

PROCTER & GAMBLE CO

Form 10-K

August 28, 2008

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THE PROCTER & GAMBLE COMPANY  
AND SUBSIDIARIES

ANNUAL REPORT ON FORM 10-K  
TO THE  
SECURITIES AND EXCHANGE COMMISSION  
FOR THE  
YEAR ENDED JUNE 30, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

**(Mark one)**

**ANNUAL REPORT ON FORM 10-K PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended June 30, 2008**

**OR**

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

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

**Commission File No. 1-434**

**THE PROCTER & GAMBLE COMPANY**

One Procter & Gamble Plaza, Cincinnati, Ohio 45202

Telephone (513) 983-1100

IRS Employer Identification No. 31-0411980

State of Incorporation: Ohio

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each Exchange on which registered

Common Stock, without Par Value

New York, Paris

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes

No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

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The aggregate market value of the voting stock held by non-affiliates amounted to \$226 billion on December 31, 2007.

There were 3,034,310,829 shares of Common Stock outstanding as of July 31, 2008.

Documents Incorporated By Reference

Portions of the Annual Report to Shareholders for the fiscal year ended June 30, 2008 are incorporated by reference into Part I, Part II and Part IV of this report to the extent described herein.

Portions of the Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

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**PART I**

Item 1. **Business.**

Additional information required by this item is incorporated herein by reference to Management's Discussion and Analysis, which appears on pages 39-55; Note 1, Summary of Significant Accounting Policies, which appears on pages 60-63; Note 2, Acquisitions, which appears on page 63; and Note 12, Segment Information, which appears on pages 74-75 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008. Unless the context indicates otherwise, the terms the Company, P&G, we, our or us as used herein refers to The Procter & Gamble Company (registrant) and its subsidiaries.

The Procter & Gamble Company is focused on providing branded consumer goods products of superior quality and value to improve the lives of the world's consumers. The Company was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, we market our products in more than 180 countries.

Throughout this Form 10-K, we incorporate by reference information from other documents filed with the Securities and Exchange Commission (SEC).

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are filed electronically with the SEC. The SEC maintains an internet site that contains these reports at: <http://www.sec.gov>. You can also access these reports through links from our website at: [www.pg.com/investors/sectionmain.shtml](http://www.pg.com/investors/sectionmain.shtml).

Copies of these reports are also available, without charge, by contacting The Procter & Gamble Company, Shareholder Services Department, P.O. Box 5572, Cincinnati, Ohio 45201-5572.

**Financial Information About Segments**

In fiscal year 2008, the Company was organized into three Global Business Units: Beauty; Health & Well-Being; and Household Care. We had six reportable segments under U.S. GAAP: Beauty; Grooming; Health Care; Snacks, Coffee and Pet Care; Fabric Care and Home Care; and Baby Care and Family Care. Many of the factors necessary for an understanding of these businesses are similar. Operating margins of the individual businesses vary slightly due to the nature of materials and processes used to manufacture the products, the capital intensity of the businesses and differences in selling, general and administrative expenses as a percentage of net sales. Net sales growth by business is also expected to vary slightly due to the underlying growth of the markets of each business and products. While none of our reportable segments are highly seasonal, components within certain of our reportable segments, such as batteries (Fabric Care and Home Care), appliances (Grooming) and prestige fine fragrances (Beauty) are seasonal. In addition, anticipation or occurrence of natural disasters, such as hurricanes, can drive unusually high demand for batteries.

Additional information about our businesses can be found in Management's Discussion and Analysis, pages 39-55, and Note 12, Segment Information, which appears on pages 74-75 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008.

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**Narrative Description of Business**

**Business Model.** Our business model relies on the continued growth and success of existing brands and products, as well as the creation of new products. The markets and industry segments in which we offer our products are highly competitive. Our products are sold in over 180 countries around the world primarily through mass merchandisers, grocery stores, membership club stores, drug stores and in high-frequency stores, the neighborhood stores which serve many consumers in developing markets. We work collaboratively with our customers to improve the in-store presence of our products and win the first moment of truth when a consumer is shopping in the store. We must also win the second moment of truth when a consumer uses the product, evaluates how well it met his or her expectations and whether it was a good value. We believe we must continue to provide new, innovative products and branding to the consumer in order to grow our business. Research and product development activities, designed to enable sustained organic growth, continued to carry a high priority during the past fiscal year. While many of the benefits from these efforts will not be realized until future years, we believe these activities demonstrate our commitment to future growth.

**Key Product Categories.** In 2008, one product category accounted for 10% or more of consolidated net sales. The laundry category constituted approximately 16% of net sales for fiscal years 2008, 2007 and 2006.

**Key Customers.** Our customers include mass merchandisers, grocery stores, membership club stores, drug stores and high-frequency stores. Sales to Wal-Mart Stores, Inc. and its affiliates represent approximately 15% of our total revenue in 2008, 2007 and 2006. No other customer represents more than 10% of our net sales. Our top ten customers account for approximately 31% of our total unit volume in 2008, compared to 30% of total unit volume in 2007 and 31% in 2006. The nature of our business results in no material backlog orders or contracts with the government. We believe our practices related to working capital items for customers and suppliers are consistent with the industry segments in which we compete.

**Sources and Availability of Materials.** Almost all of the raw and packaging materials used by the Company are purchased from others, some of whom are single-source suppliers. We produce raw materials, primarily chemicals, for further use in the manufacturing process. In addition, fuel, natural gas and derivative products are important commodities used in our plants, products and in the trucks used to deliver our products to customers. The prices we pay for materials and other commodities are subject to fluctuation. When prices for these items change, we may or may not pass on the change to our customers, depending on the magnitude and expected duration of the change. The Company purchases a substantial variety of other raw and packaging materials, no one of which is material to our business taken as a whole.

**Trademarks and Patents.** We own or have licenses under patents and registered trademarks which are used in connection with our activity in all businesses. Some of these patents or licenses cover significant product formulation and processes used to manufacture our products. The trademarks are important to the overall marketing and branding of our products. All major products and trademarks in each business are registered. In part, our success can be attributed to the existence and continued protection of these trademarks, patents and licenses.

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**Competitive Condition.** The markets in which our products are sold are highly competitive. Our products compete against similar products of many large and small companies, including well-known global competitors. We market our products with advertising, promotions and other vehicles to build awareness of our brands in conjunction with an extensive sales force. We believe this combination provides the most efficient method of marketing for these types of products. Product quality, performance, value and packaging are also important competitive factors.

**Research and Development Expenditures.** Research and development expenditures enable us to develop technologies and obtain patents across all categories in order to meet the needs and improve the lives of our consumers. Total research and development expenses were \$2,226 million in 2008, \$2,112 million in 2007 and \$2,075 million in 2006.

**Expenditures for Environmental Compliance.** Expenditures for compliance with federal, state and local environmental laws and regulations are fairly consistent from year to year and are not material to the Company. No material change is expected in fiscal year 2009.

