P&G

# 2006 Global Sustainability & Philanthropy Report

# P&G Global Sustainability

Sustainable development is a simple idea – ensuring a better quality of life for everyone, now and for generations to come.[1]

P&G embraces sustainable development as a potential business opportunity, as well as a corporate responsibility. Through our activities we contribute to the economic and social well-being of a range of stakeholders, including employees, shareholders, communities in which we operate, and more widely, to regional, national and international development. In summary, P&G contributes to sustainable development through both what we do and how we do it.

"What we do" is provide branded products and services of superior quality and value that improve the lives of the world's consumers via health, hygiene or convenience.

"How we do it" includes addressing any environmental and socioeconomic issues associated with our products and services. Our Principles, Values and Statement of Purpose, which are central to P&G's organization, act as guidance for the development of our entire organizational structure, all over the world. They are the basis for an integrated set of management systems and policies applied across the whole Company.

As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper.

[1] Definition from UK government report from Department for the Environment, Transport and the Regions, 1998.

**On the Cover**
For this mother in the Dominican Republic, PUR Purifier of Water has brought an affordable, easy, reliable way to provide safe drinking water for her family.

Visit **www.pg.com/sr**

**Contents**


CEO Statement 2
Vision 3
P&G Profile 4
Structure and Governance 17
Performance Indicators 26
Economic Development 32
Environmental Protection 39
Social Responsibility 51
Index 82
Contact 87

## CEO Statement

**A.G. Lafley**
Chairman of the Board,
President and Chief Executive

P&G is 169 years old. For perspective, there are fewer than 50 U.N. member nations that have been around longer. Only four of the 50 largest companies in the United States have been in business as long.

So I think a lot about what has enabled P&G to sustain growth over such a long period of time.

We take pride in serving more than 3 billion consumers every day and creating value for shareholders. This is necessary but not sufficient. We must not only sustain growth. We must also contribute to the sustainability of the world we live and work in today, for the benefit of our children and grandchildren tomorrow.

Companies like P&G are a force in our world. Of the world's 100 largest economic entities, 42 are corporations.

The challenge is to figure out where and how a company like P&G can make the most meaningful difference. We need to ask ourselves how we can use our technologies, our human capital and our global presence and experience to help ensure a sustainable future for the people who need help and hope the most. These are important questions because the best way to ensure P&G efforts are sustainable is to link them to our core capabilities and unique strengths.

Today, we are focused on helping children in need *Live, Learn and Thrive*. Our signature program is *Children's Safe Drinking Water*.

We work with a global network of partners, NGOs, governments and other companies to provide our unique PUR Purifier of Water in places like Haiti, Uganda, Malawi, Kenya, Ethiopia and the Dominican Republic. These are countries where drinking unsafe water kills more than 4,000 babies and young children every day. We also work with relief partners to provide safe water in emergency situations, such as the South Asia tsunami and the Pakistan earthquake.

Quite frankly, PUR Purifier of Water was not a commercial success. The people who need it most are least able to afford it. But we stuck with the program because we believed it was the right thing to do and we knew we could make a difference. And we created an innovative, market-based distribution model that makes it economically feasible to get this product where it's needed most. We've provided more than 50 million packets, purifying more than 500 million liters of water, since the program began.

I'm particularly proud that Phil Souter and Colin Ure, who invented this life-saving technology, were recognized this past year by the Intellectual Property Owners Education Foundation as the 2006 Inventors of the Year. When all is said and done, it is our people who make P&G the great organization it is.

***Our Purpose inspires us.***
***Our Values unite us.***
***And our strengths enable us to make small but meaningful differences in people's lives, every day.***

## Vision

**Peter R. White**
Director,
Global Sustainability

For P&G, the past year has been one of combination, transitions and seeing the long-term benefits of our commitment to all three pillars of sustainable development: *economic development, environmental protection* and *social responsibility*.

The "combination" occurred at our topmost level: In October 2005, two great, innovative companies – Gillette and P&G – became one. Both companies have individual histories of embracing and leading industry change. This includes leadership in sustainable development, and we will continue, together, to make sustainability integral to our success.

The "transition" occurred this past spring and summer, when our philanthropy and sustainability organizations merged. The new organization is overseeing the totality of our sustainability commitment, from our responsibility to society to finding business-building value and opportunity in our approach to sustainability.

It was our work on safe drinking water – our delivery of a total of 500 million liters of safe water in 10 countries – that demonstrated the synergies available to us. Our work to provide safe water in disaster relief situations has proven integral to creating freestanding social markets, with our NGO partners, which provide safe water on a sustainable basis to the poorest areas on our planet.

With the combination of our philanthropy and sustainability groups, we have combined our philanthropy/corporate contributions and sustainability reports. We hope you will find that this new report more comprehensively addresses your questions about and interest in our commitment to sustainable development, and to society in general.

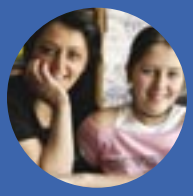
Our commitment to sustainability comes alive on our brands as well. Our Pampers brand, which has been working toward sustainability for two decades, is a good place to see the benefits. Pampers shows how long-term commitment to sustainable development, across all three of its pillars, leads to long-term growth in equity of P&G's business and its brands. And it shows how far we've come from the days when, too often, we looked at sustainability as a series of one-time initiatives and innovations. Elsewhere in this report, I urge you to read in more detail about how Pampers is touching all three pillars of sustainability – shrinking its environmental footprint, delivering a better quality of life to both baby and caregiver, and growing the business of our largest brand.

Finally, I would like to take this opportunity to thank one of P&G's sustainability pioneers – George Carpenter, Director of Global Sustainability – who retired this October. George has defined environmental quality and sustainability, both within P&G and externally. For 34 years, he led and shaped P&G's strategies, programs and relationships in every aspect of environmental quality, workplace health and safety, and corporate social responsibility. In 1999, he led the creation of P&G's sustainability group. From the outset, George was determined to make sustainability a business driver. Today our business units embrace sustainability more strongly than ever, and we have robust systems to ensure we deliver on our commitments. Much credit for this goes to George. We thank him and wish him the best.

***P&G's commitment to sustainability brings people a better quality of life now and for generations to come.***

# P&G Profile

Three billion times a day, P&G brands touch the lives of people around the world. This happens because P&G provides branded products of superior quality and value to improve the lives of the world's consumers. This results in leadership sales, profit and value creation, allowing employees, shareholders and the communities in which we operate to prosper.



**P&G products are sold in more than 180 countries**

**P&G has operations in more than 80 countries**

# Now in its 169th year, P&G has built a strong foundation for consistent, sustainable growth.

P&G's world headquarters is located in Cincinnati, Ohio, U.S.A. The Company markets 300 branded products in more than 180 countries. We have on-the-ground operations in over 80 countries and employ nearly 140,000 people.

P&G is a publicly owned company. Its stock is listed and traded on the New York and Paris exchanges.

As of July 3, 2006, there were approximately 2,086,000 common stock shareowners, including shareholders of record, participants in the Shareholder Investment Program, participants in P&G stock ownership plans and beneficial owners with accounts at banks and brokerage firms.

This is the eighth Sustainability Report for P&G's worldwide operations. Data in this report covers the period from July 1, 2005, through June 30, 2006. Financial information is given in U.S. dollars.

Web

For more information on P&G's investor relations, please visit our website at: www.pg.com/investors/sectionmain.jhtml

Please visit www.pg.com for the latest news and in-depth information about P&G and its brands.

## Global Key Brands

Of P&G's 300 branded products around the world, these are the ones we consider our key brands.

| GBU | Segment | Key Products | Key Brands | Net Sales by GBU[1] (in billions) |
|---|---|---|---|---|
| **BEAUTY AND HEALTH** | Beauty | Cosmetics, Deodorants, Feminine Care, Fine Fragrances, Hair Care, Hair Colorants, Personal Cleansing, Professional Hair Care, Skin Care | Always, Head & Shoulders, Olay, Pantene, Wella, Cover Girl, Gillette Series, Herbal Essences, Hugo Boss, Nice 'n Easy, Old Spice, Safeguard, Secret, SK-II, Tampax | **$29.0** |
| | Health Care | Oral Care, Pharmaceuticals, Personal Health Care | Actonel, Crest, Oral-B, Asacol, Fixodent, Metamucil, Pepto-Bismol, Prilosec OTC, PUR, Scope, ThermaCare, Vicks | |
| **HOUSEHOLD CARE** | Fabric Care and Home Care | Fabric Care, Dish Care, Surface Care, Air Care, Commercial Products Group | Ariel, Dawn, Downy, Tide, Ace, Bold, Bounce, Cascade, Cheer, Dash, Fairy, Febreze, Gain, Mr. Clean, Swiffer | **$33.5** |
| | Baby Care and Family Care | Diapers, Baby Wipes, Bath Tissue, Kitchen Towels, Facial Tissue | Bounty, Charmin, Pampers, Dodot, Kandoo, Luvs, Puffs, Tempo | |
| | Pet Health, Snacks and Coffee | Coffee, Pet Health, Snacks | Folgers, Iams, Pringles, Eukanuba, Millstone | |
| **GILLETTE GBU** | Blades and Razors | Men's and Women's Blades and Razors | MACH3, Venus, Fusion, Gillette Sensor, Gillette Double Edge, Gillette Atra, Prestobarba | **$ 6.4** |
| | Duracell and Braun | Batteries, Electric Razors, Small Appliances | Duracell, Braun Activator, Braun 360 Complete, Braun X'elle, Nanfu | |

(1) Offset by $0.7 billion of net sales generated by companies for which P&G exerts significant influence but does not consolidate, and other miscellaneous activities.

# 22 Billion-Dollar Brands

## Billion-Dollar Brands

P&G has 22 brands with annual sales of a billion dollars or more.

*In alphabetical order:*

Actonel
A prescription medication to treat and prevent postmenopausal osteoporosis.

Always/Whisper
Women around the world count on Always and Whisper feminine protection.

Ariel
Fabric cleaning and care at its best.

Bounty
Spills happen. With the Quilted Quicker Picker-Upper paper towel, cleanup is easy.

Braun Electric Razor
Keeping millions of men well-shaved and well-groomed.

Charmin
America's favorite bathroom tissue.

Crest
Oral care products, creating beautiful, healthy smiles every day.

Dawn
No matter what your dishwashing need, Dawn has a product that's right for you.

Downy/Lenor
Laundry feels soft and smells fresh because of Downy and Lenor.

Duracell
You can depend on powerful, long-lasting Duracell batteries.

Folgers
Millions of Americans wake up with Folgers coffee every day.

Gillette Gel
Get a close shave, with comfort.

Gillette MACH3 Razor
Battery-powered shaving. Push the button, feel the power.

Head & Shoulders
Smooth, beautiful, flake-free hair. It's not what you'd expect in a dandruff shampoo. Head & Shoulders has 12 customized formulas – one just for you.

Iams
Nutrition for every life stage and lifestyle of your pet.

Olay
Designed for women of all ages to "love the skin they're in."

Oral-B
Dental hygiene products used by dentists themselves.

Pampers
Millions of babies experience the comfort and dryness of Pampers diapers.

Pantene
Hair around the world shines because of Pantene hair care products.

Pringles
Potato chips: Once you "pop," the fun doesn't stop!

Tide
Tough cleaning power that gets out laundry stains.

Wella
Hair care products used in salons and at home.

# P&G's Equity

Our Purpose, Values and Principles guide everything we do, all over the world. Our people bring them to life. Our Success Drivers define what makes our people succeed.

## Our Purpose

We will provide branded products and services of superior quality and value that improve the lives of the world's consumers.

As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.

## Our Values

P&G is its people and the values by which we live. We attract and recruit the finest people in the world. We build our organization from within, promoting and rewarding people without regard to any difference unrelated to performance. We act on the conviction that the men and women of Procter & Gamble will always be our most important asset.

**P&G Brands and P&G People are the foundation of P&G's success. P&G People bring the values to life as we focus on improving the lives of the world's consumers.**

### Integrity

- We always try to do the right thing.
- We are honest and straightforward with each other.
- We operate within the letter and spirit of the law.
- We uphold the values and principles of P&G in every action and decision.
- We are data-based and intellectually honest in advocating proposals, including recognizing risks.

### Leadership

- We are all leaders in our area of responsibility, with a deep commitment to deliver leadership results.
- We have a clear vision of where we are going.
- We focus our resources to achieve leadership objectives and strategies.
- We develop the capability to deliver our strategies and eliminate organizational barriers.

### Ownership

- We accept personal accountability to meet the business needs, improve our systems and help others improve their effectiveness.
- We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind.

### Passion for Winning

- We are determined to be the best at doing what matters most.
- We have a healthy dissatisfaction with the status quo.
- We have a compelling desire to improve and to win in the marketplace.

### Trust

- We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.
- We have confidence in each other's capabilities and intentions.
- We believe that people work best when there is a foundation of trust.

## Our Principles

These are the Principles and supporting behaviors, which flow from our Purpose and Values.

### We Show Respect for All Individuals

- We believe that all individuals can and want to contribute to their fullest potential.
- We value differences.
- We inspire and enable people to achieve high expectations, standards and challenging goals.
- We are honest with people about their performance.

### The Interests of the Company and the Individual are Inseparable

- We believe that doing what is right for the business with integrity will lead to mutual success for both the Company and the individual. Our quest for mutual success ties us together.
- We encourage stock ownership and ownership behavior.

### We are Strategically Focused in Our Work

- We operate against clearly articulated and aligned objectives and strategies.
- We only do work and only ask for work that adds value to the business.
- We simplify, standardize and streamline our current work whenever possible.

### Innovation is the Cornerstone of Our Success

- We place great value on big, new consumer innovations.
- We challenge convention and reinvent the way we do business to better win in the marketplace.

### We are Externally Focused

- We develop superior understanding of consumers and their needs.
- We create and deliver products, packaging and concepts that build winning brand equities.
- We develop close, mutually productive relationships with our customers and our suppliers.
- We are good corporate citizens.

### We Value Personal Mastery

- We believe it is the responsibility of all individuals to continually develop themselves and others.
- We encourage and expect outstanding technical mastery and executional excellence.

### We Seek to be the Best

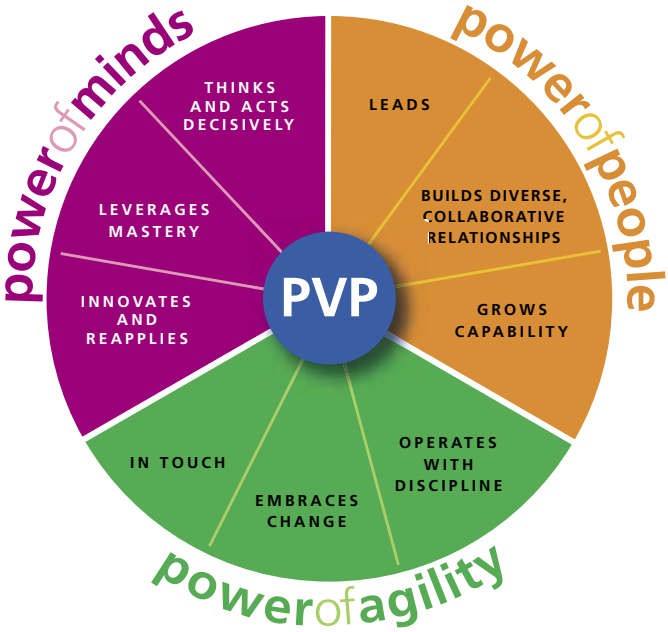
- We strive to be the best in all areas of strategic importance to the Company.
- We benchmark our performance rigorously versus the very best internally and externally.
- We learn from both our successes and our failures.

