvested stock awards outstanding and 16,712 option awards outstanding.
f. Ms. Martin has 16,581 unvested stock awards outstanding and 16,712 option awards outstanding.
g. Mr. McNerney has 14,411 unvested stock awards outstanding.
h. Mr. Rodgers has 17,606 unvested stock awards outstanding and 6,644 option awards outstanding.
i. Mr. Smith has 10,439 unvested stock awards outstanding and 2,884 option awards outstanding.
j. Dr. Snyderman has 33,831 unvested stock awards outstanding and 16,712 option awards outstanding.
k. Ms. Whitman has 13,300 unvested stock awards outstanding.
l. Dr. Zedillo has 12,991 unvested stock awards outstanding and 6,644 option awards outstanding.

Unvested stock awards include RSUs that have not yet delivered in shares and restricted stock for which the restrictions have not lapsed. RSUs earn dividend equivalents which are accrued in the form of additional RSUs each quarter and credited to each Director s holdings. These RSUs have the same vesting restrictions as the underlying RSUs and are ultimately deliverable in shares. Restricted stock earns cash dividends that are paid quarterly.

5 The All Other Compensation total includes certain costs associated with Directors and their guests (spouse, family member or similar guest) attending Board meetings and/or Board activities. For two Board meetings during fiscal year 2007-08, each Director was encouraged to bring a guest. For each of these meetings, the Company incurred costs associated with providing minor commemorative items, sightseeing and other similar activities for both the Director and accompanying guest. In some cases, the Company also incurred costs associated with commercial airfare for the guest. For all other regular Board meetings throughout the fiscal year, Directors were entitled to bring a guest so long as the Director used the Company aircraft to attend the meeting and the guest s attendance did not result in any incremental aircraft costs. Directors and their guests are also covered under the same insurance policy as all Company employees for accidental death while traveling on Company business (coverage is $750,000 for each Director and $300,000 for a guest). There is no incremental cost to the Company for this benefit. In addition, the Company maintains a Charitable Awards Program for current and retired Directors who were participants prior to July 1, 2003. Under this program, at their death, the Company donates $1,000,000 per Director to up to five qualifying charitable organizations selected by each Director. Directors derive no financial benefit from the program because the charitable deductions accrue solely to the Company. The Company funds this contribution from general corporate assets and, during fiscal year 2007-08, made one donation upon the death of a former Director. This program was discontinued for any new Director effective July 1, 2003.

6 Mr. Bruce L. Byrnes was an employee Director of the Board during fiscal year 2007-08 until his retirement from the Board effective June 10, 2008. As an employee Director, he did not receive a retainer, fees or stock award. Mr. Byrnes did attend Board meetings and activities as described in footnote 5 above and, in conjunction with those meetings, received $2,405 as All Other Compensation.

7 Total combines the amounts in the Total Fees Earned or Paid In Cash column, the Stock Awards column and the All Other Compensation column.

8 Mr. Augustine took all of his fees for fiscal year 2007-08 in unrestricted stock, which had a grant date fair value of $18,167.

9 Mr. Cook took his fees for the first half of the fiscal year in cash, and for the second half of the fiscal year in unrestricted stock, which had a grant date fair value of $58,000.

10 Mr. McNerney took all of his fees for fiscal year 2007-08 in unrestricted stock, which had a grant date fair value of $126,083.

11 Mr. Rodgers took 25% of his fees for fiscal year 2007-08 in cash and 75% of his fees for fiscal year 2007-08 in retirement restricted stock, which had a grant date fair value of $73,313.

12 Mr. Smith took all of his fees for fiscal year 2007-08 in unrestricted stock, which had a grant date fair value of $107,583.

13 Dr. Snyderman took all of his fees for fiscal year 2007-08 as retirement restricted stock which had a grant date fair value of $121,750.

14 For the first half of the fiscal year, Dr. Zedillo took 50% of his fees in cash and 50% in unrestricted stock. During the second half of the fiscal year, Dr. Zedillo took 50% of his retainer as cash and 50% of his retainer as retirement restricted stock, and 100% of his committee fees as cash. The unrestricted stock elected for the first half of the fiscal year had a grant date fair value of $24,875, and the retirement restricted stock elected for the second half of the fiscal year had a grant date fair value of $25,000.