**Employees.** The Company has approximately 138,000 employees.

**Financial Information About Foreign and Domestic Operations**

Net sales in the United States account for approximately 40% of total net sales. No other individual country had net sales exceeding 10% of total net sales. Operations outside the United States are generally characterized by the same conditions discussed in the description of the business above and may also be affected by additional factors including changing currency values, different rates of inflation, economic growth and political and economic uncertainties and disruptions. Our sales by geography for the fiscal years ended June 30 were as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
North America	44%	46%	47%
Western Europe	22%	23%	23%
Northeast Asia	4%	4%	4%
Developing Markets	30%	27%	26%

Developing markets include Latin America, Central & Eastern Europe/Middle East and Africa, Greater China, and ASEAN/Australasia/India.

Net sales and assets in the United States and internationally were as follows (in millions):

	Net Sales (for the year ended June 30)			Assets (as of June 30)		
	2008	2007	2006	2008	2007	2006
United States	\$33,005	\$31,946	\$29,462	\$73,751	\$73,527	\$75,444
International	50,498	44,530	38,760	70,241	64,487	60,251



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**Development of the Business**

The discussion below provides insight to the general development of our business, including the material acquisitions and disposition of assets over the past five years.

**Gillette Acquisition.** On October 1, 2005, we completed the acquisition of The Gillette Company. Pursuant to the acquisition agreement, which provided for the exchange of 0.975 shares of The Procter & Gamble Company common stock, on a tax-free basis, for each share of The Gillette Company, we issued 962 million shares of The Procter & Gamble Company common stock. We also issued 79 million stock options in exchange for The Gillette Company's outstanding stock options. Under the purchase method of accounting, the total consideration was approximately \$53.43 billion including common stock, the fair value of vested stock options and acquisition costs.

The acquisition of The Gillette Company provided us with global market leadership in male grooming, selected female grooming products, alkaline batteries and in manual and power toothbrushes. Total sales for The Gillette Company during its most recent pre-acquisition year ended December 31, 2004 were \$10.5 billion.

In order to obtain regulatory approval of the transaction, we were required to divest certain overlapping businesses. We completed the divestiture of the Spinbrush toothbrush business, Rembrandt (a Gillette oral care product line) and Right Guard and other Gillette deodorant brands during the fiscal year ended June 30, 2006.

**Juice Divestiture.** In August 2004 the Company completed the divestiture of its Juice business.

**Wella Acquisition.** In September 2003, the Company acquired a controlling interest in Wella. Through a stock purchase agreement with the majority shareholders of Wella and a tender offer made on the remaining shares, we acquired approximately 81% of the outstanding Wella shares (99% of the voting class shares and 45% of the preference shares). In June 2004, a Company's subsidiary and Wella entered into a Domination and Profit Transfer Agreement (the Domination Agreement). Under the Domination Agreement, we are entitled to exercise full operating control and receive 100% of the future earnings of Wella. As consideration for the Domination Agreement, we agreed to pay the remaining shareholders of Wella a guaranteed annual dividend payment. Alternatively, the remaining Wella shareholders could have elected to tender their shares to the Company for an agreed price. The fair value of the total guaranteed annual dividend payments was \$1.11 billion, which is the approximate cost if all remaining shares were tendered. During the year ended June 30, 2006, a portion of the remaining shares were tendered, resulting in a \$944 million reduction in our liability under the Domination Agreement. In December 2005, the Wella shareholder meeting approved the squeeze-out of the remaining shareholders. Upon the registration of the squeeze-out in the commercial register on November 12, 2007, the remaining shares of the minority shareholders were transferred to the Company in exchange for a pre-determined cash consideration. While the Domination Agreement transaction, including the guaranteed dividend payment and the cash offer, as well as the squeeze-out transaction, including the cash consideration, have been challenged by the former minority shareholders, the Company now owns 100% of the Wella stock.

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The total purchase price for Wella, including acquisition costs and the costs of the guaranteed dividend and squeeze-out payments, was \$6.27 billion based on exchange rates at the acquisition dates. The acquisition was financed by a mixture of available cash balances, debt and the liability recorded under the Domination Agreement.

**Hutchison Acquisition.** In June 2004, we purchased the remaining 20% stake of our China venture from our partner, Hutchison Whampoa China Ltd. (Hutchison), giving us full ownership of our operations in China. The net purchase price was \$1.85 billion, which is the purchase price of \$2.00 billion net of minority interest and certain obligations that were eliminated as a result of the transaction. The acquisition was funded by debt.

Item 1A. **Risk Factors.**

We discuss our expectations regarding future performance, events and outcomes, such as our business outlook and objectives in this Form 10-K, the Annual Report to Shareholders, quarterly reports, press releases and other written and oral communications. All statements, except for historical and present factual information, are forward-looking statements and are based on financial data and business plans available only as of the time the statements are made, which may become out of date or incomplete. We assume no obligation to update any forward-looking statements as a result of new information, future events, or other factors. Forward-looking statements are inherently uncertain, and investors must recognize that events could significantly differ from our expectations.

The following discussion of risk factors identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with Management's Discussion and Analysis (MD&A) and the consolidated financial statements and related notes incorporated by reference into this report. The following discussion of risks is not all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our expectations. These factors could cause our future results to differ from those in the forward-looking statements and from historical trends.

**A material change in consumer demand for our products could have a significant impact on our business.**

We are a consumer products company and rely on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to consumers. This is dependent on a number of factors including our ability to develop effective sales, advertising and marketing programs in an increasingly fragmented media environment. We expect to achieve our financial targets, in part, by shifting our portfolio towards faster growing, higher margin businesses. If demand and growth rates fall substantially below expected levels or our market share declines significantly in these businesses, our results could be negatively impacted. This could occur due to unforeseen negative economic or political events or to changes in consumer trends and habits. In addition, our continued success is dependent on leading-edge innovation, with respect to both products and operations. This means we must be able to obtain patents that lead to the development of products that appeal to our consumers across the world.

**The ability to achieve our business objectives is dependent on how well we can respond to our local and global competitors.**

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Across all of our categories, we compete against a wide variety of global and local competitors. As a result, there are ongoing competitive product and pricing pressures in the environments in which we operate, as well as challenges in maintaining profit margins. To address these challenges, we must be able to successfully respond to competitive factors, including pricing, promotional incentives and trade terms, as well as technological advances and patents granted to competition.

**Our ability to successfully integrate key acquisitions, such as Gillette, could impact our business results.**

Since our goals include a growth component tied to acquisitions, we must be able to successfully manage and integrate key acquisitions, such as the acquisition of The Gillette Company. Specifically, we must be able to integrate acquisitions without any significant disruption to our ability to manage and execute business plans on our base businesses. In addition, our financial results could be adversely impacted if we are not able to deliver the expected cost and growth synergies associated with our acquisitions.

**Our businesses face cost pressures which could affect our business results.**

Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, cost of labor, foreign exchange and interest rates. Our costs in 2008 were impacted by higher commodity costs and this trend is likely to continue in 2009. Therefore, our success is dependent, in part, on our continued ability to manage these fluctuations through pricing actions, cost savings projects (including outsourcing projects), sourcing decisions and certain hedging transactions. In the manufacturing and general overhead areas, we need to maintain key manufacturing and supply arrangements, including any key sole supplier and sole manufacturing plant arrangements.