### Mutual Interdependency is a Way of Life

- We work together with confidence and trust across business units, functions, categories and geographies.
- We take pride in results from reapplying others' ideas.
- We build superior relationships with all the parties who contribute to fulfilling our Corporate Purpose, including our customers, suppliers, universities and governments.

Web

To read more on sustainable development guidelines for business conduct based on P&G's PVP, download the brochure:
www.pg.com/content/pdf/01_about_pg/01_about_pg_homepage/about_pg_toolbar/download_report/values_and_policies.pdf




## Success Drivers

Success Drivers are the competencies that define how our people succeed in today's business environment. They are the characteristics we look for in new employees, how we measure performance in the Company, and the basis for our employee-development and career systems.

P&G's edge over competition – the advantage that's hardest for competitors to duplicate – is P&G people.

## Organizational Structure

We have an organizational structure composed of three Global Business Units (GBUs) and a Global Operations group. The Global Operations group consists of the Market Development Organizations (MDOs) and Global Business Services (GBS). The heads of the three GBUs and Global Operations each report to the Chief Executive Officer.

### Global Business Units

Our three GBUs are Beauty and Health, Household Care and Gillette GBU.

The GBUs leverage their consumer understanding to develop overall strategy for our brands. They identify common consumer needs, develop new products and build our brands through effective marketing innovations.

### Global Operations

The MDOs develop go-to-market plans at the local level, leveraging their understanding of the local consumer and customer. MDOs are organized along seven geographic regions. (See next page for map.)

### Global Business Services

GBS operates as the "back office" for the GBU and MDO organizations, providing world-class technology, processes and standard data tools to better understand the business and better serve consumers and customers. GBS personnel, or highly efficient and effective third-party partners, provide these services.

***The MDO is focused on winning the "first moment of truth" – when a consumer stands in front of the shelf and chooses a product from among many competitive offerings.***

***The GBU is focused on winning the "second moment of truth" – when the consumer uses the product and evaluates how well it meets his or her expectations.***

# The Three GBUs Operate in the Seven MDOs

## Global Business Units (GBUs)

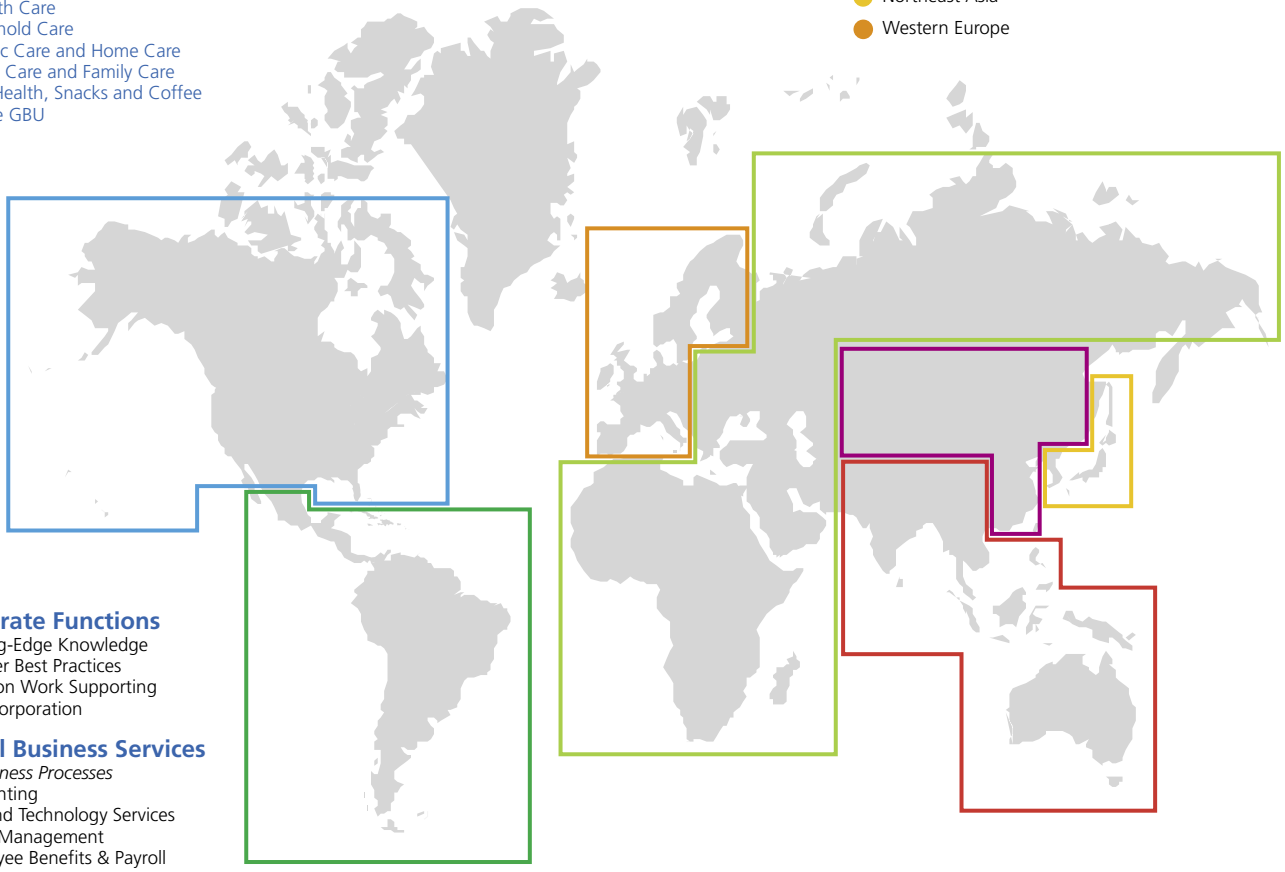
- Business Strategy and Planning
- Brand Innovation and Design
- New Business Development
- Full Profit Responsibility

- Beauty and Health
  - Beauty
  - Health Care
- Household Care
  - Fabric Care and Home Care
  - Baby Care and Family Care
  - Pet Health, Snacks and Coffee
- Gillette GBU

## Market Development Organizations (MDOs)

- Market Strategy
- Customer Development
- External Relations
- Recruiting

- Asean, Australasia and India
- Central & Eastern Europe, Middle East and Africa
- Greater China
- Latin America
- North America
- Northeast Asia
- Western Europe



## Corporate Functions

- Cutting-Edge Knowledge
- Transfer Best Practices
- Function Work Supporting P&G Corporation

## Global Business Services

*Key Business Processes*

- Accounting
- Info and Technology Services
- Order Management
- Employee Benefits & Payroll

**>300**
**branded products globally**

**Go-to-Market**
**Consumer understanding at a local level**

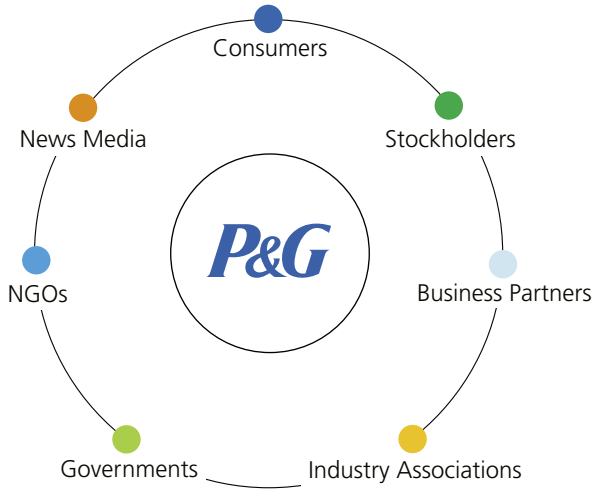
**In Touch**
**Identify consumer needs**

## Plant Locations

| Plant Name | City | Country | GBU Owner |
|---|---|---|---|
| Akashi | Akashi | Japan | Baby Care |
| Albany | Albany | United States | Family Care |
| Alexandria | Pineville | United States | Fabric & Home Care |
| Amiens | Amiens | France | Fabric & Home Care |
| Anchieta | São Paulo | Brazil | Fabric & Home Care |
| Apizaco | Apizaco | Mexico | Family Care |
| Auburn | Auburn | United States | Feminine Care |
| Augusta | Augusta | United States | Fabric & Home Care |
| Aurora | Aurora | United States | Health Care |
| Avenel | Avenel | United States | Fabric & Home Care |
| Bangkok | Bangkok | Thailand | Beauty |
| Bangkok (Wella) | Samut Prakan | Thailand | Beauty |
| Barquisimeto | Barquisimeto | Venezuela | Fabric & Home Care |
| Beijing | Beijing | China | Fabric & Home Care |
| Belleville | Belleville | Canada | Feminine Care |
| Binh Duong | Binh Duong | Vietnam | Fabric & Home Care |
| Blois | Blois | France | Beauty |
| Borispol | Borispol | Ukraine | Feminine Care |
| Brockville | Brockville | Canada | Fabric & Home Care |
| Budapest | Csomor | Hungary | Feminine Care |
| Cabuyao | Cabuyao | Philippines | Fabric & Home Care |
| Cairo | Cairo | Egypt | Fabric & Home Care |
| Campochiaro | Campochiaro | Italy | Fabric & Home Care |
| Cape Girardeau | Cape Girardeau | United States | Baby Care |
| Casablanca | Casablanca | Morocco | Fabric & Home Care |
| Cayey | Cayey | Puerto Rico | Beauty |
| Chengdu | Chengdu | China | Fabric & Home Care |
| Chonan | Ch'onan | Korea | Feminine Care |
| Cincinnati | Cincinnati | United States | Fabric & Home Care |
| Coevorden | Coevorden | Netherlands | Health Care |
| Cologne (Wella) | Cologne | Germany | Beauty |
| Crailsheim | Crailsheim | Germany | Feminine Care |
| Dammam | Dammam | Saudi Arabia | Fabric & Home Care |
| Dover | Dover | United States | Baby Care |
| Dzerzhinsk (Wella) | Dzerzhinsk | Russia | Beauty |
| Epping (Wella) | Epping | South Africa | Beauty |
| Escuintla | Escuintla | Guatemala | Fabric & Home Care |
| Euskirchen | Euskirchen | Germany | Baby Care |
| Gattatico | Gattatico | Italy | Fabric & Home Care |
| Gebze | Gebze | Turkey | Fabric & Home Care |
| Gillette Aarschot | Aarschot | Belgium | Gillette |
| Gillette Andover | Andover | United States | Gillette |
| Gillette Barcelona | Esplugues de Llobregat | Spain | Gillette |
| Gillette Berlin | Berlin | Germany | Gillette |
| Gillette Bhiwadi | Bhiwadi | India | Gillette |
| Gillette Boston | Boston | United States | Gillette |
| Gillette Carlow | Carlow | Ireland | Gillette |
| Gillette Cleveland | Cleveland | United States | Gillette |
| Gillette Dong Guan | Dong Guan | China | Gillette |
| Gillette Iowa City | Iowa City | United States | Health Care |
| Gillette Kronberg | Kronberg | Germany | Gillette |
| Gillette LaGrange | LaGrange | United States | Gillette |
| Gillette Lancaster | Lancaster | United States | Gillette |
| Gillette Lodz | Lodz | Poland | Gillette |
| Gillette Manaus | Manaus | Brazil | Gillette |
| Gillette Marktheidenfeld | Marktheidenfeld | Germany | Gillette |
| Gillette Mexico City | Naucalpan | Mexico | Gillette |
| Gillette Minhang | Minhang | China | Gillette |
| Gillette Nanping | Nanping | China | Gillette |
| Gillette Naucalli | Naucalpan | Mexico | Gillette |
| Gillette Newbridge | Newbridge | Ireland | Health Care |
| Gillette North Chicago | North Chicago | United States | Gillette |
| Gillette Reading | Reading | United Kingdom | Gillette |
| Gillette Shanghai | Shanghai | China | Gillette |
| Gillette St. Petersburg | St. Petersburg | Russia | Gillette |
| Gillette Wallduern | Walldürn | Germany | Gillette |
| Gillette Wrexham | Wrexham | United Kingdom | Gillette |
| Goa | Goa | India | Feminine Care |
| Green Bay | Green Bay | United States | Family Care |
| Greensboro | Greensboro | United States | Health Care |
| Gross-Gerau | Gross-Gerau | Germany | Health Care |
| Guatire | Guatire, Miranda | Venezuela | Baby Care |
| Henderson | Henderson | United States | Health Care |
| Huangpu | Guangzhou | China | Beauty |
| Hub | Hub | Pakistan | Beauty |
| Huenfeld (Wella) | Hünfeld | Germany | Beauty |
| Hunt Valley | Cockeysville | United States | Beauty |
| Ibadan | Ibadan | Nigeria | Fabric & Home Care |
| Ibaraki (Wella) | Ibaraki | Japan | Beauty |
| Iowa City | Iowa City | United States | Beauty |
| Jackson | Jackson | United States | Snacks & Coffee |
| Jeddah | Jeddah | Saudi Arabia | Baby Care |
| Jijona | Jijona | Spain | Baby Care |
| Kansas City Coffee | Kansas City | United States | Snacks & Coffee |
| Kansas City F&HC | Kansas City | United States | Fabric & Home Care |
| Kuantan | Kuantan | Malaysia | Fabric & Home Care |
| Leipsic | Leipsic | United States | Health Care |
| Lewisburg | Lewisburg | United States | Health Care |
| Lima | Lima | United States | Fabric & Home Care |
| London | London | United Kingdom | Fabric & Home Care |
| Longjumeau | Longjumeau | France | Health Care |
| Louveira | Louveira | Brazil | Feminine Care |
| Lucca | Lucca | Italy | Family Care |
| Manati | Manati | Puerto Rico | Health Care |
| Manchester | Manchester | United Kingdom | Family Care |
| Mandideep | Bhopal | India | Fabric & Home Care |
| Mariscala | Apaseo El Grande | Mexico | Beauty |
| Mataró | Mataró | Spain | Fabric & Home Care |
| Materiales | Lima | Peru | Fabric & Home Care |
| Mechelen | Mechelen | Belgium | Fabric & Home Care |
| Medellin | Medellin | Colombia | Fabric & Home Care |
| Mehoopany | Mehoopany | United States | Family Care |
| Mequinenza | Mequinenza | Spain | Baby Care |
| Mohammedia | Mohammedia | Morocco | Fabric & Home Care |
| Montornès | Montornès del Vallès | Spain | Feminine Care |
| Naucalpan | Mexico City | Mexico | Health Care |
| Nenagh | Nenagh | Ireland | Beauty |
| Neuss | Neuss | Germany | Family Care |
| New Orleans | New Orleans | United States | Snacks & Coffee |
| Novomoskovsk | Novomoskovsk | Russia | Fabric & Home Care |
| Ordzhonikidze | Ordzhonikidze | Ukraine | Fabric & Home Care |
| Orleans | Saint Cyr En Val | France | Family Care |
| Oxnard | Oxnard | United States | Family Care |
| Pescara | Pescara | Italy | Feminine Care |
| Phoenix | Phoenix | United States | Health Care |
| Pilar | Pilar | Argentina | Fabric & Home Care |
| Poissy (Wella) | Poissy | France | Beauty |
| Pomezia | Rome | Italy | Fabric & Home Care |
| Porto | Guifões | Portugal | Fabric & Home Care |
| Rakona | Rakovnik | Czech Republic | Fabric & Home Care |
| Rothenkirchen (Wella) | Rothenkirchen | Germany | Beauty |
| Russellville | Russellville | United States | Health Care |
| Sacramento | Sacramento | United States | Fabric & Home Care |
| Santiago | Santiago | Chile | Baby Care |
| Sarreguemines (Wella) | Sarreguemines | France | Beauty |
| Seaton Delaval | Whitley Bay | United Kingdom | Beauty |
| Sherman | Sherman | United States | Snacks & Coffee |
| Shiga | Shiga | Japan | Beauty |
| Somersby (Wella) | Somersby | Australia | Beauty |
| Stamford | Stamford | United States | Beauty |
| St. Louis | St. Louis | United States | Fabric & Home Care |
| Takasaki | Takasaki | Japan | Fabric & Home Care |
| Talisman | Mexico City | Mexico | Beauty |
| Targowek | Warsaw | Poland | Baby Care |
| Tepeji | Tepeji | Mexico | Baby Care |
| Tianjin | Tianjin | China | Beauty |
| Tianjin (Wella) | Tianjin | China | Beauty |
| Timisoara | Timisoara | Romania | Fabric & Home Care |
| Vallejo | Mexico City | Mexico | Fabric & Home Care |
| Villa Mercedes | Villa Mercedes | Argentina | Baby Care |
| Weiterstadt | Weiterstadt | Germany | Health Care |
| Witzenhausen | Witzenhausen | Germany | Family Care |
| Worms | Worms | Germany | Fabric & Home Care |
| Xiqing | Tianjin | China | Beauty |

Note: Data as of June 30, 2006

# P&G's External Stakeholders




- Consumers, Consumer Organizations
- Stockholders
- Business Partners
  Retailers, Wholesalers, Distributors, Vendors, Contractors, Suppliers, Advertisers, Trade Unions
- Industry Associations, Professional Organizations, Scientific/Medical Communities
- Governments
  Local, Regional, National Agencies (such as Health Ministries, Regulatory Boards)
  Pan-National Commissions (such as EU)
  Embassies, Diplomatic Missions
- NGOs
  Health, Social Service, Education, Environment
- News Media

## Stakeholders

A stakeholder is anyone who has an interest in or interaction with P&G. Stakeholders can be internal, such as the Company's almost 140,000 employees and its Board of Directors, or external.