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The objective of the Compensation & Leadership Development Committee of the Board of Directors is to provide non-employee members of the Board of Directors a compensation package consistent with the median of the Peer Group (as this group is further described on page 22 of this proxy statement). In fiscal year 2007-08, non-employee members of the Board of Directors received the following compensation:

- A grant of restricted stock units (RSUs) on October 9, 2007, following election to the Board at the Company s 2007 annual meeting of shareholders, with a grant date fair value of $125,000. These units are forfeitable if the Director resigns during the year, will not deliver in shares until at least one year after the Director leaves the Board, and cannot be sold or traded until delivered in shares, thus encouraging alignment with the Company s long-term interests and the interests of shareholders. These RSUs earn dividend equivalents at the same rate as dividends paid to shareholders;

- Effective October 9, 2007, an annual retainer fee of $100,000 paid in quarterly increments;

- A committee meeting fee of $2,000 for every Committee meeting attended; and

- An additional annual retainer paid to the Chair of each committee as follows: Chair of the Audit Committee, $15,000; Chairs of the Compensation & Leadership Development, Governance & Public Responsibility and Innovation & Technology Committees, $10,000. The Chair of the Finance Committee (which was dissolved at the October 9, 2007 Board of Directors meeting), received a pro rata portion of the $10,000 annual retainer.

At its October 9, 2007 meeting, the Compensation & Leadership Development Committee recommended that the Board increase the Director s annual retainer fee from $75,000 to $100,000, effective that date, to keep the Directors overall compensation package competitive with the median of our Peer Group of companies. The Board of Directors ratified this action and amended its By Laws to reflect this change on December 11, 2007.

Directors can elect to receive any part of their fees or retainer (other than the grant of RSUs) as cash, retirement restricted stock, or unrestricted stock. The Company did not grant any stock options to Directors in fiscal year 2007-08.

Non-employee members of the Board of Directors must own Company stock and/or RSUs worth six times their annual cash retainer. Except for Mr. Gupta, who was appointed in June 2007, Ms. Woertz who was appointed in January 2008, and Mr. Chenault, who was appointed in April 2008, all Directors have already achieved this ownership requirement. Ms. Woertz and Messrs. Gupta and Chenault are on track to achieve this goal within the five-year period established by the Compensation & Leadership Development Committee for achieving this level of ownership.

Report of the Compensation & Leadership Development Committee

The Compensation & Leadership Development Committee of the Board of Directors has reviewed and discussed the following section of this proxy statement entitled Compensation Discussion and Analysis with management. Based on this review and discussion, the Committee has recommended to the Board that the section entitled Compensation Discussion and Analysis as it appears below, be included in this proxy statement and incorporated by reference into the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

W. James McNerney, Jr. (Chair)

Kenneth I. Chenault

Scott D. Cook

Charles R. Lee

Margaret C. Whitman

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Compensation Discussion and Analysis

Executive Summary

The Company s compensation programs are designed to support the achievement of our overall long-term performance goals. In fiscal year 2007-08, the Company delivered another year of growth at or above our long-term goals. These goals, and the results we achieved, are listed in the table below. The Company believes that consistently delivering results at these levels should position the Company to out-perform the consumer products industry for the next decade and beyond.

Measure	Goal	2007-08 Results
Organic sales growth[1]	4% to 6%	5%
Diluted earnings per share (EPS) growth excluding Gillette dilution	10% or better[2]	11-12%[3]
Free cash flow productivity[4]	90% or greater	106%

We choose to focus on these goals because achieving or exceeding them allows us to provide attractive, sustained returns to our shareholders. The Company s strategy is to drive growth through innovation, productivity and operational excellence. Globally, we are experiencing unprecedented increases in material and energy costs. We believe that by continuing to build compelling brands and better and more efficient products, we will deliver better consumer value during these challenging times. Our compensation programs support these strategies by rewarding successes in these key measures.

Our annual cash and long-term incentive programs link compensation payments to the Named Executive Officers (identified below) with the overall success of the Company. The Compensation & Leadership Development Committee establishes target ranges for total compensation that are consistent with comparable positions in Peer Group companies, as discussed below. For fiscal year 2007-08, due in part to achievement of the goals described above, the average actual total compensation for the Named Executive Officers was above the average target total compensation for the year.