**We face risks associated with significant international operations.**

We conduct business across the globe with a significant portion of our sales outside the United States. We expect to achieve our financial targets, in part, by achieving disproportionate growth in developing regions. Should growth rates or our market share fall substantially below expected levels in these regions, our results could be negatively impacted. In addition, economic changes, terrorist activity and political unrest may result in business interruption, inflation, deflation or decreased demand for our products. Our success will depend, in part, on our ability to manage continued global political and/or economic uncertainty, especially in our significant geographical markets, as well as any political or economic disruption due to terrorist and other hostile activities.

**Our business is subject to regulation in the U.S. and abroad.**

Changes in laws, regulations and the related interpretations may alter the environment in which we do business. This includes changes in environmental, competitive and product-related laws, as well as changes in accounting standards and taxation requirements. Accordingly, our ability to manage regulatory, tax and legal matters (including product liability, patent, and intellectual property matters), and to resolve pending legal matters without significant liability, including the competition law and antitrust investigations described in Part I, Item 3 of this Form 10-K, which could require the Company to take significant reserves or pay significant fines during a reporting period, may materially impact our results.

**If the reputation of one or more of our leading brands erodes significantly, it could have a material impact on our financial results.**

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Our Company's financial success is directly dependent on the success of our brands, particularly our billion-dollar brands. The success of these brands can suffer if our marketing plans or product initiatives do not have the desired impact on a brand's image or its ability to attract consumers. Further, our Company's results could be negatively impacted if one of our leading brands suffers a substantial impediment to its reputation due to real or perceived quality issues.

**A material change in customer relationships or in customer demand for our products could have a significant impact on our business.**

Our success is dependent on our ability to successfully manage relationships with our retail trade customers. This includes our ability to offer trade terms that are acceptable to our customers and are aligned with our pricing and profitability targets. Our business could suffer if we cannot reach agreement with a key customer based on our trade terms and principles. Further, there is a continuing trend towards retail trade consolidation and this leads to more complex work across broader geographic boundaries for both us and key retailers. This can be particularly difficult when major customers are addressing local trade pressures or local law and regulation changes. Further, our business would be negatively impacted if a key customer were to significantly reduce the range or inventory level of our products.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

In the United States, we own and operate 39 manufacturing facilities located in 23 different states. In addition, we own and operate 103 manufacturing facilities in 42 other countries. Many of the domestic and international facilities produce products for multiple businesses. Beauty products are manufactured at 42 of these locations; Grooming products are manufactured at 13 of these locations; Fabric Care and Home Care products at 49; Baby Care and Family Care products at 29; Pet Care, Snacks and Coffee products at 15; and Health Care products at 37. Management believes that the Company's production facilities are adequate to support the business efficiently and that the properties and equipment have been well maintained.

Item 3. Legal Proceedings.

The Company is subject, from time to time, to certain legal proceedings and claims arising out of our business, which cover a wide range of matters, including antitrust and trade regulation, product liability, advertising, contracts, environmental issues, patent and trademark matters, and taxes.

Recently, the Company has become subject to a variety of investigations into potential competition law violations in the European Union. In July 2006, French authorities, in connection with an inquiry into potential competition law violations in France, entered the premises of two of the Company's French subsidiaries and seized a variety of documents. In April 2008, UK authorities initiated an investigation concerning potential antitrust violations in the UK involving one of the Company's subsidiaries. In June 2008, European Commission officials, with the assistance of the national authorities from a variety of countries, started an investigation into potential competition law violations in a variety of countries across the European Union. At the same time, the national authorities in Spain and Italy initiated additional investigations into potential antitrust concerns within those countries. In connection with these investigations, a number of the Company's subsidiaries were visited and documents seized. The Company or its

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subsidiaries are also involved in other competition law investigations in Belgium, Romania and Greece. We believe that all of the above matters involve a number of other consumer products companies and/or retail customers. The Company's policy is to comply with all laws and regulations, including all antitrust and competition laws.

Competition and antitrust law investigations often continue for several years and, if violations are found, can result in substantial fines. At this point, no formal claims have been made against the Company or any of our subsidiaries in connection with any of above inquiries.

During the fiscal year just ended, certain of the Company's subsidiaries in Germany received a formal complaint alleging violations of the antitrust laws. We are now discussing the situation with the German authorities.

Although the Company cannot accurately predict what financial impact may ultimately result from the totality of these matters, we have taken and will take reserves as appropriate. Please refer to the Company's Risk Factors in Item 1A of this Form 10-K for additional information.

Item 4. Submission of Matters to a Vote of Security Holders.

Not Applicable.

**Table of Contents****Executive Officers of the Registrant**

The names, ages and positions held by the executive officers of the Company on August 28, 2008 are:

Name	Position	Age	Elected to Officer Position
Alan G. Lafley	Chairman of the Board and Chief Executive Officer Director since June 8, 2000	61	1992
Susan E. Arnold	President Global Business Units	54	2004
Robert A. McDonald	Chief Operating Officer	55	1999
Clayton C. Daley, Jr.	Vice Chairman & Chief Financial Officer	56	1998
Werner Geissler	Vice Chairman Global Operations	55	2007
E. Dimitri Panayoptopoulos	Vice Chairman Global Household Care	56	2007
Edward D. Shirley	Vice Chairman Global Beauty & Grooming	51	2008
Robert A. Steele	Vice Chairman Global Health & Well Being	53	2007
Bruce Brown	Chief Technology Officer	50	2008
R. Keith Harrison, Jr.	Global Product Supply Officer	60	2001
Steven W. Jemison	Chief Legal Officer and Secretary	57	2008
Mariano Martin	Global Customer Business Development Officer	55	2003
Moheet Nagrath	Global Human Resources Officer	49	2008
Charlotte R. Otto	Global External Relations Officer	55	1996
Filippo Passerini	Chief Information Officer and Global Services Officer	51	2003
Marc S. Pritchard	Global Marketing Officer	48	2008
Valarie L. Sheppard	Vice President and Comptroller	44	2005

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All of the Executive Officers named above, excluding Mr. Shirley, have been employed by the Company for more than five years. During the previous five years, Mr. Shirley has held the following positions within the Company: Vice Chairman - Global Beauty and Grooming (July 1, 2008 - present), Group President - North America (April 17, 2006 - June 30, 2008) and President - Commercial Operations - Gillette International (October 11, 2005 - April 16, 2006). Mr. Shirley also held the following positions with The Gillette Company prior to its acquisition by the Company in October 2005: President - Gillette International Commercial Operations (June 2004 - October 11, 2005) and Senior Vice President, Gillette Global Value Chain & Global Marketing Resources (June 2002 - May 2004).

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(3)</sup></b>	<b>Approximate dollar value of shares that may yet be purchased under our share repurchase program (\$ in Billions)<sup>(3)</sup></b>
	<b>(1)</b>	<b>(2)</b>		<b>(4)</b>
4/1/08-4/30/08	13,929,269	\$ 69.37	13,912,597	21
5/1/08-5/31/08	7,852,339	\$ 65.94	7,824,090	20.5
6/1/08-6/30/08	7,978,819	\$ 65.91	7,968,090	20

(1) The total number of shares purchased was 29,760,427 for the quarter. All transactions were made in the open market or pursuant to prepaid forward agreements with large financial institutions. Under these agreements, the Company prepaid large financial institutions to deliver shares at a future date in exchange for a discount. The number of shares purchased other than through a



publicly announced repurchase plan was 55,650 for the quarter.