External stakeholders include P&G's consumers who use our products 3 billion times a day, our customers and suppliers with whom we do business, our shareholders, and the communities in which P&G people live and work.

***P&G manufactures most products at its own plants in 40 countries.***

## Manufacturing Outsourcing

P&G, including Gillette, has more than 140 manufacturing facilities in 40 countries. These facilities handle the majority of P&G's production.

To ensure our products are affordable, our manufacturing facilities must provide the best value for the Company. We conduct regular reviews to ensure our facilities are highly competitive, and this includes benchmarking versus third-party manufacturers.

When it makes sense for the business and is the most competitive solution, we use contract manufacturers. For example, sometimes we use them when entering a new market, before we determine whether we'll invest in building our own facility there, or when we are introducing a new product, so we can determine production needs prior to investing in new capacity at a P&G facility. Sometimes we use third-party manufacturers on a longer-term, ongoing basis because it is the most cost-effective solution for the business.

The percent of P&G production supplied by contract manufacturers varies according to the needs of the business and the ability of P&G facilities to compete and win production based on providing the best value. Currently, we rely on third-party manufacturers for about 10 to 15 percent of our total manufacturing volume.

## Financial Information

P&G has met or exceeded its long-term sales growth goal for five consecutive years and is now focused on delivering a full decade of industry-leading top-line and bottom-line growth.

The Company reported net earnings of $8.68 billion for the fiscal year ended June 30, 2006, an increase of 25 percent compared to $7.26 billion in 2005.

Diluted net earnings per share were $2.64 in 2006, compared to $2.66 in 2005.

Net sales were $68.22 billion in 2006, up 20 percent from last year.

Our first discretionary use of cash is dividend payments. Common share dividends grew 12 percent to $1.15 per share in 2006, representing the 50th consecutive fiscal year of increased common share dividends. Total dividend payments, to both common and preferred shareholders, were $3.70 billion, $2.73 billion and $2.54 billion in fiscal 2006, 2005 and 2004, respectively

### Financial Highlights

| Amounts in millions except per-share amounts | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net Sales | **$68,222** | $56,741 | $51,407 |
| Selling, General and Administrative Expenses | **21,848** | 18,400 | 16,882 |
| Income Taxes | **3,729** | 3,058 | 2,749 |
| Net Earnings | **8,684** | 6,923 | 6,156 |
| Basic Net Earnings Per Common Share | **2.79** | 2.70 | 2.34 |
| Diluted Net Earnings Per Common Share | **2.64** | 2.53 | 2.20 |
| Total Assets | **135,695** | 61,527 | 57,048 |
| Long-Term Debt | **35,976** | 12,887 | 12,554 |
| Shareholders' Equity | **62,908** | 18,475 | 18,190 |

Web

For more financial details, please see P&G's 2006 Annual Report:
www.pg.com/investors/annualreports.jhtml

As part of P&G's initiative to optimize resources to fit a growing global business and to accelerate innovation and growth, the Company operates its business through Global Business Units (GBUs), as described under Organizational Structure.

This organizational structure accounts for why P&G does not provide employee data, sales or profits by individual countries. Some countries may provide this data in reports other than this one.

| GBU | Reportable Segment | % of Net Sales* | % of Net Earnings* | Key Products | Billion-Dollar Brands |
|---|---|---|---|---|---|
| **BEAUTY AND HEALTH** | Beauty | 31% | 33% | Cosmetics, Deodorants, Feminine Care, Hair Care, Personal Cleansing, Skin Care | Always, Head & Shoulders, Olay, Pantene, Wella |
| | Health Care | 11% | 13% | Oral Care, Pharmaceuticals, Personal Health Care | Actonel, Crest, Oral-B |
| **HOUSEHOLD CARE** | Fabric Care and Home Care | 25% | 25% | Fabric Care, Air Care, Dish Care, Surface Care | Ariel, Dawn, Downy, Tide |
| | Baby Care and Family Care | 18% | 14% | Diapers, Baby Wipes, Bath Tissue, Kitchen Towels | Bounty, Charmin, Pampers |
| | Pet Health, Snacks and Coffee | 6% | 4% | Pet Health, Snacks, Coffee | Folgers, Iams, Pringles |
| **GILLETTE GBU** | Blades and Razors | 5% | 8% | Men's and Women's Blades and Razors | Gillette, MACH3 |
| | Duracell and Braun | 4% | 3% | Batteries, Electric Razors, Small Appliances | Braun, Duracell |

* Percent of net sales and net earnings for the year ended June 30, 2006. Figures exclude results held in the Corporate segment and include Gillette results only for the nine months ended June 30, 2006.

### Awards and Recognitions

P&G annually receives recognition for its work, its character, its brands and its community contributions. We are highlighting a few and listing some others.

P&G ranks on several *Fortune* magazine lists including:
- Most Admired Companies
- Global Most Admired
- MBA's Top Earners

P&G ranks among the top companies for Executive Women (National Association for Female Executives), Women of Color (*Working Mother* magazine), Working Mothers, (*Working Mother* magazine), and Best Corporate Citizens (*Business Ethics* magazine).

Dow Jones Sustainability Indexes
Member 2006/07

## P&G Tops Dow Jones Sustainability Index

For the seventh consecutive year, P&G has been ranked as Super Sector Leader (Personal & Household Goods) by the Dow Jones Sustainability Index (DJSI).

According to Dow Jones, "Procter & Gamble is strongly committed to the concept of sustainable development, and continues to lead its industry in that regard. The company views sustainability as an opportunity to innovate in products that improve the lives of the world's consumers... P&G emphasizes innovation in products that serve basic needs of consumers in least developed countries. The company's high scores in the criteria of product impact and strategies for emerging economies is a reflection of that fact. In developed markets, P&G focuses on environmental excellence, innovating in products such as cold-water cleaning technologies that provide good performance as well as energy savings and eco-efficiency. The company's best-of-class scores in environmental performance and reporting illustrate its success in these areas."

The Dow Jones Sustainability Indexes (DJSI), launched in 1999, are the first global indexes to track the financial performance of the leading sustainability-driven companies worldwide. Only the top 10 percent of the world's 2,500 largest companies are selected as components of the DJSI World based on their sustainability performance.

Web

To view the P&G DJSI 2006 Sustainability Leader report, please visit http://www.sustainability-indexes.com/djsi_pdf/Bios07/Procter_Gamble_07.pdf

## Major Acquisitions

On October 1, 2005, we completed acquisition of the Gillette Company for approximately $53.43 billion. Gillette is a leading consumer products company that had $10.48 billion in sales in its most recent pre-acquisition year ended December 31, 2004.

The acquisition of Gillette has added five billion-dollar brands to P&G's stable of 17 billion-dollar brands. It has more than 70 percent global market share of razors and blades, 40 percent global market share in alkaline batteries and 36 percent share of the global toothbrush market.

## Major Divestitures

Proceeds from asset sales in 2006 were $882 million, primarily due to the divestitures of Spinbrush, Rembrandt and Right Guard, all required by regulatory authorities in relation to the Gillette acquisition, and our Korea paper businesses.

## Shareholders

There were approximately 2,086,000 common stock shareowners, including shareholders of record, participants in the Shareholder Investment Program, participants in the P&G stock ownership plans, and beneficial owners with accounts at banks and brokerage firms, as of July 3, 2006.

Contact:
Shareholder Services representatives are available Monday - Friday, 9 - 4 EST at 1-800-742-6253 (1-513-983-3034 outside the U.S.A. and Canada)

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

For more information, please visit:
- www.pg.com/investors/sectionmain.jhtml
- E-mail us at shareholders.im@pg.com
- Call for financial information at 1-800-764-7483 (1-513-945-9990 outside the U.S.A. and Canada)

# Structure and Governance

## P&G has an organizational structure that leverages our knowledge and scale at the global level with a deep understanding of the consumer and customer at the local level.

P&G's unique organizational structure of Global Business Units (GBUs) and Market Development Organizations (MDOs) drives clear focus, accountability and go-to-market capability.

The objective of our governance structure is to maintain corporate governance principles, policies and practices that support management and Board of Directors accountability. These are in the best interest of the Company and our shareholders, and they are consistent with the Company's Purpose, Values and Principles. We believe that good governance practices contribute to better results for shareholders. Everything we do is done with our commitment to "doing the right thing" in mind.

## Corporate Governance and Management's Responsibility

P&G has a strong history of doing what's right. Our employees embrace our Purpose, Values and Principles. If you analyze what has made our Company successful over the years, you may focus on our brands, our marketing strategies, our organization design, our ability to innovate. But if you really want to get at what drives our Company's success, the place to look is our people. Our people are deeply committed to our Purpose, Values and Principles. It is this commitment to doing what's right that unites us.

This commitment to doing what's right is embodied in our financial reporting. High-quality financial reporting is our responsibility – one we execute with integrity and within both the letter and spirit of the law.

High-quality financial reporting is characterized by accuracy, objectivity and transparency. Management is responsible for maintaining an effective system of internal controls over financial reporting to deliver those characteristics in all material respects. The Board of Directors, through its Audit Committee, provides oversight. They have engaged Deloitte & Touche LLP to audit our consolidated financial statements, on which they have issued an unqualified opinion.

Our commitment to providing timely, accurate and understandable information to investors encompasses:

### Communicating Expectations to Employees

Every employee – from senior management on down – is trained on the Company's Worldwide Business Conduct Manual, which sets forth the Company's commitment to conduct its business affairs with high ethical standards. Every employee is held personally accountable for compliance and is provided several means of reporting any concerns about violations.

Web

The Worldwide Business Conduct Manual is available on our website at www.pg.com/company

### Maintaining a Strong Internal Control Environment

Our system of internal controls includes written policies and procedures, segregation of duties, and the careful selection and development of employees. The system is designed to provide reasonable assurance that transactions are executed as authorized and appropriately recorded, that assets are safeguarded, and that accounting records are sufficiently reliable to permit the preparation of financial statements conforming in all material respects with accounting principles generally accepted in the United States. We monitor these internal controls through control self-assessments by business unit management. In addition to performing financial and compliance audits around the world, including unannounced audits, our Global Internal Audit organization provides training and continuously improves internal control processes. Appropriate actions are taken by management to correct any identified control deficiencies.

### Executing Financial Stewardship

We maintain specific programs and activities to ensure that employees understand their fiduciary responsibilities to shareholders. This ongoing effort encompasses financial discipline in our strategic and daily business decisions and brings particular focus to maintaining accurate financial reporting and effective controls through process improvement, skill development and oversight.

### Exerting Rigorous Oversight of the Business

We continuously review our business results and strategic choices. Our Global Leadership Council is actively involved – from understanding strategies to reviewing key initiatives, financial performance and control assessments. The intent is to ensure we remain objective, identify potential issues, continuously challenge each other and ensure recognition and rewards are appropriately aligned with results.

### Engaging our Disclosure Committee

We maintain disclosure controls and procedures designed to

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**Corporate Governance and Management's Responsibility**
continued from previous page

ensure that information required to be disclosed is recorded, processed, summarized and reported accurately and in timely fashion. Our Disclosure Committee is a group of senior-level executives responsible for evaluating disclosure implications of significant business activities and events. The Committee reports its findings to the CEO and CFO, providing an effective process to evaluate our external disclosure obligations.

### Encouraging Strong and Effective Corporate Governance from Our Board of Directors

We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight. Our Audit Committee comprises independent directors with significant financial knowledge and experience. We review significant accounting policies, financial reporting and internal control matters with them and encourage their independent discussions with external auditors.

Web

Our corporate governance guidelines, as well as the charter of the Audit Committee and certain other committees of our Board, are available on our website at
www.pg.com/company/our_commitment/corp_gov

## Governance Structure

We believe that good governance practices contribute to better results for shareholders. Our objective is to maintain corporate governance principles, policies and practices that support management and Board of Directors accountability. These are in the best interest of the Company and our shareholders, and they are consistent with the Company's Purpose, Values and Principles.

Governance starts with the Board of Directors, which has general oversight responsibility for the Company's affairs, pursuant to Ohio's General Corporation Law and the Company's Code of Regulations and Bylaws. In exercising its fiduciary duties, the Board of Directors represents and acts on behalf of the shareholders. Although the Board of Directors does not have responsibility for day-to-day management of the Company, it stays informed about the business and provides guidance to 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. The Board has several committees to facilitate its oversight of the Company. These include Audit, Compensation & Leadership Development, and Governance & Public Responsibility. The responsibilities of the Governance & Public Responsibility Committee include oversight of organization diversity, sustainable development, community and government relations, product quality assurance and corporate reputation. The Board of Directors and its committees operate under our Corporate Governance Guidelines and Charters. Additionally, the Board has adopted guidelines for determining the independence of its members. As of June 2006, approximately 72 percent of our directors qualified as being independent.

The Board has approved a code of conduct, outlined in our Worldwide Business Conduct Manual. This code applies to all directors, officers and employees and is designed to help ensure compliance with all applicable laws and Company policies, including those related to sustainable development. Shareholders may communicate with the Board of Directors and submit shareholder proposals as described in the Company's proxy statement.

## Executive Compensation

Executive compensation is based on principles that have served the Company well and enabled it to increase shareholder value:

- Pay competitively.
- Pay for performance.
- Design compensation programs that support the business.

These principles have helped the Company develop and retain extraordinary executive talent. P&G develops executives from within, an achievement few other major corporations have matched.

A substantial portion of compensation is composed of variable, at-risk incentives, the majority based on the Company's long-term success. We benchmark the Company's pay structure annually and also review its business and financial performance.

Additionally, we expect executives to uphold the fundamental principles in the Company's Statement of Purpose, Values and Principles, plus the Worldwide Business Conduct Manual, the Sustainability Report, and the Environmental Quality Policy. These principles include integrity, maximizing the development of each individual, developing a diverse organization, and continually improving the environmental quality of the Company's products and operations. In upholding these principles, executives not only contribute to their own success but also help ensure the prosperity of P&G's business, employees, shareholders and the communities in which the Company operates.

## Stakeholder Engagement

P&G works hard to be a good corporate neighbor and to improve lives in the communities where we live and work.