What are the Company s overall compensation principles?

The Compensation & Leadership Development Committee is responsible for making executive compensation decisions regarding program design and individual pay. The Committee oversees overall Company compensation policies and approves any compensation for the senior officers, including the Named Executive Officers. The Committee has established the following principles for compensating all Company employees:

- **Support the business strategy** We align compensation programs with business strategies focused on long-term growth and creating value for shareholders, and we motivate executives to overcome challenges, to deliver commitments and to exceed Company goals;

- **Pay for performance** We pay higher compensation when goals are exceeded and lower compensation when goals are not met, taking into consideration individual ability to influence results;

1 Organic sales is a non-GAAP measure of sales growth that excludes the impact of acquisitions, divestitures and foreign exchange.
2

Our EPS goals are set taking into consideration the Company s stated share repurchase objectives and the year-to-year impact of Gillette dilution.

[3] Excludes the prior year dilution impact from the Gillette acquisition and a current year $0.14 net tax benefit from a number of significant adjustments to tax reserves in the U.S. and other countries. Reported EPS growth, which includes both of these impacts, was 20%.

[4] Free cash flow is defined as operating cash flow less capital spending. Free cash flow productivity is defined as the ratio of free cash flow to net earnings.

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- **Pay competitively** Our objective is to set overall target compensation (compensation received when achieving expected results) to be in line with that of individuals holding comparable positions at other multi-national corporations of similar size, value and complexity.

These overall principles have served the Company well and enabled us to deliver strong shareholder value over time including compound average shareholder returns above the Dow Jones Industrial Average for the past one, three, five and ten year periods. The Committee and the Board of Directors are charged with the consistent and fair application of these principles. Over time, we believe this has helped to develop and retain talented employees who are committed to the Company s success.

What are the Company s executive compensation objectives?

Consistent with these overall principles, the Committee has established the following executive compensation objectives to continue the Company s history of superior management and leadership, with an emphasis on long-term success:

- **Drive superior business and financial performance** Inspire leaders to achieve or exceed Company, business unit and individual goals;

- **Focus on long-term success** Hold those leaders accountable for long-term success so the Company continues to provide superior returns for shareholders over time;

- **Retention** Retain talented managers with demonstrated records of superior performance whose continued employment is key to overall Company success; and

- **Ownership** Align leaders with shareholders long-term interests by building significant ownership of Company stock into executive pay programs.

Who participates in the executive compensation programs?

The programs discussed here apply in many cases to groups of employees that include more than the five Named Executive Officers. Following are the various individuals and groups who participate in our executive compensation programs:

Named Executive Officers:	Mr. A.G. Lafley, Mr. Clayton C. Daley, Jr., Ms. Susan E. Arnold, Mr. Robert A. McDonald and Mr. E. Dimitri Panayotopoulos
Senior Executives:	Approximately 45 top executives, including the Named Executive Officers
Executives:	Approximately 4,000 top managers
Senior Managers:	Approximately 14,000 managers

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What objectives are achieved by the Company s executive compensation programs?

The Company s executive compensation objectives are achieved through the following ongoing programs in which some or all of our Named Executive Officers participate. A more detailed discussion of each program is provided later in this Compensation Discussion and Analysis.

Program	Description	Participants	Objectives Achieved
Annual Cash Compensation			
Base Salary	Fixed rate of pay	All employees	Retention Drive superior performance Individual contribution
Short-Term Achievement Reward - Annual Bonus (STAR)	Annual bonus with target awards established at each employee level Payments can be higher or lower than target, based on business unit and total Company annual results	All Senior Managers, Executives, and Senior Executives, (including Named Executive Officers)	Drive superior performance Across total Company Across business units
Long-Term Incentive Programs			
Key Manager Annual Stock Grant	Long-term incentive program tied to growth in stock price Paid in stock options and restricted stock units (RSUs); grant amounts vary to reflect individual contribution	All Executives and Senior Executives (including Named Executive Officers), plus 15% of Senior Managers	Drive superior performance Individual contribution Across total Company Focus on long-term success Retention

			Ownership
Business Growth Program Three-Year Incentive (BGP)	Long-term incentive program with compensation tied to achievement of three-year total Company goals paid in cash and RSUs	All Senior Executives (including Named Executive Officers)	Drive superior performance Across total Company Focus on long-term success Retention Ownership