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

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

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

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

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

Additional information required by this item is incorporated by reference to Shareholder Information, which appears on page 79 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008, and Part III, Item 12 of this Form 10-K.

Item 6. Selected Financial Data.

The information required by this item is incorporated by reference to Note 1, Summary of Significant Accounting Policies, which appears on pages 60-63; Note 12, Segment Information, which appears on pages 74-75; and Financial Summary, which appears on page 80 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The information required by this item is incorporated by reference to Management's Discussion and Analysis, which appears on pages 39-55; Note 1, Summary of Significant Accounting Policies, which appears on pages 60-63; Note 2, Acquisitions, which appears on page 63; Note 11, Commitments and Contingencies, which appears on pages 73-74; and Note 12, Segment Information, which appears on pages 74-75 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008.

The Company has made certain forward-looking statements in the Annual Report to Shareholders for the fiscal year ended June 30, 2008 and in other contexts relating to volume and net sales growth, increases in market shares, 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, customer and consumer trends, technological innovation, currency movements, governmental action and the development of certain markets available at the time the statements are made. There are a number of key factors that could cause our actual results to materially differ from the forward-looking statements made herein and in other contexts. Please see Item 1A Risk Factors of this Form 10-K for a discussion of these important factors.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The information required by this item is incorporated by reference to the section entitled Other Information, which appears on pages 54-55, and Note 6, Risk Management Activities, which appears on pages 65-66 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008.

**Item 8. Financial Statements and Supplementary Data.**

The financial statements and supplementary data are incorporated by reference to pages 56-76 and 79-81 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008, but excluding the section entitled Shareholder Return Performance Graphs on page 81.

Note 5 (Short-Term and Long-Term Debt) to the consolidated financial statements incorporated by reference herein includes: The Procter & Gamble Company fully and unconditionally guarantees the registered debt securities issued by its 100% owned finance subsidiaries.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.**

The Company's Chairman of the Board and Chief Executive Officer, A. G. Lafley, and the Company's Chief Financial Officer, Clayton C. Daley, Jr., performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this Annual Report on Form 10-K.

Messrs. Lafley and Daley have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and

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(2) accumulated and communicated to our management, including Messrs. Lafley and Daley, to allow their timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting.**

Management's annual report on internal control over financial reporting and the report of the independent registered public accounting firm are incorporated by reference to page 37 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008.

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

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

**Item 9B. Other Information.**

Not applicable.

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**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

The Board of Directors has determined that Mr. Charles R. Lee, Chairman of the Audit Committee, is independent and an audit committee financial expert, as defined by SEC guidelines.

The information required by this item is incorporated by reference to pages 4-10, up to but not including the section entitled Board and Committee Meeting Attendance; to the section entitled Code of Ethics, which appears on pages 10-11; and to the section entitled Section 16(a) Beneficial Ownership Reporting Compliance, which appears on page 53 of the Proxy Statement filed since the close of the fiscal year ended June 30, 2008, pursuant to Regulation 14A which involved the election of directors. Pursuant to Instruction 3 of Item 401(b) of Regulation S-K, Executive Officers of the Registrant are reported in Part I of this report.

**Item 11. Executive Compensation.**

The information required by this item is incorporated by reference to pages 13-51 of the Proxy Statement filed since the close of the fiscal year ended June 30, 2008, pursuant to Regulation 14A which involved the election of directors, beginning with the section entitled Director Compensation up to but not including the section entitled Security Ownership of Management and Certain Beneficial Owners.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table gives information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of the Company's equity compensation plans as of June 30, 2008. The table includes the following plans: The 1968 Procter & Gamble Plan for the Use of Shares in Payment of Remuneration; The Procter & Gamble 1992 Stock Plan; The Procter & Gamble 1992 Stock Plan (Belgian Version); The Procter & Gamble 1993 Non-Employee Directors' Stock Plan; The Procter & Gamble Future Shares Plan; The Procter & Gamble 2001 Stock and Incentive Compensation Plan; The Procter & Gamble 2003 Non-Employee Directors' Stock Plan; The Gillette Company 1971 Stock Option Plan and The Gillette Company 2004 Long-Term Incentive Plan.

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Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
<b>Equity compensation plans approved by security holders (1)</b>			
Options	283,231,615	\$48.8344	(2)
Restricted Stock Units	4,198,405	N/A	(2)
<b>Equity compensation plans not approved by security holders (3)</b>			
Options	53,945,145	\$45.1620	(4)
Restricted Stock Units	56,884	N/A	(4)
<b>GRAND TOTAL</b>	<b>341,432,049</b>	<b>\$48.2468</b>	<b>61,993,881</b>

*(1) Includes The 1968 Procter & Gamble Plan for the Use of Shares in Payment of Remuneration; The Procter & Gamble 1992 Stock Plan; The Procter & Gamble 1993 Non-Employee Directors Stock Plan; The Procter & Gamble 2001 Stock and Incentive Compensation Plan; and The Procter &*

***Gamble 2003  
Non-Employee  
Directors Stock  
Plan.***

- (2) ***Of the plans listed in (1), only The Procter & Gamble 2001 Stock and Incentive Compensation Plan and The 2003 Non-Employee Directors Stock Plan allow for future grants of securities. The maximum number of shares that may be granted under these plans is 229 million shares, of which no more than 36 million in shares may be available for awards of restricted and unrestricted stock. Total shares available for future issuance under these plans is approximately 50 million.***
- (3) ***Includes The Procter & Gamble 1992 Stock Plan (Belgian version); The Procter & Gamble Future***

*Shares Plan;  
The Gillette  
Company 1971  
Stock Option  
Plan; and The  
Gillette  
Company 2004  
Long-Term  
Incentive Plan.*

- (4) *Of the plans listed in (3), only The Gillette Company 2004 Long-Term Incentive Plan allows for future grants of securities. The maximum number of shares that may be granted under this plan is 20 million shares. Total shares available for future issuance under this plan is approximately 12 million.*

The Procter & Gamble 1992 Stock Plan (Belgian Version)

No further grants can be made under the plan, although unexercised stock options previously granted under this plan remain outstanding. This plan was approved by the Company's Board of Directors on February 14, 1997. Although the plan has not been submitted to shareholders for approval, it is nearly identical to The Procter & Gamble 1992 Stock Plan, approved by the Company's shareholders on October 13, 1992, except for a few minor changes designed to comply with the Belgian tax laws.

The plan was designed to attract, retain and motivate key Belgian employees. Under the plan, eligible participants were: (i) granted or offered the right to purchase stock options, (ii) granted stock appreciation rights and/or (iii) granted shares of the Company's common stock. Except in the case of death of the recipient, all stock options and stock appreciation rights must vest in no less than one year from the date of grant and must expire no later than fifteen years from the date of grant. The exercise price for all stock options granted under the plan is the average price of the Company's stock on the date of grant. If a recipient of a grant leaves the Company while holding an unexercised option or right, any unexercisable portions immediately become void, except in the case of death, and any exercisable portions become void within one month of departure, except in the case of death or retirement. Any common stock awarded under the plan may be subject to restrictions on sale or transfer while the recipient is employed, as the committee administering the plan may determine.