**Caring**

**Committed, Involved, Knowledgeable, Passion for making a real difference.**

### Communities

Each P&G production facility has site-specific activities to build constructive relationships with local authorities, local industry associations, residential and business neighbors, local action groups, thought leaders and news media. Depending on individual communities' cultures and interests, this can range from regular official meetings during which new information is shared or questions are answered, to more informal meetings. This could be, for example, a reception for the immediate neighbors, where information on the past year and plans for the new year are discussed. P&G ensures continuity in community interaction by meeting regularly with local authorities to update them on plant news. In the neighborhoods of many P&G operations, the Company cooperates with and sponsors local events, so the whole area benefits from the presence of a P&G site.

P&G recognizes the importance of improving the quality of life in our local communities, and we support local initiatives and encourage employee involvement. The most valuable community support we provide usually involves not only writing a check but also taking advantage of the intellectual capabilities and energy of P&G people. We look for areas where we can make a significant long-term, systemic difference. This leads us to focus heavily on education and health, with special emphasis on youth. It also leads us to build alliances with strategic partners to achieve a better result than we could alone. We look to our people in the area to work with their local communities and government officials to learn where we can make the biggest difference.

### Authorities: Local – Regional – Global

P&G communicates with local, regional and global authorities directly, as an individual company, as well as through industry associations. Scientists and legal experts in the P&G External Relations organization review existing and proposed legislation that is relevant to the Company and work with authorities to ensure that policies take the needs and experience of business into account. This is done via meetings with the authorities and comments on their position papers and industry position papers. Activities like these can be very important to ensure the Company's needs are understood and considered when decisions are being made that can influence P&G's business.

## P&G Partners With Guangzhou Government to Nab Counterfeiters

In Guangzhou, China, P&G began working this year with senior government officials and anti-counterfeit authorities on a program to eliminate manufacture of counterfeit products there. This collaboration between the Guangzhou government and P&G is the first local government-industry partnership of its kind in China.

The highly industrialized Guangzhou area is one of the largest sources of counterfeit products in China. Innovation is a top priority for the Chinese government, and both national and Guangzhou officials recognize that eliminating counterfeiting is a precondition to innovation.

A number of manufacturers are under investigation, and some production networks have already been shut down and ringleaders arrested. P&G plans to expand this effort to other areas in China with high levels of counterfeiting.

### NGOs: Local – Regional – Global

P&G frequently enters into dialogue with nongovernmental organizations (NGOs) to understand their concerns and cares. In order to work constructively with stakeholders, it is essential to have their confidence and to be seen as a reliable and open discussion partner. By building an open relationship we can approach our NGO partners when issues arise. There is a wide range of NGOs varying by area of interest (environmental, consumer, animal welfare, etc.), by attitude (from extreme to moderate) and by their geographic links (from local to global). Depending on their characteristics, a number of NGOs can be seen as the vocal spokespeople for the general public.

Consumer organizations exist in many countries. These organizations contact companies to compare products and voice comments they receive from their members. P&G continuously provides consumer organizations with information on new initiatives and cooperates with them in answering consumer questions.

## Fighting Bird Flu in China

Safeguard has joined with the Red Cross Society of China to educate the public about prevention and transmission of bird flu and to reduce bird flu's threat to communities.

Safeguard has developed a TV public service announcement explaining the importance of washing hands with soap. Safeguard is also designing and producing a key visual for use by the Red Cross in its bird flu education materials.

Bird flu originated in Asia. The first human case in China occurred in November 2005, despite the Chinese government's best efforts to prevent it by vaccinating poultry and culling flocks. Experts fear that China's dense population increases the chances of bird flu's spread.

### P&G's Commitment to Product Safety, Chemicals Management and Sustainability

Household consumer products use a variety of chemical ingredients to provide benefits to society, such as cleaner homes and improved health and personal hygiene, thus enabling an overall better quality of life. One expectation of consumer products is that they will be safe, that their use will not adversely affect human health or the environment.

Throughout its history, P&G has believed that the safety of our products is a prerequisite for responsible business. Our co-founder, James Gamble, stated in the mid-1800s that "if you cannot make pure goods and full weight, go to something else that is honest, even if it is breaking stone." Today, this philosophy is reflected in our Statement of Purpose: "We will provide branded products and services of superior quality and value that improve the lives of the world's consumers." Safety is an intrinsic part of our products' quality and value.

Our approach is based on the scientific assessment and management of risk – the likelihood that people or the environment will be exposed to harmful amounts of a substance. Risk assessment is based on two factors:

1. how "toxic" or "hazardous" a chemical is and
2. how it is used, specifically the extent of exposure to humans or the environment.

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**P&G's Commitment to Product Safety, Chemicals Management and Sustainability**
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In recent years, some stakeholders have expressed concern about using risk as the basis for product safety. These concerns have been driven by several issues, including:

- Questions about whether the hazards of existing chemicals have been sufficiently studied and whether chemical exposures can be adequately understood.
- Frustration with the slow pace of developing publicly available risk assessments.
- New scientific findings that have not been previously known or evaluated.

As a result, some believe that it might be better to base decisions on a chemical's hazards alone. This has been coupled with calls for the far-reaching use of the "precautionary principle," whereby substances that are classified as "hazardous" would be broadly restricted, with little further evaluation. We recognize the attraction of such a "black and white" approach. However, we believe that it could cause chemicals that are being safely used to be unjustifiably removed from the market, potentially depriving society of innovative and beneficial technologies. Furthermore, experience has shown that even chemicals that could be considered "non-hazardous" (e.g., soybean oil or even water) can cause harm under certain circumstances, while "hazardous" chemicals can be safely used (e.g., ethanol).

We recognize that continuing questions about the safety of chemicals mean that industry must take a more collaborative and open approach. Thus, we have initiated a variety of industry partnerships, including: the collaborative assessment of laundry and cleaning product ingredients in Europe (Human and Environmental Risk Assessment – HERA (www.heraproject.com); evaluations of "High Production Volume Chemicals" in the United States, and Organization for Economic Cooperation and Development; assessments of flavors, fragrances, and colorants by European and U.S. cosmetics products associations; work in Canada to implement renewed chemicals legislation; the promotion of risk assessment via the U.S. Alliance for Chemical Awareness (www.chemicalawareness.com) and the American Chemistry Council; development of a targeted risk assessment approach in Europe, via the European Center for Ecotoxicology and Toxicology of Chemicals, an industry-sponsored research organization (www.ecetoc.org).

In addition, we are actively promoting the responsible production and use of chemical products, and better information sharing with the public. For example, we are working with the European soap and detergent industry association (A.I.S.E.) on formulation improvements, as well as providing consumer guidance on how to use detergents properly (www.washright.com). We launched and then expanded a P&G Internet site (www.scienceinthebox.com) to help inform consumers and stakeholders about the science and safety behind our European cleaning products. Very high public interest in this site led to a similar site covering the science and safety of skin and hair care products (www.pgbeautyscience.com) and another site covering P&G's approaches to product safety and views on a variety of chemical management and science policy issues (www.pgperspectives.com). For more on this work, see Science in-the-box, page 49.

From a policy standpoint, we continue to believe that chemicals management programs should be based on:

1. Efficient risk-based priority-setting processes that use hazard data and basic exposure information together to identify issues of potential concern, followed by practical risk evaluations that analyze chemicals in a tiered fashion to resolve such issues.
2. Risk management decision making that combines information on a chemical's risks, benefits and costs with an understanding of societal concerns; the risks, benefits and costs of alternatives; and the use of appropriate precautionary measures.
3. Communications that provide meaningful and relevant safety information to stakeholders, such that they can make knowledgeable decisions.

These policies are the foundation of what we do internally, as well as what we encourage across government and industry. Internally, they are enabled by collaboration between Research & Development, Product Safety and Regulatory Affairs, Manufacturing, External Relations and management. Our efforts go beyond safety and risk to include product lifecycle issues such as energy and resources use and waste management.

Collectively, we believe these activities and policies enable continued progress toward sustainability and enable us to provide safe, effective products that improve lives.

# Chemicals Move Uptown Instead of to Disposal

With P&G's recent decision to acquire pharmaceuticals technology rather than "discover" it internally, a major chemicals cleanout has been going on at the Cincinnati facility that used to research the Company's "discovery" drugs. During this cleanout, the hope was to reuse the chemicals from decommissioned labs rather than throwing them away.

Health, Safety & Environment staff didn't have to look far; a nearby P&G facility was able to reuse almost 2 tons of laboratory chemicals. This kept the chemicals out of disposal sites and saved money on the purchase of chemicals for lab research.

## Principal Industry and Business Associations

P&G holds membership in many industry, business and environmental associations whose activities are related to the Company's.

### Europe, Middle East and Africa

Advertising Associations: WFA – World Federation of Advertising
Chemical Industry Associations: CEFIC – European Chemicals Industry Association; DUCC – Coalition of Downstream Users
Cosmetics Industry Associations: COLIPA – Cosmetics & Fragrances Industry
Detergent Industry Associations: AISE – Association Internationale de la Savonnerie de la Detergence et des Produites d'Entretien
Employer Associations: UNICE – Union of Industrial & Employers' Confederation of Europe
Environmental Associations: ECETOC – European Center for Ecotox and Toxicology of Chemicals; EUROPEN – The European Organization for Packaging and the Environment
Euro/American Business Associations: AECA – American European Community Associations; EU Committee of AmCham
Food Associations: CIAA – European Food Industry Association; CIES – Food Business Forum
Grocery/Brand Associations: AIM – European Brands Association
Multi-Stakeholder Associations: EPE – European Partners for the Environment
Nordic Partnership: WWF and Industry Partnership in Nordic Region to Target Sustainability to Rewarding Business
Paper Associations: EDANA – European Industry of Non-Woven Products; HAPCO – European Industry of Hygiene Paper Products
Pet Food Industry Association: PFMA – Pet Food Manufacturers Association
Pharmaceutical Associations: AESGP / OTC Manufacturers Association; FPIA – Pharmaceutical Industry Association
Waste Management Associations: ASSURRE – Association for Sustainable Use and Recovery of Resources in Europe

### North America

American Chemical Society
American Industrial Health Council
American Legislative Exchange Council
Association of National Advertisers
Business for Social Responsibility
Business Roundtable
Canada's Research-Based Pharmaceutical Companies (Rx&D)
Canadian Chamber of Commerce
Canadian Chemical Producers Association
Canadian Manufacturers and Exporters
Canadian Consumer Specialty Products Association
Canadian Cosmetic, Toiletry and Fragrance Association
Consumer Specialty Products Association
Consumer Health Products Association

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**Principal Industry and Business Associations**
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Cosmetic, Toiletry and Fragrance Association
CSR Canada – Corporations Support Recycling
Food and Consumer Products Manufacturers of Canada
Global Environment Management Initiative
Grocery Manufacturers of America
Keep America Beautiful
National Conference of State Legislatures
National Environmental Development Association
National Food Processors Association
Non-Prescription Drug Manufacturers Association of Canada
Pharmaceutical Researchers and Manufacturers of America
Soap & Detergent Association
Soap & Detergent Association of Canada
The Council of State Governments
U.S. Council for International Business
Water Environment Research Foundation

### Latin America

ABIPLA – Brazilian Association of Household Cleaning Products
ANALJA – Colombian Soaps and Detergent Manufacturers Association
Argentinian National Industry Association
ASOQUIM – Venezuelan Association of the Chemical Industry
CANIPEC – Mexican Association of the Industry of Cosmetics and Perfumes
Cámara Nacional de la Industria de Aceites, Grasas, Jabones y Detergentes, Mexico
Cámara Nacional de las Industrias de la Celulosa y del Papel
Confederación Patronal de la República Mexicana
CONCAMIN – Confederación de Cámaras Industriales
Asociación Nacional de la Industria Química, Mexico
AMECE – Asociacion Mexicana de Estandares para el Comercio Electronico
Asociacion Mexicana de Fabricantes de Pañal Desechable y Similares, A.C. (AMPADE)

CONAR – Consejo de Autorregulación y Etica Publicitaria, Mexico
COMCE – Consejo Mexicano de Comercio Exterior
CONMEXICO – Consejo Mexicano de la Industria de Productos de Consumo
CAVEME – Venezuelan Pharmaceutical Products Association
CEVEDES – Venezuelan Business Council for Sustainable Development
ANDA – Venezuelan Association of Advertisers
CONINDUSTRIA – Industrial Confederation of Venezuela
CONAR – Chilean Advertising Self–Regulation and Ethics Council
SOFOFA – Manufacturers Industry Association
Chamber of the Cosmetic Industry of Chile
AmCham – Chilean American Chamber of Commerce
Chilean–Brazilian Chamber of Commerce
ANDA – National Advertisers Association Chile
Latin America Federation of Waste Management
Peru – Sociedad Nacional de Industrias

### Asia

State Committee of Cosmetic Industry
Asia/Pacific Economic Cooperation
Australian Consumer & Specialty Products Association
China – Amcham membership
China – CC of Foreign Invested Enterprises GZ
China – Academy of Environment Science
China – Association of Enterprises with Foreign Investment
China – Association of Fragrance, Flavor and Cosmetic Industry
China – Daily Use Groceries Association
China – Detergent Products Industry Association
China – Environmental Health Safety Roundtable
China – Association of Surfactant, Soap and Detergent Industries
China – Hygiene Supervision Magazine
China – Hygienic Material & Technology Association
China – National Household Paper Industry Association
China – Standardization Association
China – Standardize Technological Consulting Service Center
China – China Toothpaste Industry Association
China – GD Associated Net for Anti-Counterfeit & High-Quality Protection
China – GD Fragrance Flavor Cosmetic Branch of GD Light Industry Association
China – Guangdong Quality Magazine
China – Guangdong Quality Management Association
China – Guangzhou Municipal Foreign Trade Investment Law Association
China – Guangzhou Municipal Lawyers' Association
China – Guangzhou Quality Inspection Association
China – Guangzhou Trademark Association
China – GZ "Three" Associations of Economic & Technological Development District
China – GZ Association of Enterprises with Foreign Investment
China – GZ Education Fund Association

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**Principal Industry and Business Associations**
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China – GZ Industry & Commerce Administration Management Institute Branch of Foreign Investment
China – Living Use Paper Specialized Committee of China Paper Making Institute
China – National Bar Code Association
China – National Environment Hygiene Standard Specialized Committee (MOH)
China – Perfume / Fragrance Magazine
China – Quality Management Association
China – State Committee of Cosmetics Industry Standardization (SBQTS)
China – State Technical Committee of Paper Making Industry Standardization
China – State Technology Committee of Food Industry Standardization
China – Tianjin Association of Enterprises with Foreign Investment
Hong Kong – The Cosmetic and Perfumery Association of Hong Kong
Hong Kong – The Hong Kong Association of the Pharmaceutical Industry
India – Associated Chambers of Commerce and Industry of India
India – Confederation of Indian Industry
India – Federation of Indian Chambers of Commerce and Industry
India – Feminine & Infant Hygiene Association
India – Indian Soap & Toiletries Makers' Association
Indonesia – Indonesian Cosmetics Association
Indonesia – Indonesian Food & Beverage Industry Association
Indonesia – Indonesian Moslem Scholar Association
Indonesia – Indonesian Pulp & Paper Association
Indonesia – Indonesian Tissue Paper Association
Indonesia – National Standardization Body
Indonesia – Pharmaceutical Industry Association
Japan – Japan Cosmetic Industry Association
Japan – Japan Health and Nutrition Food Association
Japan – Japan Hygiene Product Industry Association
Japan – Japan Soap and Detergent Association
Japan – Pharmaceutical Association of Japan
Korea – American Chamber of Commerce
Korea – Association for Fair Trade of Tissue & Hygiene Products
Korea – EU Chamber of Commerce
Korea – Korea Chemical Management Association
Korea – Korea Cosmetics Industry Association
Korea – Korea Food Industry Association
Korea – Korea Food Traders Association
Korea – Korea Hygiene Paper Product Association
Korea – Korea Paper Manufacturers' Association
Korea – Korea Pharmaceutical Trade Association
Malaysia – American Malaysian Chamber of Commerce (AMCHAM)
Malaysia – Federation of Malaysian Manufacturers – FMM Food Manufacturer
Malaysia – Malaysian International Chamber of Commerce and Industry – MICCI
Malaysia – The Cosmetic, Toiletry & Fragrance Association of Malaysia – CTFA
Philippines – Soap & Detergent Association of the Philippines
Philippines – Cosmetic, Toiletry & Fragrance Association of the Philippines
Singapore – The Cosmetic, Toiletry & Fragrance Association of SIngapore – CTFAS
Taiwan – Taiwan Cosmetic Industry Association
Taiwan – Taiwan Paper Industry Association
Taiwan – Taiwan Soap & Detergent Industry Association
Thailand – Federation of Thai Industries
Thailand – Thailand Soap & Detergent Association

Worldwide
Conference Board
International Chamber of Commerce
Society of Environmental Toxicology and Chemistry
World Business Council for Sustainable Development

P&G works with industry and environmental associations around the world.