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Program	Description	Participants	Objectives Achieved
Retirement Programs			
The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan (PST)	Annual contribution of stock made to employees based on salary and years of service	All full-time U.S. employees	Retention Ownership
PST Restoration Program	Grant of RSUs to those PST participants whose Company contribution is capped by tax regulations	Varies annually, approximately 400 U.S.-based Executives and Senior Executives (including Named Executive Officers)	Retention Ownership
Country Pension Plans	Annual retirement benefits (varies by country)	Eligible employees in applicable countries	Retention
International Retirement Plan (IRP)	Annual contribution in lieu of home country retirement plan contribution	Certain expatriates who are not eligible to participate in home country plans	Retention Ownership
Global International Retirement Arrangement (IRA)	Annual contribution to equalize home country benefits	Certain employees whose home country pension is not adjusted to reflect current salary	Retention
Other Executive Programs			
Perquisites and Executive Benefits	Available to certain executives to assure protection of Company assets and/or focus on Company business with minimal disruption	Specific benefits are offered to different groups of Executives based on business purpose	Security Minimize business disruption Retention
Expatriate and Relocation Program	Payments made in conjunction with expatriate assignments and required relocations	All employees assigned to work outside home country	Retention Minimize business disruption
Other Benefits	Medical, welfare and other benefits	All employees	Retention Healthy, engaged, high-performing employees

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How do we assure that executives compensation keeps them focused on long-term success?

The Company Emphasizes At-Risk Compensation

Our long-term success depends on excellent financial and operational performance year after year. Therefore, to focus on both the short and long-term success of the Company, our Named Executive Officers compensation includes a significant portion approximately 80-90% that is at-risk , where the compensation paid is determined based on the achievement of specified results. If short-term and long-term financial and operational goals are not achieved, then performance-related compensation will decrease. If goals are exceeded, then performance-related compensation will increase.

In addition, any compensation that is paid in the form of Company stock, RSUs or stock options instead of cash is further at-risk because its value varies with changes in the stock price. With a considerable percentage of their compensation paid in equity, executives have a significant stake in the long-term success of the Company and gain along with all other shareholders.

As shown in the following charts, in fiscal year 2007-08, 89% of the Chief Executive Officer s total compensation and, on average, 82% of the other Named Executive Officers compensation, was at-risk dependent on performance. Seventy-two percent of the Chief Executive Officer s total compensation and, on average, 61% of the other Named Executive Officers total compensation, was paid in stock, RSUs or stock options.

The Committee believes that tying pay to performance and awarding a significant percentage of pay in equity properly motivates Company management to drive superior business and financial performance and focus on long-term success, while retaining talented executives and encouraging ownership.

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Ownership and Holding Requirements Focus on Long-Term Success

The Committee has established the Executive Share Ownership Program and the Stock Option Exercise Holding Requirement Policy to ensure that our Senior Executives own a significant amount of Company stock. This aligns management s interests with shareholders interests and focuses Senior Executives, including the Named Executive Officers, on the long-term success of the Company.

The *Executive Share Ownership Program* requires all Senior Executives to own shares of Company stock and/or RSUs valued at a multiple of their base salary. The Chief Executive Officer must own at least eight times his base salary in Company stock and/or RSUs, and the other Named Executive Officers must own at least five times their base salaries. The Committee reviews the stock holdings of our Named Executive Officers annually, and in 2008 they each exceeded these requirements.

The *Stock Option Exercise Holding Requirement Policy* ensures Senior Executives remain focused on sustained shareholder value, even after exercising stock options. Under this policy, during his active employment, the Chief Executive Officer must hold the net shares received from stock option exercises (excluding the stock option exercise cost and related taxes) for at least two years. During their active employment, the other Senior Executives, including the other Named Executive Officers, must hold such net shares for at least one year after exercise. This policy reinforces our Senior Executives incentive to focus on the long-term business and financial performance of the Company. Incentive plan awards that Senior Executives voluntarily elect to take as stock options instead of cash or unrestricted stock are not subject to the holding period.