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**The Procter & Gamble Future Shares Plan**

On October 14, 1997, the Company's Board of Directors approved The Procter & Gamble Future Shares Plan pursuant to which options to purchase shares of the Company's common stock may be granted to employees worldwide. The purpose of this plan is to advance the interests of the Company by giving substantially all employees a stake in the Company's future growth and success and to strengthen the alignment of interests between employees and the Company's shareholders through increased ownership of shares of the Company's stock. The plan has not been submitted to shareholders for approval.

Subject to adjustment for changes in the Company's capitalization, the number of shares to be granted under the plan is not to exceed 17 million shares. Under the plan's regulations, recipients are granted options to acquire 100 shares of the Company's common stock at an exercise price equal to the average price of the Company's common stock on the date of the grant. These options vest five years after the date of grant and expire ten years following the date of grant. If a recipient leaves the employ of the Company prior to the vesting date for a reason other than disability, retirement or special separation (as defined in the plan), then the award is forfeited.

At the time of the first grant following Board approval of the plan, each employee of the Company not eligible for an award under the 1992 Stock Plan was granted options for 100 shares. From the date of this first grant through June 30, 2003, each new employee of the Company has also received options for 100 shares. Following the grant of options on June 30, 2003, the Company suspended this part of the plan and intends to make no further grants under this part of the plan. The plan terminated on October 13, 2007.

In addition to the grants above, annual grants of options for 100 shares are granted to approximately 3,000 employees who are not eligible for participation in the 2001 Stock and Incentive Compensation Plan in recognition of outstanding performance. The Company's key managers are not eligible for such grants.

**The Gillette Company 1971 Stock Option Plan**

No further grants can be made under the plan after April 25, 2005, although unexercised stock options previously granted under this plan remain outstanding. The plan was approved by shareholders of The Gillette Company and assumed by the Company upon the merger between The Procter & Gamble Company and The Gillette Company. All options became immediately vested and exercisable on October 1, 2005 as a result of the merger. After the merger, all outstanding options became options to purchase shares of The Procter & Gamble Company subject to an exchange ratio of 0.975 shares of P&G stock per share of Gillette stock.

The plan was designed to attract, retain and motivate key salaried employees of The Gillette Company and non-employee members of its Board of Directors. Under the plan, eligible participants receive the option to purchase Company stock at a pre-determined price which cannot be less than 100% of the fair market value per share at the time that the option is granted. The period of any option may not exceed ten years from the date of grant. Subject to adjustment for changes in the Company's capitalization, the number of shares granted under the plan was not to exceed 198 million shares.

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If a recipient leaves the employ of the Company for any reason other than death or discharge for cause, the recipient is permitted to exercise any vested options granted under the plan for a period between thirty days and five years after termination, depending on the circumstances of his/her departure. If a participant is discharged for cause, all options are immediately cancelled. If a participant dies while holding options, the options are exercisable for a period of one to three years depending on the date of grant. In addition, the plan allows Gillette employees whose employment is terminated for "Good Reason" within two years after the effective date of the merger the ability to exercise remaining options for the shorter of five years following their termination date or the original life of the grant. Employees terminated for "Good Reason" who are also eligible to retire under a Company plan are allowed to exercise their options subject to the original terms of the grant.

**The Gillette Company 2004 Long-Term Incentive Plan**

Shareholders of The Gillette Company approved The Gillette Company 2004 Long Term Incentive Plan on May 20, 2004, and the plan was assumed by the Company upon the merger between The Procter & Gamble Company and The Gillette Company. All options became immediately vested and exercisable on October 1, 2005 as a result of the merger. After the merger, all outstanding options became options to purchase shares of The Procter & Gamble Company subject to an exchange ratio of 0.975 shares of P&G stock per share of Gillette stock. Only employees previously employed by the Gillette Company prior to October 1, 2005 are eligible to receive grants under this plan.

The plan was designed to attract, retain and motivate employees of The Gillette Company, and until the effective date of the merger between The Gillette Company and The Procter & Gamble Company, non-employee members of the Gillette Board of Directors. Under the plan, eligible participants are: (i) granted or offered the right to purchase stock options, (ii) granted stock appreciation rights and/or (iii) granted shares of the Company's common stock or restricted stock units (and dividend equivalents). Subject to adjustment for changes in the Company's capitalization and the addition of any shares authorized but not issued or redeemed under The Gillette Company 1971 Stock Option Plan, the number of shares to be granted under the plan is not to exceed 19 million shares.

Except in the case of death of the recipient, all stock options and stock appreciation rights must expire no later than ten years from the date of grant. The exercise price for all stock options granted under the plan must be equal to or greater than the fair market value of the Company's stock on the date of grant. Any common stock awarded under the plan may be subject to restrictions on sale or transfer while the recipient is employed, as the committee administering the plan may determine.

If a recipient of a grant leaves the Company while holding an unexercised option or right: (1) any unexercisable portions immediately become void, except in the case of death, retirement, special separation (as those terms are defined in the plan) or any grants as to which the Compensation Committee of the Board of Directors has waived the termination provisions; and (2) any exercisable portions immediately become void, except in the case of death, retirement, special separation, voluntary resignation that is not for Good Reason (as those terms are defined in the plan) or any grants as to which the Compensation Committee of the Board of Directors has waived the termination provisions. In addition, the plan allows Gillette employees whose employment was terminated for "Good Reason" within two years of the effective date of the merger the ability to exercise their options for the shorter of five years following their

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termination date or the original life of the grant. Employees terminated for Good Reason who are also eligible to retire under a Company plan are allowed to exercise their options subject to the original terms of the grant.

Additional information required by this item is incorporated by reference to pages 51-53, beginning with the section entitled Security Ownership of Management and Certain Beneficial Owners and up to but not including the section entitled Section 16(a) Beneficial Ownership Reporting Compliance, of the Proxy Statement filed since the close of the fiscal year ended June 30, 2008, pursuant to Regulation 14A which involved the election of directors, including footnotes referenced therein.

**Item 13. Certain Relationships and Related Transactions.**

The information required by this item is incorporated by reference to the sections entitled Director Independence and Review and Approval of Transactions with Related Persons which appear on pages 10 and 11, respectively, of the Proxy Statement filed since the close of the fiscal year ended June 30, 2008, pursuant to Regulation 14A which involved the election of directors.

**Item 14. Principal Accounting Fees and Services.**

The information required by this item is incorporated by reference to pages 54-55 of the Proxy Statement filed since the close of the fiscal year ended June 30, 2008, pursuant to Regulation 14A which involved the election of directors, beginning with the section entitled Report of the Audit Committee and ending with the section entitled Services Provided by Deloitte.

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**PART IV**

Item 15. **Exhibits and Financial Statement Schedules.**

1. Financial Statements:

The following Consolidated Financial Statements of The Procter & Gamble Company and subsidiaries, management's report and the reports of the independent registered public accounting firm are incorporated by reference in Part II, Item 8 of this Form 10-K.

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Consolidated Statements of Earnings for years ended June 30, 2008, 2007 and 2006

Consolidated Balance Sheets as of June 30, 2008 and 2007

Consolidated Statements of Shareholders' Equity for years ended June 30, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for years ended June 30, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

These schedules are omitted because of the absence of the conditions under which they are required or because the information is set forth in the financial statements or notes thereto.