# Performance Indicators

At P&G, we proactively bring together innovative ideas and resources to create new products and services that improve the quality of people's daily lives around the world, at all income levels. P&G is particularly well-positioned to do this because we are in touch daily with the needs of the world's consumers.

**Economic Development**
Investing in communities

**Environmental Protection**
Investing in the environment

**Social Responsibility**
Investing in people

## Sustainability performance can rest on three pillars: economic development, environmental protection and social responsibility.

These pillars provide the organizing principles for the indicators, though these categories are highly interrelated and other organizing schemes are possible.

### The Global Sullivan Principles

P&G was one of the founding members of the Global Sullivan Principles. In accordance with the Global Sullivan Principles, we support economic growth, social justice, human rights, political justice and equal opportunity wherever we do business in the world. The products we deliver, the consumers we serve, and how we serve them are in line with these expectations. We consider ourselves a global company and a global citizen.

At P&G, everything we do begins with our Purpose, Values and Principles. We have reviewed and revised our policies to make sure we are aligned with the Global Sullivan Principles.

We ensure our commitment to our employees through our human resources system and profit-sharing program. Our human resources system trains, educates and develops our people. It offers flexible work arrangements, giving employees the opportunity to meet both business and personal needs. It instills our culture and policies to ensure that everyone is treated fairly and has the opportunity to contribute to our vision and mission. The profit-sharing program provides employees with a stake in the Company's future. Programs such as these enable us to be a sustainable business and a viable part of the communities in which we do business.

### Key Sustainability Focus Areas

P&G remains committed to a future where you will measure our sustainable development contribution in terms such as disease elimination, lives saved, child development, and the way a woman's life is better because of the products and services of Procter & Gamble.

At P&G, we proactively bring together innovative ideas and resources to create new products and services that improve the quality of people's daily lives around the world, at all income levels. P&G is particularly well-positioned to do this because we are in touch daily with the needs of the world's consumers.

To bring our sustainability efforts to life, we decided to focus on areas in which we can most effectively make a positive difference and which can involve all our businesses and regions. After much internal and external discussion, we selected two areas:

- Water
- Health and Hygiene

P&G's work in these areas entails developing new ideas regarding our products, services, initiatives and markets. For example, it includes:

- Reaching consumers we have never reached, such as in the rural villages and urban slums of the developing world.
- Creating new products responding to the needs, frustrations and aspirations of those new consumers and selling those products at an affordable price.
- Exploring new business models, often with new supply and distribution systems to lower cost and extend reach.

# Pampers: An Example of Sustainability in Action

Pampers is bringing sustainability to life through years of investment in the three sustainability pillars – **economic development**, **environmental protection** and **social responsibility**.

This is a fundamental part of Pampers' global business and innovation plans. Continuous improvements in all three pillars are key contributors to Pampers' global success.

Innovation that drives new technology has brought consumers diapers that have dramatically improved the condition of babies' skin. Superabsorbent materials, breathable outer covers and embedded protective lotions help keep skin drier and healthier, leading to a significant reduction in irritation and infections. Innovative designs for better containment play a major role in helping prevent the spread of infectious diseases.

Pampers collaborates with health professionals to improve the health of babies in developing countries such as China. Through a partnership with the International Health Program at Cincinnati's Children's Hospital, Chinese maternity and baby care doctors come to the United States for education and research, and U.S. medical leaders go to China to share the latest medical developments.

Pampers brings value to consumers by continuously working on cost innovation. Over the past three years, innovations in diaper design and manufacture have helped offset large increases in commodity costs.

Pampers has a long history of increasing diaper performance while decreasing environmental impact. Source reduction over 20 years has resulted in a 40-percent reduction in material used. In North America, Pampers source reduction initiatives this year involved a new topsheet on Swaddlers and Cruisers and stretch material on Baby Dry. These advances are eliminating thousands of tons of solid waste.

### Why Water?

Water affects the lives of all of us, each day. P&G has chosen to focus on water because we have a great deal of expertise in this area and tremendous capability to improve life for people with insufficient access to clean water. In addition, water is integral to the use and disposal of most P&G products; nearly 85 percent of them have some connection with household water use.

Worldwide, more than
- 1 billion people do not have access to safe drinking water.
- 3 to 4 billion people do not get enough water.
- 3 billion people do not have access to adequate sanitation systems.
- 3 million people – mostly children – die from water-related illnesses each year.

### Why Health and Hygiene?

Health and hygiene affect all of us, in both the developed and the developing worlds. P&G has chosen to focus on health and hygiene because we have many products that improve health and well-being and that clean skin, clothing and homes.

Here are some current concerns:
- Population growth is leading to overcrowding and disease in major urban areas.
- Micronutrient deficiency or "hidden hunger" affects many millions of people, causing blindness, inadequate childhood growth and other developmental issues.
- Food-borne diseases impact greater numbers of people every year.
- People's increased mobility enables infection and disease to move rapidly around the world.

P&G also devotes a great deal of attention to education because an educated populace is necessary in order for sustainable development to work effectively and to lead to economic development.

## Major Opportunities and Impacts Associated with Products and Services

### Economic Development
- Customers
- Suppliers
- Employment
- Taxes, Fees and Contributions

### Environmental Protection
- Resource Use
- Energy
- Water
- Emissions, Effluents and Waste
- Impacts of Products/Services
- Compliance

### Social Responsibility
- Labor Practices
- Human Rights
- Society
- Product Responsibility

The very nature of producing and using products causes P&G and consumers to use resources and to generate wastes and emissions. P&G is committed, through its Environmental Quality Policy, to reducing or preventing this whenever possible.

With products that are effective and of good value, P&G aims to provide social and economic benefits that improve the lives of the world's consumers. We do this via:
- Introducing innovative technologies.
- Generating employment in the communities in which we do business.
- Supporting local and national economies through taxes, contributions and purchases.
- Increasing shareholder value.
- Improving the health and hygiene of consumers through our products and information on their use.

## Policies, Management Systems and Performance

### Policies

While P&G competes hard to achieve leadership and business success, the Company is concerned not only with results, but also with how those results are achieved. We will never condone or tolerate efforts or activities to achieve results through illegal or unethical dealings, anywhere in the world.

### Management Systems

P&G's Management Systems ensure that the Company's policies are implemented in a consistent manner throughout the world. These Management Systems align with the Company's policies and promote a regular flow of information that helps the Company better manage its progress on elements of sustainable development.

### Performance

P&G measures operational performance in order to drive continuous improvement. A comprehensive, Company-wide system of measuring performance has been developed. This approach enables the Company to report data on a wide range of operational categories.

Our actions are not just profit-driven but also progress-driven, to ensure a better quality of life for everyone, now and for generations to come.

Our extensive consumer research related to our brands also helps us identify ways we can best address sustainability.

## Process for Data Collection

P&G's data collection systems have been in place for many years. They are designed to be simple enough so that the people closest to the work, regardless of location, can use the tools. This simplicity enables the Company to collect data and update systems annually at a relatively low cost. Each business unit is responsible for accuracy and consistency of its data.

All data is reported on a global basis. In order to achieve consistency and to ensure a common understanding throughout the organization, employees are trained in how to report and document data. Metric units and English are used as the business language, backed up with local translations, where needed.

To ensure the standard collection of data, the Company has the following work process in place:

- Key terms defined.
- The data to be collected are identified.
- Flow sheets are agreed upon regarding who collects data and on what systems.
- Technically sound methods are used by facilities to estimate data and validate year-to-year results.
- Personnel are trained on the work process, as appropriate.

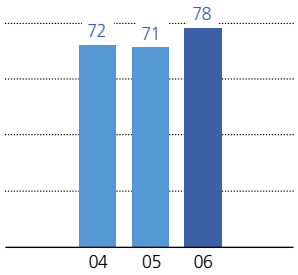
## Audit Programs

P&G's internal standards go beyond legal compliance and apply to all its plants worldwide. The fundamental philosophy is to have the same standards worldwide, implemented by trained professionals at all plants and audited each year using a consistent, comprehensive approach. The metrics used are consistent with that philosophy. Charts show the performance of Health, Safety & Environment (HS&E) and Fire Protection.

P&G's HS&E audit programs are designed to ensure compliance with national, state and local regulatory requirements as well as corporate environmental standards and procedures. Audit findings are reported promptly to the business management teams, who must address and correct all issues in a timely manner.

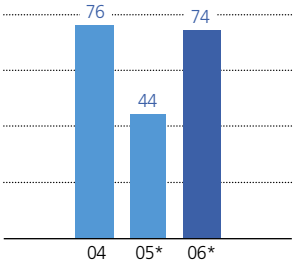
The Company reviews its sites on a frequent basis. The graph shows percent of sites receiving an audit this year. The percent of sites audited increased seven percentage points to 78 percent this year.

**PERCENT OF PLANTS CONDUCTING ANNUAL AUDITS**



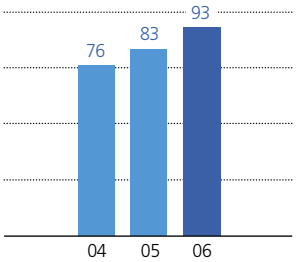

Audits measure performance against a mandatory set of standards and standard operating procedures. The target performance is 8 or better on a 10-point scale.

**PERCENT OF PLANTS WITH HS&E AUDIT SCORES ≥ 8.0**




*Includes Electrical Systems as Critical

**PERCENT OF PLANTS WITH FIRE PROTECTION AUDIT SCORES ≥ 8.0**




Two years ago we implemented a new standard for electrical safety. The new standard caused the number of audit scores above 8 to fall to 44 percent. This year, the results increased to 72 percent – a major improvement. If we were to show audit scores above 8 without taking into account the new standard, the percent scores above 8 would have been 87 percent.

# Economic Development

Sustainable development is a driver of economic development. With products that are effective and of good value, P&G aims to provide economic and social benefits that improve the lives of the world's consumers.

We do this via:

- Introducing innovative technologies.
- Generating employment in the communities in which we do business.
- Supporting local and national economies through taxes, contributions and purchases.
- Increasing shareholder value.
- Improving the health and hygiene of consumers through our products and information on their use.

Conversely, economic development is an integral part of sustainability. To support economic development, the Company upholds the following basic principles:

- Conducting business with integrity and a core value of "doing the right thing"
- A global free market, governed by the rule of law
- A climate of innovation
- Decisions based on sound science
- Freedom of consumer choice

P&G's presence in a community makes a valuable economic contribution. The Company and its employees pay taxes and purchase goods and services. The sale of P&G products generates employment for retailers, distributors, raw materials suppliers, advertising agencies, etc. The Company and its employees are known for their philanthropy.

### Economic Development

Innovation is a P&G cornerstone. More than $1.8 billion is invested annually in research and development – the largest amount among consumer product companies worldwide. We have more than 36,000 patents worldwide, and we average more than one new patent per day.

These intellectual assets are of tremendous value to P&G. But some are not being fully realized; we invent more than we can commercialize. Through our External Business Development group, we continue to identify non-strategic proprietary technologies which, when developed to their full potential, can yield sustainable revenue sources and bring important technologies to the market.

P&G invites collaboration. Our External Business Development group manages over 800 active contracts with other companies and institutions. This includes a wide variety of deal structures – licensing, sale, technology swap, joint ventures and more. P&G remains the partner of choice in working with others to improve the lives of the world's consumers.

>$1.18
**billion invested annually in research and development**

36,000
**patents worldwide**

# Sustainable Coffee at P&G

P&G Coffee is addressing social and economic issues affecting the ability of coffee farmers to make a viable living. Several years ago, their incomes suffered as global overproduction created low prices for green coffee. Over the last few years, market prices have significantly increased, which is improving farmers' incomes considerably.

Nonetheless, social problems persist, and P&G is working with nongovernmental organizations to find long-term, systemic solutions. These are our four major focus areas related to improving the sustainability of coffee farming:

***P&G Coffee is helping to build and refurbish schools in rural areas of Latin America, which is key to improving education and quality of life and, ultimately, assuring better job and income opportunities for the children of coffee farmers. Over the past four years, Folgers implemented this program in Guatemala, Nicaragua, Honduras and Colombia.***

## 1. Increasing consumer demand to help avoid potential future oversupply

P&G does this by promoting consumer demand for quality and innovation in the coffee aisle, such as with its Folgers Coffeehouse Series, flavored Folgers and Millstone varieties, the new Folgers Gourmet Selections, the new stomach-friendly Folgers Simply Smooth and the single-cup brewing system Home Café.

P&G also participates in various coffee industry efforts to increase coffee consumption. In the United States, the 2006 National Coffee Association (NCA) Coffee Drinking Trends Survey indicates that these efforts have resulted in a significant increase in daily coffee consumption after more than 50 years of steady decline.

## 2. Addressing problems at the industry level

P&G Coffee is actively involved in NCA efforts with the objective of an adequate, sustainable supply of coffee while also addressing social and ecological needs. For example, the NCA participates in key industry dialogues with organizations such as UNCTAD/IISD, which researches the feasibility and potential of tools for implementing an integrated approach to sustainable development at the global level. The NCA successfully advocated for the United States to rejoin the International Coffee Organization to work with coffee-producing and other coffee-consuming countries to implement systemic global programs for coffee producers.

## 3. Infrastructure, education and health care projects

P&G Coffee has signed a long-term alliance with TechnoServe, an NGO that helps small coffee farmers become better entrepreneurs. TechnoServe, for example, helps farmers form cooperatives and "pool" resources in order to reduce costs. TechnoServe also assists farmers in their development of business management and marketing skills with the objective of achieving higher selling prices.

P&G Coffee is supporting the child-maternity health care program of Project Hope in Jinotega, a rural coffee-farming area in northern Nicaragua. A contribution from Folgers helps establish "situation rooms" in existing public health facilities. These facilities provide health education and health care services – key elements to significantly decrease the high infant and maternity mortality rates caused by acute respiratory infections, diarrhea, chronic malnutrition and iodine deficiency.

continued on next page

**Sustainable Coffee at P&G**
continued from previous page

## 4. Offering and marketing certified coffees

P&G's Millstone brand is participating in certified green coffee marketing programs that enable eligible farmers to become specialty coffee producers and receive a premium price for their coffee. By offering and marketing certified products, we are building consumer awareness of these certifications, including Organic, Fair Trade and Rainforest Alliance. In the last fiscal year, Millstone purchased about 2 percent of its green coffee as Fair Trade Certified™ beans in Mexico, Nicaragua, El Salvador and Peru. Millstone plans to increase that amount significantly over the next few years, as consumer demand for these certified products grows.