Finally, to further align our Senior Executives with the interests of our shareholders, the Company s Insider Trading Policy does not permit pledging, collars, short sales, hedging investments or other derivative transactions involving Company stock. Purchases and sales of Company stock by Named Executive Officers can only be made during the one month period following public earnings announcements or, if outside these window periods, with express permission from the Company s Chief Legal Officer, or in accordance with a previously established trading plan that meets SEC requirements. Only Mr. Lafley currently has such a plan, which began in 2003 and is updated periodically, most recently in May 2007.

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The Company Does Not Offer Employment Contracts to its Employees

Many companies use employment contracts for their top executives. Generally, the Committee believes these arrangements are not necessary for our executives, because most have spent the majority of their professional careers with the Company, over which time they have developed a focus on the Company s long-term success. Except in certain circumstances such as acquisitions, or where required by law in certain jurisdictions, the Company does not have any employment contracts with its executives. None of the Company s current Named Executive Officers has an employment contract.

How is competitiveness established for executive compensation?

The Company s executive compensation is structured so that total targeted annual cash and long-term compensation opportunities are competitive with comparable positions at comparable companies. To determine the amounts for these different elements of compensation, the Company evaluates similar jobs, focusing on positions with similar management and revenue responsibility in large, well-respected companies, and uses a regression analysis to adjust for the differences in revenue size. The Committee has directed Frederic W. Cook & Co., its outside and independent compensation consultant, to advise the Committee on various compensation matters, including peer group identification, competitive practices and trends, specific program design, and Committee actions with respect to principal officer compensation. In addition, the Company uses a different compensation consultant, Hewitt Associates, to provide compensation advice, competitive survey data and other benchmark information related to trends and competitive practices in executive compensation.

The Committee compares pay and performance information for Senior Executive positions (including Named Executive Officers) to a peer group consisting of companies that generally meet the following criteria:

- Revenue comparable to the Company ($76 billion in fiscal year 2006-07) and/or market capitalization comparable to the Company (approximately $200 billion);
  - Peer group revenues range from $14 billion to $375 billion with a median of $61 billion; and
  - Peer group market capitalization ranges from $10 billion to $489 billion with a median of $84 billion.
- Compete with the Company in the marketplace for business;
- Compete with the Company for executive talent; and
- Have generally similar pay models (we do not compare with financial services, insurance or utility companies where mix of pay elements or program structure is materially different).

The Committee evaluates and, if appropriate, updates the composition of the peer group each year to ensure it remains relevant and is not skewed by over-representation of any non consumer-products industry. Changes to the peer group are carefully considered and made infrequently to assure continuity from year to year. For fiscal year 2007-08, the peer group consisted of the following 25 companies (the Peer Group) unchanged from the prior two fiscal years:

3M	General Electric	Lockheed Martin
Altria Group	General Motors	Merck

AT&T	Hewlett-Packard	Motorola
Boeing	Home Depot	PepsiCo
Chevron	IBM	Pfizer
Coca-Cola	Johnson & Johnson	Target
Colgate-Palmolive	Kimberly-Clark	Verizon Communications
Du Pont	Kraft Foods	Wal-Mart Stores
Exxon Mobil		

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Details regarding elements of executive compensation

Annual Cash Compensation

The building blocks of the Company s annual cash compensation program are base salary and STAR annual bonus. We collect and analyze data from the Peer Group on the total annual cash compensation (base salary plus annual bonus) of positions comparable to those at the Company. For each position, we set a target amount for both base salary and STAR, where the STAR Target is the amount payable as a percentage of salary if all goals are met. The sum of the targets for base salary and STAR for each position is set at the median annual cash compensation of our Peer Group by position, adjusted for size using a regression of Peer Group revenues. The STAR Target determines the amount of annual cash compensation at-risk for achieving annual goals.

Base Salary

The purpose of base salary is to provide a competitive fixed rate of pay, recognizing different levels of responsibility within the Company. Salaries are the basis for establishing the target payouts of the performance-driven programs discussed below, as well as the basis for retirement programs, executive group life insurance and certain benefits available to all employees.

In fiscal year 2007-08, the base salaries of Mr. Lafley and Mr. Daley did not change. Ms. Arnold, Mr. McDonald and Mr. Panayotopoulos were each promoted to positions of greater responsibility effective at the beginning of the fiscal year, and received appropriate salary increases at that time to align them with comparable positions at the Peer Group companies.