Exhibits:

- |                |  |
|----------------|--|
| Exhibit (3-1)  | Amended Articles of Incorporation (Incorporated by reference to Exhibit (3-1) of the Company's Form 10-Q for the quarter ended September 30, 2005).  |
| (3-2)          | Regulations (as amended by shareholders at the annual meeting on October 10, 2006) (Incorporated by reference to Exhibit (3-2) of the Company's Form 10-Q for the quarter ended September 30, 2006).   |
| Exhibit (4)    | Registrant agrees to file a copy of documents defining the rights of holders of long-term debt upon request of the Commission.   |
| Exhibit (10-1) | The Procter & Gamble 2001 Stock and Incentive Compensation Plan (as amended on August 14, 2007) which was originally adopted by shareholders at the annual meeting on October 9, 2001 (Incorporated by reference to Exhibit (10-1) of the Company's Form 10-Q for the quarter ended March 31, 2008), and related correspondence and terms and conditions.* |

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- (10-2) The Procter & Gamble 1992 Stock Plan (as amended December 11, 2001) which was originally adopted by the shareholders at the annual meeting on October 12, 1992.\*
- (10-3) The Procter & Gamble Executive Group Life Insurance Policy (each executive officer is covered for an amount equal to annual salary plus bonus).\*
- (10-4) The Procter & Gamble Deferred Compensation Plan for Directors (as amended December 12, 2006) which was originally adopted by the Board of Directors on September 9, 1980 (Incorporated by reference to Exhibit (10-3) of the Company's Form 10-Q for the quarter ended December 31, 2006).\*
- (10-5) The Procter & Gamble 1993 Non-Employee Directors' Stock Plan (as amended September 10, 2002) which was originally adopted by the shareholders at the annual meeting on October 11, 1994.\*
- (10-6) The Procter & Gamble 1992 Stock Plan (Belgian Version) (as amended December 11, 2001) which was originally adopted by the Board of Directors on February 14, 1997.\*
- (10-7) The Procter & Gamble Future Shares Plan (as adjusted for the stock split effective May 21, 2004) which was originally adopted by the Board of Directors on October 14, 1997 (Incorporated by reference to Exhibit (10-2) of the Company's Form 10-Q for the quarter ended March 31, 2005).\*
- (10-8) The Procter & Gamble 2003 Non-Employee Directors' Stock Plan (as amended in August 2007) which was originally adopted by the shareholders at the annual meeting on October 14, 2003, and related correspondence and terms and conditions (Incorporated by reference to Exhibit (10-3) of the Company's Annual Report on Form 10-Q for the quarter ended September 30, 2007).\*
- (10-9) The Procter & Gamble Company Executive Deferred Compensation Plan (Incorporated by reference to Exhibit (10-1) of the Company's Form 10-Q for the quarter ended December 31, 2005).\*
- (10-10) Summary of the Company's Short Term Achievement Reward Program and related correspondence and terms and conditions.\*
- (10-11) Summary of the Company's Business Growth Program and related correspondence and terms and conditions (Incorporated

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- by reference to Exhibit (10-2) of the Company's Form 10-Q for the quarter ended March 31, 2007).\*
- (10-12) Company's Form of Separation Agreement & Release (Incorporated by reference to Exhibit (10-3) of the Company's Form 10-Q for the quarter ended March 31, 2007).\*
- (10-13) Summary of personal benefits available to certain officers and non-employee directors (Incorporated by reference to Exhibit (10-13) of the Company's Annual Report on Form 10-K for the year ended June 30, 2007).\*
- (10-14) Amended Revolving Credit Agreement among Procter & Gamble International S.a.r.l and a syndicate of banks led by Citigroup.
- (10-15) The Gillette Company 1971 Stock Option Plan (Incorporated by reference to Exhibit (10-2) of the Company's Form 10-Q for the quarter ended December 31, 2005).\*
- (10-16) The Gillette Company 2004 Long-Term Incentive Plan (as amended on August 14, 2007) (Incorporated by reference to Exhibit (10-4) of the Company's Form 10-Q for the quarter ended September 30, 2007).\*
- (10-17) Amended and Restated Employment Agreement, dated December 23, 2004, between The Gillette Company and James M. Kilts (Incorporated by reference to Exhibit 10(g) of the Annual Report on Form 10-K filed by The Gillette Company for the year ended December 31, 2004, Commission File No. 1-922).\*
- (10-18) Amendment No. 1 to the Amended and Restated Employment Agreement dated as of December 23, 2004, entered into as of January 27, 2005, between The Gillette Company and James M. Kilts (Incorporated by reference to Exhibit 10.2 of the Form 8-K filed by The Gillette Company on January 28, 2005, Commission File No. 1-922).\*
- (10-19) Stock Option Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, filed as Exhibit A to the Amended and Restated Employment Agreement between The Gillette Company and James M. Kilts (Incorporated by reference to Exhibit 10(g) of the Annual Report on Form 10-K filed by The Gman">***Interfund Transfers*** - Participants are permitted to change the investment of their interests in any of the participant directed funds on a daily basis subject to certain limits, with the exception of the Fidelity Managed Income Portfolio, which may be changed on a monthly basis. As a result of the Pension Protection Act of 2006, effective January 1, 2007, participants may, at their discretion, diversify out of the Berkshire B ESOP Fund to any other participant-directed funds offered in the Plan. This includes both the Company match amounts and additional contributions. There are no service, age or vesting restrictions on a participant's ability to divest and participants will have sole discretion regarding the amount of shares to divest and the timing of these divestiture elections.

***Participant Loans*** - The Plan allows participants to borrow from the before-tax and rollover portions of their respective accounts. Loans may not exceed the lesser of one-half of the participant's vested account balance or \$50,000. Non-residence loans are written for periods of 6 to 60 months. The Plan also allows loans granted for

purchases of principal residences to be repaid over a 30-year period. A fixed interest rate of the prime rate plus one percent calculated at the inception of the loan is charged over the life of the loan. The interest rate for new loans was 4.25% in 2014 and 2013. Interest and principal repayments are credited directly to the borrower's respective account and are repaid in monthly installments by payroll deductions. Loan notes receivable balances outstanding are reflected as assets of the Plan.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting*** - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The financial statements are prepared under the accrual basis of accounting.

***Use of Estimates*** - The preparation of financial statements in conformity with GAAP requires Plan management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Risk and Uncertainties*** - The Plan utilizes various investment instruments, including common stock, mutual funds, and a stable value fund. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. Such changes could also materially affect participant account balances.

***Investment Valuation and Income Recognition*** - The Plan's investments are stated at fair value. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's investments in common stock and mutual funds are valued at the closing price reported on the New York Stock Exchange and other markets on the last business day of the Plan year. Money market funds are stated at amortized cost, which approximates fair value. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year-end.

In accordance with GAAP, a stable value fund is included at fair value in participant-directed investments in the statements of net assets available for benefits. The statement of changes in net assets available for benefits is presented on a contract value basis. As the fair value and contract value of the stable value fund approximate each other, an additional line item representing the adjustment from fair value to contract value was not presented in the statements of net assets available for benefits.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

**Notes Receivable from Participants** - Notes receivable from participants are measured at their unpaid principal balance plus accrued interest. Delinquent notes receivable are recorded as distributions based on the terms of the Plan document. Notes receivable are measured with no allowance for credit losses since repayment of principal and interest are received through payroll deductions and the notes are collateralized by the individual participant's account balances.