Only a relatively small number of farmers are eligible to become certified suppliers, and they may not be able to command price premiums as supplies of certified specialty coffees increase on a broader base. Looking for global systemic solutions, P&G Coffee is working to help to prevent another round of massive overproduction, which could lead again to lower incomes for coffee farmers. This approach is nurtured by several independent analyses, including the McKinsey and TechnoServe study "Business Solutions to the Coffee Crisis" from 2003.

***Coffee cherries are ripening on the tree before they can be harvested and processed into green coffee beans. P&G buys green coffee beans and roasts them to produce its Folgers and Millstone brands.***

### Global Purchases

P&G is a global company. We produce brands in more than 140 plants in 40 countries around the world. This year, P&G purchased more than $25 billion in materials and services to manufacture and market our products. We employ locally and purchase the majority of our raw materials within those regions where we manufacture our products. Our purchasing professionals understand and participate in both global and local markets to acquire the materials and services to make our products.

### Financial Highlights

| Amounts in millions except per-share amounts | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net Sales | **$68,222** | $56,741 | $51,407 |
| Selling, General and Administrative Expenses | **21,848** | 18,400 | 16,882 |
| Income Taxes | **3,729** | 3,058 | 2,749 |
| Net Earnings | **8,684** | 6,923 | 6,156 |
| Basic Net Earnings Per Common Share | **2.79** | 2.70 | 2.34 |
| Diluted Net Earnings Per Common Share | **2.64** | 2.53 | 2.20 |
| Total Assets | **135,695** | 61,527 | 57,048 |
| Long-Term Debt | **35,976** | 12,887 | 12,554 |
| Shareholders' Equity | **62,908** | 18,475 | 18,190 |

Web

For more financial details, please see P&G's 2006 Annual Report:
www.pg.com/investors/annualreports.jhtml

## Supplier Diversity Program

In 1972, P&G established a program to identify and work with minority-owned businesses in the United States. Today, the Supplier Diversity Initiative is a fundamental business strategy which identifies and works with minority- and women-owned businesses. The Vice President of Global Purchases serves as Executive Sponsor.

Minorities continue to become a more substantial part of America's population, and women continue to be P&G's key consumer base. As such, P&G is committed to remain at a leadership level because it is good for our business and good for the health of the U.S. economy.

In 2005-2006, spending with minority- and women-owned suppliers exceeded $1.8 billion. This spending accounted for about 8.5 percent of P&G's total U.S. spending. This is the third year in a row P&G has exceeded $1 billion in spending. P&G achievements are recognized by its inclusion in the Billion Dollar Roundtable, a forum of 14 top corporations that spend more than $1 billion annually with diverse suppliers.

## Human Resources

Human Resources ensures that P&G has the employees, organizational design and work culture to deliver business productivity and to continually improve consumer, employee and shareholder value. They provide recruiting, training, development, diversity, benefits and compensation coordination for the Company.

It is the Company's intent to develop all employees to their full potential. To achieve this goal the following support systems are in place:

- Career discussions, performance appraisals, assignment plans, transfer and promotion plans.
- Informal network support groups.
- Mentoring to provide informal support and guidance, in addition to coaching and training provided by each employee's direct manager.

### Employee Privacy

P&G respects employee privacy and dignity. We will only collect and retain personal information from employees that is required for the effective operation of the Company or as required by law. We will keep that information confidential and release it only to those who have a legitimate need to know.

### Harassment Policy

P&G is committed to providing a harassment-free work environment. This is the right thing to do not only from a social perspective, but also from a business perspective. It enables our diverse work force to contribute to their highest potential. We will not tolerate harassment of anyone by anyone – including employees, suppliers, customers, contractors and agencies. Every employee is expected to be proactive in ensuring that the work environment is free from harassment of any kind. Managers of others are responsible for setting clear expectations for acceptable behavior in the workplace.

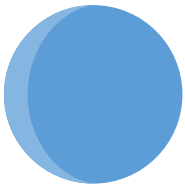
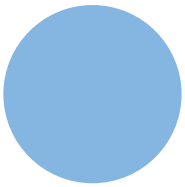
P&G fosters the potential of employees and suppliers.

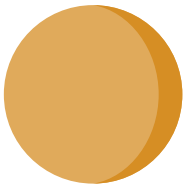
### Wages

P&G supports paying employees a competitive wage, as benchmarked against other leading companies. Consistent with our principle of valuing personal mastery, we reward employees for improving their skills and capabilities.

### Benefits

P&G is a recognized leader in employee benefits. The Company's benefits have been developed to help protect the financial security of employees. These benefits include comprehensive coverage for health care, generous vacation and holiday time, and other work/family balance benefits, including flextime, child care leave and less-than-full-time schedules.



### Philanthropic Contributions

P&G and its employees have a long-standing commitment to being good neighbors in places where we do business around the world. We show our commitment through both financial support and volunteerism.

This year alone, P&G and The P&G Fund contributed more than **$115 million** to support our communities.

P&G is committed to improving life for children in need, from birth to age 13, through our global corporate cause – *P&G Live, Learn and Thrive*™. We do this by building on P&G's range of competencies, products and existing programs to: help children in need **live** by ensuring they have a healthy start; provide access to educational facilities, tools and programs that enhance their ability to **learn**; provide access to programs that build self-esteem and life skills so they can **thrive**.

P&G *Live, Learn and Thrive* comes to life through a number of programs benefiting children in need in local communities around the world, including our global corporate signature program, *Children's Safe Drinking Water*.

For more information on *P&G Live, Learn and Thrive* and how we bring it to life, please go to page 67 of this report.

Live, Learn and Thrive™

# Employee Enthusiasm Grows for Children's Safe Drinking Water

P&G employees coming to lunch at the Brussels Innovation Center on World Water Day found jugs of dirty, brown water on the cafeteria tables instead of the customary jugs of clean water. The jugs were labeled "More than 1 billion people have only this to drink!"

Employee volunteers came around offering clean water, soliciting "tips" to buy PUR for a Ugandan medical center. The point of this event was to raise awareness of drinking water issues in the developing world and P&G's efforts to help. African food was on the menu, and a Gambian musician played Djembe music. Demonstrations showed employees how PUR works.

The event raised about 2,500 euros (US$3,034) from employees. The Brussels Innovation Center matched that amount. Funds raised went to the Belgian NGO Kids for Uganda, which bought PUR at cost for young children and AIDS patients at its medical center in Nkozi.

In the UK/Ireland, employees are learning about water issues in the developing world through the Water for Children awareness program. The year-long program has included educational and cultural events related to Africa. To build a personal connection, the program has focused on one orphanage and on three children there.

***Ronald helps P&G's UK/Ireland employees understand life at an African orphanage.***

The program also has a component that links business success to helping African children: The amount of product shipped determines how much money goes to Population Services International to buy PUR for schools that don't have clean drinking water. This effort has made possible a donation equivalent to providing a year's worth of clean water to 40,000 children.

# Environmental Protection

The very nature of producing and using products causes P&G and consumers to use resources and to generate wastes and emissions. P&G is committed to reducing or preventing this whenever possible.

P&G's philosophy is grounded in a belief that we should be a leader in our industry in implementing our global environmental program. To do this, we concentrate on environmental innovation and accountability for results. We believe our accomplishments illustrate this commitment.

For example, P&G was first to bring innovations such as concentrated products, refill packages and recycled plastic bottles to our industry. We have made great strides in reducing overall packaging per case by an average of 27 percent since 1990. During the same period, our focus on pollution prevention has resulted in a 65-percent reduction in waste and in air and water emissions from our manufacturing plants.

We recognize that environmental progress is a never-ending journey of continuous effort and improvement. By focusing on improving the lives of consumers through innovative technologies that work better and more efficiently, we believe we can continue to sustain both the growth of our business and the health of the environment.

Environmental Quality Policy – We will provide products and services of superior quality and value that improve the lives of the world's consumers. As part of this, P&G continually strives to improve the environmental quality of its products, packaging and operations around the world.

**To carry out its Environmental Quality Policy, P&G:**

- Ensures our products, packaging and operations are safe for our employees, consumers and the environment.
- Reduces or prevents the environmental impact of our products and packaging in their design, manufacture, distribution, use and disposal whenever possible. We take a leading role in developing innovative, practical solutions to environmental issues related to our products, packaging and processes. We support the sustainable use of resources and actively encourage reuse, recycling and composting. We share experiences and expertise and offer assistance to others who may contribute to progress in achieving environmental goals.
- Meets or exceeds the requirements of all environmental laws and regulations. We use environmentally sound practices, even in the absence of governmental standards. We cooperate with governments in analyzing environmental issues and developing cost-effective, scientifically based solutions and standards.
- Continually assesses our environmental technology and programs and monitors progress toward environmental goals. We develop and use state-of-the-art science and product life cycle assessment, from raw materials through disposal, to assess environmental quality.
- Provides our consumers, customers, employees, communities, public interest groups and others with relevant and appropriate factual information about the environmental quality of P&G products, packaging and operations. We seek to establish and nurture open, honest and timely communications and strive to be responsive to concerns.
- Ensures every employee understands and is responsible and accountable for incorporating environmental quality considerations in daily business activities. We encourage, recognize and reward individual and team leadership efforts to improve environmental quality. We also encourage employees to reflect their commitment to environmental quality outside of work.
- Has operating policies, programs and resources in place to implement our Environmental Quality Policy.

## Italy's Fater Plant Celebrates Certifications

The joint venture Fater plant in Italy, which produces baby diapers, feminine pads and incontinence products, has received ISO 14001:2004 and EMAS certification. The ISO 14001:2004 certification recognizes that Fater has an effective, sustainable environmental management system. The EMAS certification recognizes that Fater complies with the European Union's Eco-Management and Audit Scheme.

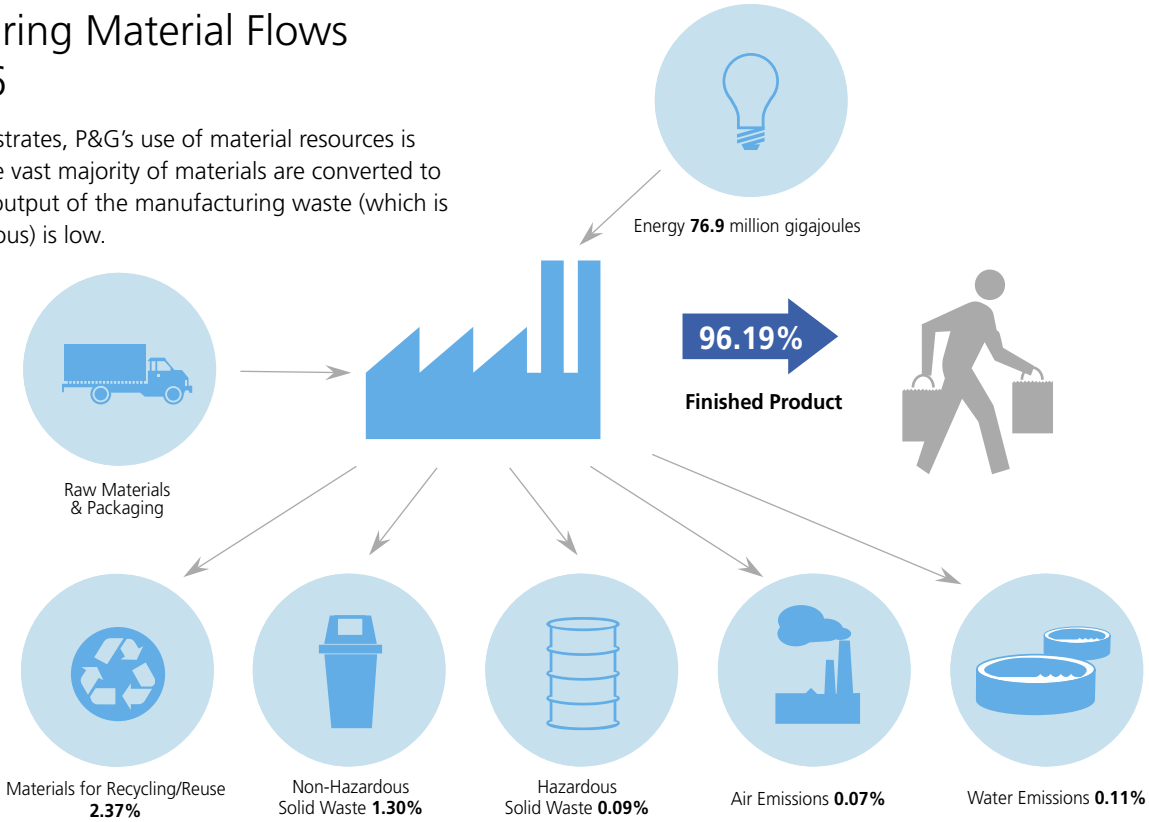
Web

EMAS certification requires an organization to report on its environmental performance. You can see this report at www.fater.it

To celebrate these certifications, Fater has provided financing for two community projects in Pescara. The first project funds maintenance of a large, urban, wooded park. The second project funds a bicycle bridge over the Pescara River, to encourage people to bike instead of driving their cars.

# Manufacturing Material Flows 2005-2006

As the diagram illustrates, P&G's use of material resources is highly efficient. The vast majority of materials are converted to products, and the output of the manufacturing waste (which is largely non-hazardous) is low.




## Manufacturing Resource & Waste Summary by Global Business Unit (GBU)

For the first time, we are including production and environmental statistics for Gillette. Eco-efficiency (production per waste unit) of the merged companies has continued to improve. P&G's shipments were up independent of the addition of Gillette.

| All waste units are in thousands of metric tonnes unless otherwise noted.† | Totals | | | 2006 Global Business Unit Detail* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | BEAUTY AND HEALTH | | | HOUSEHOLD CARE | | | | GILLETTE GBU |
| | 2006 | 2005 | 2004 | | B | HC | | FCHC | BCFC | PHSC | |
| **PRODUCTION** | | | | | | | | | | | |
| Product Shipped | 21,134 | 19,580 | 18,471 | 3,911 | 2,395 | 1,516 | 6,701 | 4,033 | 12,111 | 557 | 522 |
| Raw Materials from Recycled Sources | 65 | 71 | 102 | 0 | 0 | 0 | 65 | 0 | 65 | 0 | 0 |
| **WASTE** | | | | | | | | | | | |
| Generated Waste | 873 | 831 | 817 | 218 | 173 | 45 | 622 | 397 | 188 | 36 | 34 |
| Percent Recycled / Reused Waste | 60% | 58% | 56% | 54% | 56% | 45% | 62% | 68% | 51% | 53% | 73% |
| **DISPOSED WASTE** | | | | | | | | | | | |
| Solid Waste | | | | | | | | | | | |
| Non-Hazardous | 289 | 280 | 300 | 89.6 | 67.6 | 22.0 | 191.2 | 114.6 | 62.0 | 14.5 | 8.0 |
| Hazardous | 19 | 22 | 21 | 4.4 | 2.9 | 1.4 | 13.8 | 1.5 | 12.3 | 0.0 | 1.2 |
| Effluents (Excluding Water) | 24 | 22 | 21 | 5.6 | 4.7 | 0.9 | 18.1 | 3.6 | 13.8 | 0.6 | 0.1 |
| Air Emissions** | 16 | 26 | 16 | 0.8 | 0.4 | 0.4 | 14.6 | 8.2 | 4.6 | 1.7 | 0.1 |
| **OTHER** | | | | | | | | | | | |
| Energy Consumption ($10^5$ gigajoules) | 769 | 745 | 731 | 92 | 57 | 35 | 627 | 429 | 169 | 29 | 50 |
| Greenhouse Gas Emissions** | 2,889 | 3,013 | 2,937 | 279 | 168 | 112 | 2,468 | 1,835 | 527 | 106 | 141 |
| Water Consumption (million cubic meters) | 80 | 83 | 79 | 7.9 | 6.3 | 1.7 | 70.8 | 49.8 | 19.1 | 2.3 | 1.5 |
| SARA Releases (metric tonnes)*** | 2,146 | 1,722 | 1,843 | 481 | 50 | 430 | 1,187 | 62 | 1,125 | 0 | 479 |

† 1 metric tonne = 1,000 kg = 2,205 lbs.
* **Beauty and Health** includes segments: Beauty (B) and Health Care (HC).
**Household Care** includes segments: Fabric Care and Home Care (FCHC), Baby Care and Family Care (BCFC), Pet Health, Snacks and Coffee (PHSC).
**Gillette GBU** includes segments: Blades and Razors, Duracell and Braun.
** Air emissions include particulates, $SO_2$, NOx, CO and VOC, whereas greenhouse gas emissions include $CO_2$ from fuel combustion sources.
*** Releases defined in the U.S. Superfund Amendments and Reauthorization Act (SARA) by the U.S. Environmental Protection Agency.
2005 energy usage was adjusted down due to a site's overreporting. (Gillette data has not been added into 2005 or 2004 data.)