STAR Annual Bonus

The purpose of the STAR bonus program is to provide an incentive to achieve and exceed the annual business goals set for the business units and the total Company. The program rewards the achievement of outstanding business results and reduces the award for those who fail to achieve target business results. STAR Awards are paid in cash, RSUs, stock options or deferred compensation, at the executive s election.

STAR Targets are set by the Committee for Named Executive Officers based on the target bonus for similar positions at Peer Group companies in relation to base salaries. This year, based on an analysis of annual cash compensation and bonus targets at Peer Group companies, the Committee set Mr. Lafley s STAR Target at 170% of base salary. Mr. Daley s, Ms. Arnold s and Mr. McDonald s STAR Targets were set at 115% of base salary and Mr. Panayotopoulos had a STAR Target of 90% of base salary.

STAR Awards earned for fiscal year 2007-08 were based on three target factors: 1) Company performance, 2) business unit performance, and 3) the Company s achievement of Gillette integration goals. By multiplying these factors, each is interrelated and can impact the total award, with the Business Unit Factor having a wider range and therefore the greatest potential impact on the amount of the final award. The measures that determine each factor are discussed below. The STAR Award calculation is:

Star		**Total Company**		**Business Unit**		**Gillette Integration**		**STAR**
Target ($)	**X**	**Factor (%)**	**X**	**Factor (%)**	**X**	**Factor (%)**	**=**	**Award ($)**

The Total Company Factor is based on a numeric formula. The Business Unit Factor and the Gillette Integration Factor combine objective and retrospective judgmental elements and are collectively discussed and evaluated by the Chief Executive Officer, the Chief Financial Officer and the Global Human Resources Officer, resulting in a recommendation for each factor to the Committee for review and approval. Due to their role in assessing performance and recommending the award factors for all other participants, these three executives STAR Awards are determined separately and directly by the Committee. The Committee determines their awards once the range for all other STAR Awards is decided, taking into account overall STAR performance factors and personal contributions to these results, and uses its discretion to determine the final STAR Awards for Messrs. Lafley, Daley, and the Company s Global Human Resources Officer.

The STAR Awards for Ms. Arnold, Mr. McDonald and Mr. Panayotopoulos use the multiplicative formula shown above. The basis for each element of their awards is discussed below:

Total Company Factor Ranging from 80% to 130%, this factor is determined by equally weighting the following two measures against predetermined targets: (1) organic sales growth, and (2) earnings per share (EPS) growth.

Organic sales growth: At its August 14, 2007 meeting, the Committee replaced total shareholder return with organic sales growth as a measure for fiscal year 2007-08. The Committee moved to organic sales growth because it drives total shareholder return, is a tangible measure for which Senior Managers take ownership and is directly linked to the performance of each business. Organic sales growth is a key growth measure for the Company as discussed in the Executive Summary on page 16. For 2007-08 STAR, the target was 5.5%, slightly above the midpoint of the Company s long-term goal of 4% to 6%.

EPS growth: The target for 2007-08 was 10% diluted EPS growth for the year, excluding the year-to-year impact of Gillette dilution. This measure is used in the STAR calculation because it assures continued Company alignment with shareholder interests. By focusing the 14,000 Senior Managers who participate in STAR on EPS growth, we motivate our leaders to achieve or exceed this key measure of the Company s success.

2007-08 Results: Reported organic sales growth for the Company was 5%, slightly below the 5.5% target, while EPS grew above target at 11-12% (excluding the prior year impact of Gillette dilution and a current year net tax benefit). These two results, when entered into a formula previously approved by the Committee, derived a Total Company Factor of 101%, as compared with a target value of 100%.

Business Unit Factor Business unit results are included in the bonus calculation to motivate participants to help their business succeed. The performance factor determined for each business unit ranges from 53% to 167%. The targets for each business unit are established at the beginning of the fiscal year and vary by business unit, reflecting a variety of factors such as the different industries in which these businesses compete and the varying levels of investment in each business unit by the Company. Each measure is an indicator of the health of the Company s business units; the array of factors evaluated encourages a balanced approach to all aspects of business management. The targets are determined based on the long-term goals in relation to each business role in the Company s portfolio. Each Business Unit Factor is determined by:

- *Quantitative measurements* of topline growth in volume, sales and market share, and bottomline measures of profit, operating cash flow and operating total shareholder return (a cash flow return on investment (CFROI) model that measures sales growth, earnings growth and cash flow to determine the rate of return that a business earns); and

- *Qualitative measures* of performance relative to competitors, coordination and collaboration with other Company business units, the quality of business strategy and business model, the strength of the innovation program and portfolio and other considerations such as adherence to ethical standards and response to unpredictable events like natural disasters.