**Expenses** - The management and service fees of the Fidelity Group of Mutual Funds are charged to operations of the respective funds. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments. State Street fees and administrative expenses, primarily consulting and auditing fees, are paid by the Company.

**Payment of Benefits** - Benefit payments to participants are recorded upon distribution. All amounts allocated to accounts of participants who have elected to withdraw from the Plan have been paid as of December 31, 2014 and 2013.

### 3. INVESTMENTS

The Plan has an agreement with Fidelity Management Trust Company to perform record keeping and investment management functions for the Plan.

The investment fund options available to participants as of December 31, 2014 were:

Allianz International Value Fund

American Beacon Large-Cap Fund

American Funds Capital World Growth & Income Fund

Berkshire B Unitized Stock Fund

Fidelity Balanced Fund

Fidelity Freedom 2010 Fund

Fidelity Freedom 2015 Fund

Fidelity Freedom 2020 Fund

Fidelity Freedom 2025 Fund



Fidelity Freedom 2030 Fund

Fidelity Freedom 2035 Fund

Fidelity Freedom 2040 Fund

Fidelity Freedom 2050 Fund

Fidelity Freedom Index Income Fund

Fidelity Growth Company Fund

Fidelity Managed Income Portfolio

Fidelity Real Estate Fund

Fidelity Retirement Government Portfolio

Goldman Sachs Mid-Cap Value Fund

Lazard Emerging Markets Portfolio

Neuberger Berman Genesis Trust Fund

PIMCO Global Bond Fund

PIMCO High Yield Fund

Spartan US Bond Index Fund

Vanguard All World Index Fund

Vanguard Inflation Protected Fund

Vanguard Institutional Index Fund

Vanguard Mid-Cap Index Fund

Vanguard Small-Cap Index Fund

The Plan's investments that represented 5% or more of the Plan's net assets available for benefits as of December 31, 2014 and 2013 were as follows:

	2014	2013
Berkshire B ESOP Fund 5,215,181 and 5,511,112 shares, respectively	\$ 783,059,534 #	\$ 653,397,324 #
Fidelity Growth Company Fund 581,150 and 580,925 shares respectively	76,549,139	69,542,487
# Nonparticipant directed		

During the year ended December 31, 2014, the Plan's investments appreciated (depreciated) in value as follows:

	2014 Net Appreciation (depreciation) in Fair Value of Investments
Berkshire Common Stock	\$ 180,363,010
Mutual Funds	14,998,890
Total net appreciation in fair value of investments	\$ 195,361,900

#### 4. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows: Level 1, which refers to securities valued using unadjusted quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Plan's policy is to recognize significant transfers between levels at the actual date of the event or change in circumstances that caused the transfer at the end of the reporting period.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following is a description of the valuation methodologies used for Plan assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2014 and 2013.

*Berkshire Common Stock* Classified as Level 1 as it is valued at the closing price reported on the active market on which the individual securities are traded.

*Berkshire B Unitized Stock Fund* Classified as Level 2 as it is a unitized employer stock fund comprised of underlying Berkshire Common Stock and a short-term cash component. A unitized fund is not a registered security. The value of the unit reflects the combined market value of the underlying stock and market value of the short-term cash position. The market value of the common stock portion of the Berkshire B Unitized Stock Fund is based on the closing market price of the Berkshire Common Stock on the New York Stock Exchange multiplied by the number of shares held in the fund. The market value of the short-term cash component approximates fair value. The net asset per unit of the Berkshire B Unitized Stock Fund was \$55.28 and \$43.74 as of December 31, 2014 and 2013, respectively.

*Money Market Fund U.S. Government Securities* Short-term money market obligations are valued at \$1.00 per share and are classified within Level 2 of the valuation hierarchy.

*Mutual Funds* Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded and are classified as Level 1.

*Stable Value Fund* This consists of the Managed Income Portfolio ( MIP ), which is a common collective trust fund sponsored by Fidelity and is considered to be a stable value fund with underlying investments in investment contracts that carry a benefit responsiveness feature. This guarantees that participant-initiated withdrawals from the fund will be covered at contract value. The MIP is valued at fair value and then adjusted by the issuer to contract value. Fair value is estimated using Net Asset Value per share and contract value is equal to the sum of all of the benefits owed to participants in that fund. This is classified within Level 2 of the valuation hierarchy as participants may ordinarily direct the withdrawal or transfer all of, or a portion of, their investment at contract value.

The following tables set forth by level within the fair value hierarchy a summary of the Plan's investments measured and reported at fair value on a recurring basis at December 31, 2014 and 2013. Notes receivable from participants and the Loan payable to the Company are not reported at fair value.

	<b>2014 Total</b>	<b>Active Markets for Identical Assets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Berkshire B ESOP Fund	\$ 783,059,534	\$ 783,059,534	\$ -	\$ -
Berkshire B Unitized Stock Fund	63,371,466	-	63,371,466	-
Money Market	44,833,801	-	44,833,801	-
Mutual Funds:				
Large Cap	152,156,021	152,156,021	-	-
Mid Cap	38,626,195	38,626,195	-	-
Small Cap	48,643,385	48,643,385	-	-
International	53,844,139	53,844,139	-	-
Bond	64,020,222	64,020,222	-	-
Balanced	40,972,454	40,972,454	-	-
Real Estate	12,774,183	12,774,183	-	-
Target-date Funds	55,328,843	55,328,843	-	-
Other	1,277,200	1,277,200	-	-
Stable Value Fund	19,796,456	-	19,796,456	-
<b>Total Investments</b>	<b>\$ 1,378,703,899</b>	<b>\$ 1,250,702,176</b>	<b>\$ 128,001,723</b>	<b>\$ -</b>

	<b>2013 Total</b>	<b>Active Markets for Identical Assets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Berkshire B ESOP Fund	\$ 653,397,324	\$ 653,397,324	\$ -	\$ -
Berkshire B Unitized Stock Fund	54,051,431	-	54,051,431	-
Money Market	48,545,561	-	48,545,561	-
Mutual Funds:				
Large Cap	140,877,828	140,877,828	-	-
Mid Cap	34,711,832	34,711,832	-	-
Small Cap	50,992,041	50,992,041	-	-
International	58,259,056	58,259,056	-	-
Bond	59,851,044	59,851,044	-	-
Balanced	33,746,960	33,746,960	-	-
Real Estate	10,713,898	10,713,898	-	-
Target-date Funds	50,727,282	50,727,282	-	-
Other	1,147,449	1,147,449	-	-
Stable Value Fund	19,702,413	-	19,702,413	-

Total Investments	\$ 1,216,724,119	\$ 1,094,424,714	\$ 122,299,405	\$ -
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For the year ended December 31, 2014, there were no significant transfers in or out of Levels 1, 2 or 3.

**5. NET ASSET VALUE PER SHARE**

The following tables set forth a summary of the Plan's investments with a reported net asset value as of December 31, 2014 and 2013.