# P&G Joins Campaign to Reduce Detergent Impact in Europe

P&G continues to expand its sustainability achievements in detergents: The Company recently joined a two-year European campaign to reduce the amount of detergent used, particularly in Central and Eastern Europe, where consumers typically use 50 percent more detergent per wash (150 grams) than in Western European countries. It is expected that the campaign will help reduce the amount of low-suds, heavy-duty granular detergent used in Central and Eastern Europe by nearly 200,000 tonnes.

The international detergent association A.I.S.E. (the Association Internationale de la Savonnerie, de la Détergence et des Produits d'Entretien) launched the initiative in January 2006, and P&G has implemented it in 10 countries, with another nine countries pending. This initiative includes:

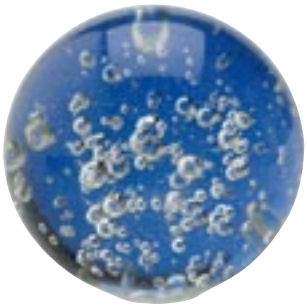
- Reducing the environmental impact of laundry detergents by reducing chemicals, packaging and energy used in product manufacturing, delivery and use. This includes reducing by a minimum of 33 percent (in weight) the recommended dosage for a standard washing machine load. Also, reducing the dose for a standard washing machine load by a minimum of 25 percent (in volume).
- Encouraging consumers to modify the way they use products, to reduce the amount of detergent and energy used while maintaining cleanliness standards.

A noticeable benefit for consumers is that detergent packages are becoming smaller and lighter.

The current campaign builds on previous efforts by P&G and the detergent industry to compact detergents over the past decade. P&G has been working with A.I.S.E. in Western Europe since the early '90s to compact detergents, thereby using less raw material and less packaging and putting less chemical material into the environment.

In the early '90s, it was difficult to convince consumers to accept compact detergents that required only 75 grams per wash instead of the traditional 150 grams. So in 1997 P&G and the A.I.S.E. started compacting detergents in 18 European countries from 150 grams down to 95 grams. This was a four-step, progressive process over eight years. The new campaign is scheduled to achieve its goals in one compaction step instead of four.

The compacting of traditional detergents to 95 grams per wash led to a 36-percent decrease in the weight of powder needed per wash and a 23-percent drop in the amount of packaging used, compared to 1997. Additionally, fully compacted detergents (75 grams per wash) are available in several European countries. Fully compacted detergents use 27 percent less packaging than the compacted traditional detergents.



***P&G continues to compact powder detergents and reduce their packaging.***

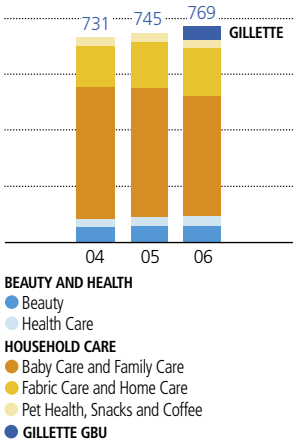
## Energy

Energy eco-efficiency* has increased 13 index points. Gillette sites were included in this reporting year. We have not included them in the last two years or in the base year.

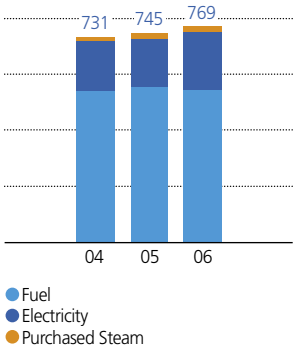
Results are shown in absolute value by business unit and also presented in eco-efficiency format.

The increase in eco-efficiency would have been 14 index points higher without the recent acquisitions added.

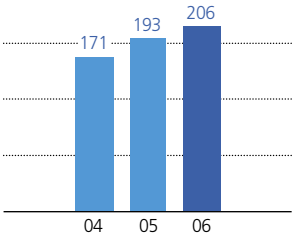
**ENERGY CONSUMPTION**
(by GBU, $10^5$ GJ)




**ENERGY CONSUMPTION**
(by type, $10^5$ GJ)




**ENERGY ECO-EFFICIENCY**
(global production units / gigajoule, indexed vs. 1990)




As part of our ongoing efforts to minimize losses, the Company does a loss analysis at the plant level. Losses are defined as anything not shipped out the door as product, including energy used. When energy is identified as a major loss at a plant, it receives intense focus for loss reduction.

*Eco-efficiency data used throughout this report is based on the framework developed by the World Business Council for Sustainable Development.

## New Duct Burner Saves Natural Gas

Four plants in Europe upgraded their powder drying process by adopting the latest technology in duct burner systems. This significantly reduced natural gas consumption and decreased carbon dioxide emissions by 4,550 tons.

- Spain's Mataró plant adopted this new technology first, achieving a 7-percent saving in gas consumption.
- Italy's Pomezia plant improved energy efficiency by 30 percent, reaching 95-percent efficiency.
- Russia's Novomoskovsk plant reduced gas consumption by 20 percent.
- The Czech Republic's Rakona plant decreased carbon dioxide emission by 1,630 tons.

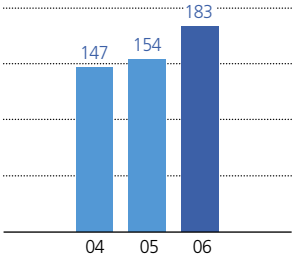
## Amiens Plant Saves Gasoline

The Amiens Fabric Care and Home Care plant in France is now "blowing" its own plastic bottles. Previously, the plant used a contractor to make the bottles, which had to be trucked a long distance to the plant. By bringing in only plastic granules instead of manufactured bottles, Amiens has eliminated nearly half a million miles of truck travel, eliminating 5 tons of $CO_2$ emissions. The plant also benefits because it doesn't need to store empty bottles, and its production costs have gone down.

### Water

Water eco-efficiency has increased by 30 index points while the actual water use decreased slightly from 83 million cubic meters to 80 million cubic meters.

**WATER CONSUMPTION ECO-EFFICIENCY**
(global production units / cubic meters, indexed vs. 1998-1999)



## Saving One-Third Per Flush

At England's St. Francis Catholic Primary School in South Ascot, P&G was able to help when the staff realized that money was being flushed down the toilets. The solution is installation of water-saving devices on the school's toilets, which should save about one-third of the school's annual water bill.

P&G's Egham site donated household products, which the students sold to raise money to purchase the devices.

St. Francis' administration has an Eco Schools Action Team monitoring the school's environmental footprint and finding ways to reduce it, and to reduce costs as well, if possible. Teachers are working on a new program using the water-saving devices to stimulate student interest in environmental concerns.

## Gillette Leads Effort to Care for Wetlands

The Gillette Company is the founder and leader of the Corporate Wetlands Restoration Project, for preserving and restoring ecologically critical and economically important wetlands and aquatic habitat. Representatives of governments, academia and conservation organizations join with business in this public/private collaboration.

The Corporate Wetlands Restoration Project and its 260 corporate partners have put millions of dollars into action for 165 projects in the United States. These projects have restored approximately 20,000 acres of degraded wetlands and aquatic habitat, opened 7,000 miles of waterways containing natural fish habitat and educated students on the importance of aquatic habitat conservation.

Completed this year was the $1.5 million Bridge Creek Salt Marsh Restoration Project. It restored approximately 50 acres of degraded salt marsh in Barnstable, Massachusetts, by opening restrictions to tidal flow. This allows more ocean water to reach more upstream marsh area for extended periods of time, resulting in:

- Restored habitat that serves as important feeding, staging and nursery areas for thousands of migratory shore birds, fish, crab and other wildlife.
- Reduced areas invaded by non-native common reed.
- Enhanced ecological functioning of the Great Marshes and the Sandy Neck/Barnstable Harbor.

The Massachusetts Corporate Wetlands Restoration Project provided seed money to qualify for federal grants and also technical services, both of which were instrumental in making the project possible. Corporate partners, led by Gillette, worked with Coastal America and its partner agencies, such as the U.S. Department of Agriculture's Natural Resources Conservation Service, the U.S. Department of the Interior, the U.S. Fish and Wildlife Service, and the U.S. Department of Commerce/NOAA National Marine Fisheries Service, as well as the Massachusetts Executive Office of Environmental Affairs and the Town of Barnstable.

This project won a Coastal America Partnership Award in 2005, recognizing "outstanding team efforts to restore and protect the coastal environment." Pres. George Bush sent a congratulatory note saying "Your service is making a real difference and reflects the selfless spirit of our nation."

Healthy wetlands are invaluable to the environment and the economy. They reduce flood and storm hazards, nurture biodiversity, purify water, support fisheries and agriculture, control pests, provide recreational opportunities and contribute more than $100 billion dollars annually to the U.S. economy.

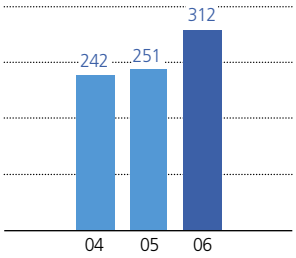
## Emissions, Effluents and Wastes

### Greenhouse Gas

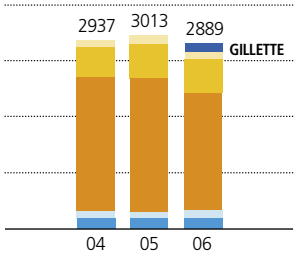
Every company in every sector of the economy has a role in controlling greenhouse gas emission. While P&G is not an energy-intensive company, we are stepping up to do our part. P&G is committed to energy-efficient programs, and we participate in voluntary programs.

P&G's eco-efficiency of greenhouse gas increased more than 60 index points. Each point represents the amount of product leaving our plants per metric tonne of $CO_2$ emissions. The main reason for this year's increase was multiple energy savings projects in Household Care.

**GREENHOUSE GAS EMISSIONS ECO-EFFICIENCY**
(global production units per metric tonne of $CO_2$, indexed vs. 1990)




**GREENHOUSE GAS EMISSIONS**
(by GBU, thousand metric tonnes)




**BEAUTY AND HEALTH**
- Beauty
- Health Care

**HOUSEHOLD CARE**
- Baby Care and Family Care
- Fabric Care and Home Care
- Pet Health, Snacks and Coffee

- **GILLETTE GBU**

In addition, absolute $CO_2$ emissions went down from 3.01 million tonnes to 2.89 million tonnes, making the $CO_2$ eco-efficiency more than 300 index points higher as compared to 1990.

## Climate R.E.S.O.L.V.E.

P&G supports the goals of Climate R.E.S.O.L.V.E. (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts). This year we have met the 2012 goal, but this will not stop our resolve to continue reducing greenhouse gas emissions.

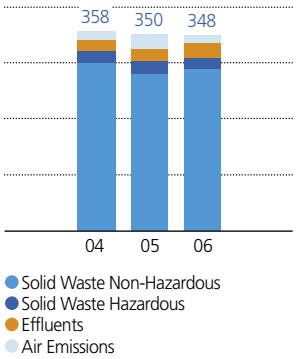
Since 2002, we have reduced our actual $CO_2$ emissions, worldwide, from 3,148,000 tonnes to 2,889,000 tonnes. Greenhouse gas intensity decreased 35 percent. Over the same period, our sales went from $40 billion to $68 billion. The recent acquisitions have been included in the latest year but not in the base year.

CLIMATE RESOLVE
A BUSINESS ROUNDTABLE INITIATIVE

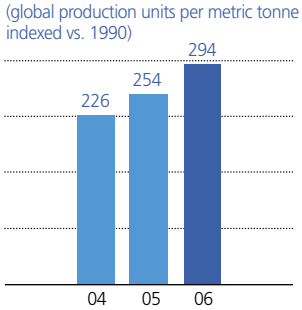
## Total Waste for Disposal

Total waste for disposal is our key management measure to keep waste under control. Total waste disposed comprises the sum of non-hazardous and hazardous solid waste, plus effluent measured as COD (chemical oxygen demand) and air emissions. It excludes recycling or reused waste. This measurement has been in effect since 1990.

**WASTE DISPOSED**
(by type of waste, thousands of metric tonnes)




**WASTE DISPOSED ECO-EFFICIENCY**
(global production units per metric tonne of waste, indexed vs. 1990)

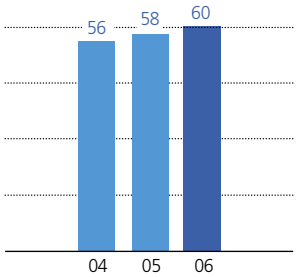



The actual waste disposed stayed the same. The reduction more than offset the increase from the addition of Gillette sites. With the increase in production from P&G plus the Gillette production, the eco-efficiency increased nearly 40 points.

## Waste Returned to Process or Market

The percentage of waste recycled increased slightly to 60 percent, and revenue received increased to $23 million.

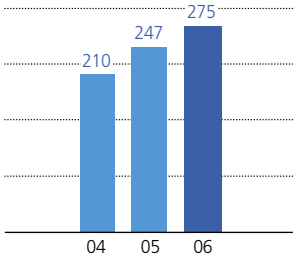
**WASTE RECYCLED OR REUSED**
(percent of waste)




## Non-Hazardous Solid Waste Disposed

Overall, the non-hazardous solid waste disposed to landfill has slightly increased this year, resulting in a nearly 30-point increase in eco-efficiency. P&G continues to find innovative recycling methods.

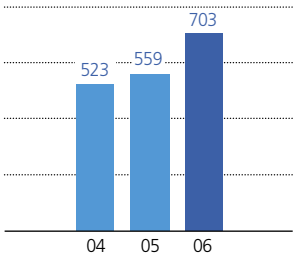
**NON-HAZARDOUS SOLID WASTE ECO-EFFICIENCY**
(global production units per metric tonne, indexed vs. 1990)




## Hazardous Solid Waste Disposed

Hazardous waste disposal has increased its eco-efficiency more than 100 points. This was due to an ongoing reduction effort.

**HAZARDOUS SOLID WASTE ECO-EFFICIENCY**
(global production units per metric tonne, indexed vs. 1990)

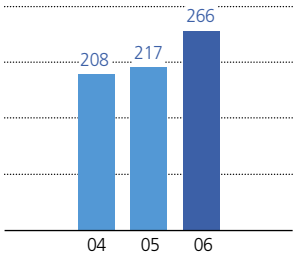



Hazardous wastes are defined by regional policies and local rules, so they vary from region to region. In the United States, a strong focus on reduction, recycling and material substitution has reduced the amount of hazardous waste requiring disposal over the past three years. To further reduce our risks, the number of approved hazardous waste disposal sites that all U.S. plants use is limited. Similar programs have been started in many regions of the world.