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2007-08 Results: The Business Unit Factors that were applied to Named Executive Officers are as follows:

Ms. Arnold As the President of Global Business Units (GBUs), Ms. Arnold is responsible for developing the overall strategy for our portfolio of businesses. Her STAR Award is based on the weighted average of the results of all three GBUs Beauty, Health & Well Being and Household Care. The combined sales growth for the three GBUs was 10%, and the earnings growth was 11%. These factors, combined with the other quantitative and qualitative measures listed above and assessed for each of the business units, resulted in a weighted average Business Unit Factor of 105% applied to Ms. Arnold s STAR calculation. This reflects results that were slightly ahead of expectations.

Mr. McDonald As Chief Operating Officer, Mr. McDonald is responsible for the market development organizations, the global business services organization, and the centralized corporate functions. Accordingly, his Business Unit Factor is a weighted average of the performance factors for these organizations. In 2007-08, the combined market development organizations achieved sales growth of 10%. The global business services award, measured by a specific scorecard including measures such as cost savings, user satisfaction and delivery of service level targets, was ahead of target. Because the centralized corporate functions support all business units, the factor applied to those functions is the average of all Business Unit Factors, which was 110%. Weighting these factors, a composite Business Unit Factor of 113%, reflecting results ahead of expectations, was applied to Mr. McDonald s STAR calculation.

Mr. Panayotopoulos Mr. Panayotopoulos serves as Vice Chair of the Company s Household Care GBU. His Business Unit Factor is based on a weighted average of the performance factors of the businesses that are part of that GBU. The combined sales growth for Household Care was 10%. Earnings growth was 13%. Overall, combining these results with the other quantitative and qualitative factors listed above and assessed for each of the business units in Household Care, a Business Unit Factor of 127% was applied to Mr. Panayotopoulos   STAR calculation. This reflects overall results that were ahead of expectations.

Gillette Integration Factor Ranging from 80% to 130%, this factor assesses the achievement of Gillette integration goals during key transition years and focuses all participants on the achievement of the goals set for this important integration. The factor has been a component of the STAR Award since 2005. The factor reflects the major integration milestones that occurred in fiscal year 2007-08, and is based on three categories:

- *Business Momentum* goals relating to maintaining P&G and Gillette base business momentum in areas such as sales, market share and profit growth while integrating Gillette;
- *Integration Financials* including dilution, cost and revenue synergies and total investment required to deliver the synergies; and
- *Retention* percentage retention of Gillette heritage managers, plus assessments from employee surveys regarding how well Gillette heritage employees believe their skills and capabilities are being utilized.

2007-08 Results: All three components of the Gillette Integration Factor were in line with or ahead of target for the fiscal year. Business momentum was strong as both the heritage Gillette and P&G businesses continued to deliver sales and earnings growth at or ahead of target. The Company s integration financials were ahead of target, as the Gillette merger was modestly accretive in 2007-08. Retention was slightly ahead of the target we established at close of the merger, and our employee survey results indicate that Gillette heritage employees continue to be satisfied with their integration into the Company. Based on these results, the Committee approved an overall Gillette Integration Factor of 125%.

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The Committee reviews the recommendations for the Business Unit and Gillette Integration Factors and considering Company performance results, determines final payments for all Senior Executives. They retain the authority to make no award in a given year and the discretion to accept, modify, or reject management s recommendations.

For fiscal year 2007-08, the combined STAR performance factors resulted in a Company average STAR Award of 139% of STAR Target. The Committee concluded that Mr. Lafley and Mr. Daley should receive an award in line with this Company average, reflecting their leadership in achieving the Company s strong results in fiscal year 2007-08.

The following shows the actual STAR calculation for each Named Executive Officer:

STAR Annual Bonus

(Dollar Figures Shown in Thousands)

Named Executive Officer	STAR Target ($)	Total Company Factor	Business Unit Factor	Gillette Integration Factor	&