**Fair Value Estimated Using Net Asset Value per Share  
December 31, 2014**

<b>Investment</b>	<b>Fair Value</b>	<b>Unfunded Commitment</b>	<b>Redemption Frequency</b>	<b>Other Redemption Restrictions</b>	<b>Redemption Notice Period</b>
Fidelity Managed Income Portfolio	\$ 19,796,456	\$ -	Monthly	None	None
Fidelity Retirement Government Portfolio	44,833,801	-	Immediate	None	None
Berkshire B Unitized Stock Fund	63,371,466	-	Immediate	None	None
<b>Total</b>	<b>\$ 128,001,723</b>	<b>\$ -</b>			

**Fair Value Estimated Using Net Asset Value per Share  
December 31, 2013**

<b>Investment</b>	<b>Fair Value</b>	<b>Unfunded Commitment</b>	<b>Redemption Frequency</b>	<b>Other Redemption Restrictions</b>	<b>Redemption Notice Period</b>
Fidelity Managed Income Portfolio	\$ 19,702,413	\$ -	Monthly	None	None
Fidelity Retirement Government Portfolio	48,545,561	-	Immediate	None	None
Berkshire B Unitized Stock Fund	54,051,431	-	Immediate	None	None
<b>Total</b>	<b>\$ 122,299,405</b>	<b>\$ -</b>			

The Fidelity Managed Income Portfolio is comprised of investment contracts issued by insurance companies and other financial institutions, fixed income securities, and money market funds. The fund invests in fixed income securities which may include U.S Treasury and agency bonds, corporate bonds, mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities and shares of money market funds. The Portfolio may also invest in futures contracts, option contracts and swap agreements.

The Fidelity Retirement Government Portfolio's objective is to obtain as high a level of current income as is consistent with the security of principal and liquidity. The fund normally invests at least 80% of assets in U.S. Government securities and repurchase agreements for those securities.

The Berkshire B Unitized Stock Fund is an institutional fund that invests in Berkshire Common Stock and short-term cash and cash equivalents.

**6. PLAN TERMINATION**

The Company intends to continue and operate the Plan, but reserves the right to suspend contributions temporarily or to amend or terminate the Plan. If the Plan were to be terminated, all participants would become fully vested, and all the Plan assets would be used solely to provide the benefits payable to participants and their beneficiaries, in accordance with the provisions of ERISA.



## **7. EXEMPT PARTY-IN-INTEREST TRANSACTIONS**

Certain Plan investments are shares of mutual funds or a collective trust managed by Fidelity Investments Institutional Operations Company, Inc. ( FIIO ) Fidelity Management Trust Company ( FMTC ) is the administrator as defined by the Plan and these transactions qualify as exempt party-in-interest transactions. FIIO and FMTC are affiliated entities. Fees paid by the Plan for investment management services were included as a reduction of the return earned on each fund. The fees are also considered a party-in-interest transaction.

The Berkshire B ESOP Fund and the Berkshire B Unitized Stock Fund consist of Berkshire Common Stock shares issued by Berkshire Hathaway Inc., the ultimate parent of the Plan sponsor.

Shares of Berkshire Common Stock in the Berkshire B ESOP Fund have fair values of \$783,059,534 and \$653,397,324 as of December 31, 2014 and 2013, respectively. These investments appreciated in value during the year ended December 31, 2014 by \$167,084,756.

Shares of Berkshire Common Stock and cash in the Berkshire B Unitized Stock Fund had fair values of \$63,371,466 and \$54,051,431 as of December 31, 2014 and 2013, respectively. These investments appreciated in value during the year ended December 31, 2014 by \$13,278,254.

Notes receivable from participants are also considered party-in-interest transactions.

Certain administrative functions may be performed by officers and employees of the Company and these officers and employees may also be participants of the Plan. The Company pays the salaries of these officers and employees on behalf of the Plan.

## **8. FEDERAL INCOME TAX STATUS**

The Internal Revenue Service ( IRS ) has determined and informed the Company by a letter dated May 11, 2010, that the Plan and related trust were designed in accordance with the applicable regulations of the IRC. The Plan has been amended since receiving the determination letter; however, the Plan Administrator and the Plan s tax counsel believe that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan s financial statements.

GAAP requires Plan management to evaluate tax provisions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more than not would not be sustained upon examination by the IRS. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2010.

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**EMPLOYEE SAVINGS AND STOCK OWNERSHIP PLAN OF  
GENERAL RE CORPORATION AND ITS DOMESTIC SUBSIDIARIES  
FORM 5500, SCHEDULE H, PART IV, LINE 4i - SCHEDULE OF ASSETS  
(HELD AT END OF YEAR) AS OF DECEMBER 31, 2014**

(a)	(b)	(c)	(d)	(e)
Identity of Issue, Borrower,		Description of Investment, Including Maturity Date, Rate of Interest, Collateral,		
Lessor or Similar Party	Par or Maturity Value		Cost	Current Value
Separately Managed Funds:				
*	Berkshire Hathaway	Berkshire B ESOP Fund	\$84,955,298	\$ 783,059,534
*	Berkshire Hathaway	Berkshire B Unitized Stock Fund - Common Stock	**	62,594,342
		Berkshire B Unitized Stock Fund - Cash	**	777,124
Mutual Funds:				
*	Fidelity	Growth Company Fund	**	76,549,139
	Vanguard	Institutional Index Fund	**	58,097,874
*	Fidelity	Retirement Government Portfolio	**	44,833,801
*	Fidelity	Balanced Fund	**	40,972,454
	Vanguard	Small-Cap Index Fund	**	26,086,919
	Neuberger Berman	Genesis Trust Fund	**	22,556,466
	Vanguard	Mid-Cap Index Fund	**	22,438,842
*	Fidelity	Spartan US Bond Index Fund	**	21,808,903
	Lazard	Emerging Markets Portfolio	**	19,128,292
	American Beacon	Large-Cap Fund	**	17,509,008
	Vanguard	Inflation Protected Fund	**	16,833,321
	Goldman Sachs	Mid-Cap Value Fund	**	16,187,353
	PIMCO	High Yield Fund	**	14,430,912
*	Fidelity	Freedom 2020 Fund	**	13,596,662
	American Funds	Capital World Growth & Income Fund	**	13,577,099
*	Fidelity	Freedom 2025 Fund	**	13,267,421
*	Fidelity	Real Estate Fund	**	12,774,183
	Allianz	International Value Fund	**	11,685,378
	PIMCO	Global Bond Fund	**	10,947,086
	Vanguard	All World Index Fund	**	9,453,370
*	Fidelity	Freedom 2030 Fund	**	7,296,509
*	Fidelity	Freedom 2015 Fund	**	7,150,022
*	Fidelity	Freedom 2035 Fund	**	6,703,543

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*	Fidelity	Freedom 2040 Fund	**	4,504,206
*	Fidelity	Freedom 2010 Fund	**	2,710,597
*	Fidelity	Freedom Index Income Fund	**	1,277,200
*	Fidelity	Freedom 2050 Fund	**	99,883
Collective Trust:				
*	Fidelity Management Trust Co.	Managed Income Portfolio	**	19,796,456
Notes Receivable:				
*	Various Participants	Notes Receivable (Maturity through 2044 at interest rates from 4.25% to 11.50%)	**	5,767,597
Total				\$ 1,384,471,496

\*Party-in-interest.

\*\*Cost information is not required for participant directed investments and, therefore, is not included.