### Air Emissions

Each site monitors total suspended particulates, volatile organic compounds (VOCs), carbon monoxide (CO), nitrogen oxides (NOx) and sulfur oxides (SOx). The total amount of air emissions released has decreased, resulting in higher eco-efficiency. The 2005 eco-efficiency number was corrected in the graph (to project a proper trend) but not in the table on page 41.

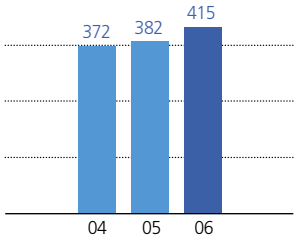
**AIR EMISSIONS ECO-EFFICIENCY**
(global production units per metric tonne, indexed vs. 1990)




### Effluents to Water

Wastewater COD (chemical oxygen demand) has increased slightly, resulting in higher eco-efficiency.

**WASTEWATER COD ECO-EFFICIENCY**
(global production units per metric tonne of COD, indexed vs. 1990)

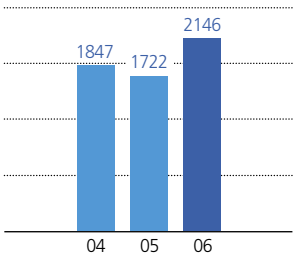



### SARA 313 Releases (United States only)

U.S. P&G plants report annually on the release of toxic chemicals to the air, water and land. These releases are defined in the U.S. Superfund Amendments and Reauthorization Act (SARA) by the U.S. Environmental Protection Agency. The purpose of this documentation (referred to as section 313) is to report publicly the releases and transfers of hazardous chemicals as defined by the agency.

The amount of SARA 313 releases has increased over last year due to the increase from Household Care.

**SARA 313 RELEASES**
(global total metric tonnes released or transferred)




## Mataró's Wastewater Efforts Help Local Environment

Spain's Mataró plant did a lot of work this year regarding wastewater reduction and treatment and also water consumption.

The plant set up a new, activated carbon wastewater treatment unit. This unit cleans wastewater so well that it complies with the very strict requirements for river discharge, even though the wastewater gets discharged into a public sewage system. The surfactants concentration decreased up to 50 fold – typically from 150 parts per million down to 3.

In addition, four of the plant's seven departments are now "zero effluent" departments.

## Climate Change

P&G supports efforts to deal with climate change under the U.N. Framework Convention on Climate Change. P&G is not an energy-intensive business, though we understand the potential impacts of greenhouse gases from our operations. We take energy conservation and efficiency seriously. We strongly support continued scientific efforts to understand the causes and consequences of, and potential remedies for, the negative effects of climate change.

It is critical that the international community take action to provide the flexibility essential to minimize negative economic and social impacts of climate change on countries, individual businesses, and ultimately, on the general public.

Support

**P&G supports efforts to deal with climate change.**

## Forest Resources Policy

Though P&G does not own or manage forests, we are a major purchaser of wood-derived fiber and believe we have a responsibility to ensure the sustainability of the world's forest resources. Consistent with this view, P&G has had a long-term policy which applies to how we manage our purchasing and utilization of fiber. As the science, knowledge and verification systems related to sustainable forest management evolve, we have and will continue to revise this policy accordingly.

P&G purchases wood-derived fiber from suppliers that:

- Ensure the safety of forestry and manufacturing operations for employees and the environment.
- Document that the fiber is from legally harvested wood and that other legal requirements are met.
- Practice principles of sustainable forest management in their own operations and in sourcing of wood.
- Do not obtain the fiber from sites designated for conservation or judged to have unique environmental or cultural value.
- Reflect our social values and support of universal human rights through work with local governments and communities to improve the educational, cultural, economic and social well-being of those communities.

We ensure compliance with this policy through site visits, comprehensive surveys and research, required documentation and independent third-party certification of sustainable forest management practices.

P&G requires all our fiber suppliers to independently certify their forestry operations for sustainable forest management. In addition, P&G requires suppliers to provide an auditable assurance that fiber from sources not directly owned and managed by them are obtained via legal means and that harvest is conducted via sustainable practices. P&G believes that independent certification can be an effective means for a fiber supplier to verify its sustainable forest management practices. To this end, the certification systems our suppliers select must be consistent with the following generally accepted criteria for sustainable forestry management:

- A commitment to forest regeneration and reforestation.
- Protection of soil quality, riparian zones and water quality.
- Protection of ecologically and culturally unique forest areas.
- Maintenance and conservation of biological diversity.
- Stakeholder consultation and public reporting.
- Continuous improvement in forestry practices.
- Compliance with legislation.
- Social development principles.

P&G is committed to strategies that reduce demand on the world's forest resources and will continue to:

- Focus on source reduction or use of less fiber through development of innovative technologies that provide maximum product performance using minimal fiber.
- Evaluate the use of non-forest-derived sources of fiber, recognizing that alternatives must also meet principles of sustainable management.
- Use recovered fiber in our products when it can be done without having a negative impact on product performance, manufacturing efficiency, resource and energy usage and waste generation.

P&G is committed to strategies that reduce demand on the world's forest resources.

### Human and Environmental Safety of Our Products

Product Safety & Regulatory Affairs (PS&RA) is responsible for ensuring that products and packages are safe for consumers, safe for the environment and in compliance with laws and regulations where they are sold.

PS&RA also addresses other environmental aspects of products and packages, such as their compatibility with waste management systems, natural resource use or issues of perceived safety. This organization is also responsible for the development, validation and adoption of alternatives to animal testing and ensures that any claims the Company makes about the safety or environmental profile of its products are scientifically sound.

Risk assessment is the process the Company uses to evaluate the safety of its products and ingredients. In this process, chemical hazard and exposure information are related in a way that describes the likelihood that a chemical will adversely affect biological systems. The PS&RA organizations in each business unit work closely with product development teams in the development, selection and formulation of product ingredients and mixtures with acceptable risk profiles, as well as satisfying other important business and consumer needs.

A key part of PS&RA is the Central Product Safety (CPS) organization. CPS has direct responsibility for ensuring that our products are safe for consumers and the environment. Its primary role is to advance the science of understanding and evaluating the human and environmental safety and impact of our products. It is helped in this process by an External Advisory Board consisting of several distinguished academic scientists.

CPS' work involves conducting basic studies in toxicology and biodegradation, together with an understanding of exposures, to ultimately complete human and environmental safety assessments used to make business decisions for products going to market as well as guide in the development of new technologies. CPS is also involved in key national and international initiatives (e.g., United Nations, Organization for Economic Cooperation and Development) directed toward supporting the sound management of chemicals around the world by sharing our toxicity information and establishing principles for promoting the safe and responsible use of chemicals.

Web

For further details on the science and safety of P&G products, we encourage you to visit these websites:
Science in-the-box (www.scienceinthebox.com)
The Science of Beauty (www.pgbeautyscience.com)
P&G Perspectives (www.pgperspectives.com)

## Science in-the-box Brings Added Value to Consumers

Science in-the-box is a scientific information portal that tells consumers about the science and innovation that make P&G's fabric and home care products work, as well as about the safety and sustainability of those products. It also provides access to our library of scientific publications and product safety data sheets. Since its introduction, some half a million people have gotten information from www.scienceinthebox.com. Their feedback indicates that consumers want to learn more about the products they buy. On our side, we see that presenting this information to consumers helps build their trust in our brands.

Web

Science in-the-box has been a tremendous success and has served as a model for two more websites: Beauty started a website that helps consumers understand the science behind the Beauty brands; it's www.pgbeautyscience.com. And the Company created www.pgperspectives.com to present our views on public policy issues.

## Compliance with Laws and Regulations

There are numerous health, safety and environmental requirements worldwide. Plants are subject to emission limits and operating requirements embodied in these statutes, regulations, laws and permits. It is P&G's intent to comply with both the letter and the spirit of statutes, regulations, laws and permit requirements. Identified compliance issues are treated seriously, and all non-compliance matters are resolved as expeditiously as possible.

### Summary of Fines and Violations

The table lists global data on environmental, transportation and worker health and safety violations over the past three years.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Number | **48** | 80 | 64 |
| Fines | **$127,500** | $147,400 | $28,320 |

The number of fines and violations decreased over last year. Most of the "air based" fines and violations were due to a new process start-up where control efficiencies were not being met, as well as other paperwork violations. New hardware and permit changes are being implemented that will eliminate a recurrence.

### Summary of Fines and Violations

A breakdown of 2006 Notices of Violation (NOVs) and U.S. Occupational Safety & Health Act (OSHA) interventions follows:

| | Number | Fines |
|---|---|---|
| Water-Based | 26 | $77,700 |
| Air-Based | 5 | $31,000 |
| Solid Waste-Based | 1 | 0 |
| Paperwork | 0 | 0 |
| Transportation-Based | 13 | $11,000 |
| Other | 0 | $500 |
| Worker Safety (for U.S. OSHA, the number is 3) | 3 | $7,000 |
| **Total** | **48** | **$127,500** |

## Environmental Liabilities

P&G is subject to various lawsuits and claims with respect to matters such as governmental regulations, income taxes and other actions arising out of the normal course of business. We are also subject to contingencies pursuant to environmental laws and regulations that in the future may require us to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Accrued environmental liabilities were not material.

While considerable uncertainty exists, in the opinion of management and our counsel, the ultimate resolution of the various lawsuits and claims will not materially affect our financial condition, cash flows or results of operations.

## Business Continuity

P&G's Global Business Continuity Program ensures that all critical sites and work processes evaluate their risk mitigation programs, exposure to catastrophic events at P&G sites and sites of our key suppliers and service providers that could significantly interrupt business operations, and the business impact of such events. Site and business unit leaders then develop contingency plans to minimize business interruption if a disabling event should occur. Crisis Management team structures are defined to manage business recovery using the pre-defined contingency plans. Tests are conducted annually to ensure the contingency plans are sufficient and up-to-date. Business Continuity Plans are audited regularly, and a report of the Business Continuity Program's status is made each January to the Audit Committee.

# Social Responsibility

P&G and its employees have a long-standing commitment to being good neighbors in places where we do business around the world. We show our commitment through both financial support and volunteerism.

This year alone, P&G and The P&G Fund contributed more than **$115 million** to support our communities.

P&G employees and retirees have a long tradition of volunteer involvement. We lend a hand to those in need. We pitch in when disaster strikes. We support the arts and education. We invest our resources – and ourselves, through tens of thousands of volunteer hours – in our neighborhoods around the world.

Through our *P&G Live, Learn and Thrive* program, we focus most of our social responsibility efforts on children in need. This program concentrates our resources on a consistent cause where the need is great and where there is a clear fit with P&G's strengths and brands. Within *P&G Live, Learn and Thrive*, our focus areas are education, clean water and health and hygiene.

## P&G's most important asset is its people. P&G works with its employees to protect and enhance their health and well-being.

### Medical

P&G's Global Medical organization advises and assists management and employees to assure a safe, healthy work environment. Global Medical delivers preventive health services and clinical services to all employees, at all sites. It manages health issues that may affect employees, technologies and brands.

As P&G is a principles-driven company, all medical system work follows this order of priority:

1. Save a Life (Protect P&G People)
2. Obey the Law (Protect P&G's Reputation)
3. Protect Key Technologies (Protect Brand Integrity)
4. Enhance Speed to Market (Protect Emerging Technologies)
5. Optimize Employee Productivity

All medical standards of performance and standard operating procedures flow directly from specific P&G Principles, Values and compelling business needs.

Healthy Living

### P&G Healthy Living Initiative

P&G Healthy Living is a Company-wide strategy to partner with our employees and their families to preserve and improve the quality of their health. P&G Healthy Living focuses on three primary elements:

- **Partnership:** P&G works with employees and their family members to improve/preserve their health and wellness. Employees and their families want to make an effort to achieve the best health they can, using the assistance the Company provides. When our employees and their family members are healthy, that's healthy for P&G's business, too.
- **Quality:** P&G supports initiatives that improve the quality of health and identify high-quality health care providers to serve our employees and their families.
- **Prevention:** P&G supports initiatives that promote preventive health care and healthy lifestyles.

Examples of regional wellness programs supporting the P&G Healthy Living initiative include:

Wellness
balance

Wellness Balance for employees in Latin America (currently deployed in Guatemala, Mexico, Peru and Venezuela). This program is intended to promote healthy lifestyles to help employees to face a complex and demanding work environment. This is done through a holistic approach that integrates the Employee Assistance Program, physical examination program, health risk evaluation program, physical fitness promotion, programs for providing healthier foods in Company cafeterias and during breaks, wellness/medical information, yoga/massage/other relaxation tools, and personalized health advice from health professionals, nutritionists and sports trainers.

Wellbeing
Personal balance in your professional life
P&G Healthy Living Initiative

P&G Wellbeing for employees in Western Europe (pilot tested in Germany, Switzerland and Italy, and deploying this year in the rest of Western Europe). This program is intended to help employees achieve sustainable peak performance at work

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**P&G Healthy Living Initiatives**
continued from previous page

while being better able to balance the demands of work and private life. Participants benefit from the following:

- Concepts for both body and mind, which enable (and allow) them to make their own choices.
- Opportunities for awareness and education on well-being topics, such as health, sports and food.
- Simplicity and support in seeking information on health-related issues.

Blueprint for Healthy Living

P&G Healthy Living Initiative

Blueprint for Healthy Living for U.S.-based employees and family, 18 and older. The program offers online tools and telephone support to educate and empower employees and families to make the best health care and lifestyle-related choices. This program works in conjunction with:

- P&G's health care providers.
- Individual site wellness programs.
- Recent changes to our U.S. health benefit plans designed to encourage the use of preventive health services and interventions.

Blueprint for Healthy Living offers a comprehensive set of services, which includes:

- A Wellness Assessment tool to address physical, emotional and lifestyle risks.
- Personal Wellness Advocacy programs, which offer education, assistance with lifestyle improvement and 24/7 counsel from registered nurses.
- Condition Management programs with customized guidance on conditions that cause decreased quality of life, lost work time and increased health care costs.

Participation is voluntary, confidential and free.

We protect the privacy of employee data. All our medical and medical plan-based employee and dependent data is highly secured to assure that it remains confidential.

## Six Minutes Protect a Life

In Asia/Pacific, P&G is alerting women to the importance of cancer screenings.

In Hong Kong, the Six Minutes Protect a Life campaign raises awareness of screening for cervical cancer. The goal of this program, operated in partnership with the Hong Kong Cancer Fund, is to increase the number of women getting Pap smears. The campaign, held in May and June every year, includes advertising, a promotion offering free Pap smears and community education programs. This year, celebrity entertainer Karen Mok was added as campaign ambassador. P&G Hong Kong also donates $39,000 to the Hong Kong Cancer Fund annually.

The rate for Pap smears has gone up from 47 percent to over 60 percent since the Six Minutes campaign began in 2001.

P&G Taiwan, in partnership with the Taiwan Department of Health, has been working for 12 years to raise awareness of breast cancer self-exams. It is estimated that the number of women doing self-exams has risen significantly over the past 10 years.

But awareness levels remain low in remote areas, where a 2006 survey showed that 77 percent of women don't know about breast self-exams. P&G donated $31,000 this year to the Foundation for Breast Cancer Prevention & Treatment to help women in remote areas learn about self-exams.

### Health and Safety Policy

P&G is committed to having safe and healthy operations around the world. The goals are to protect the lives and health of its employees and the communities surrounding its operations, as well as to protect its assets, ensure business continuity and engender public trust. To accomplish this, P&G will:

- Operate facilities safely and ensure processes are safe and healthy for our employees and residents of the surrounding communities. We will accomplish this by following uniform corporate safety standards around the world. Safe operations have been a long-standing part of Company culture, reflecting the belief that our people are our most important asset.
- Construct our facilities so as not to compromise the safety and health features designed into them.
- Monitor progress toward our objective of preventing injuries, illnesses and incidents. We will continually assess and improve our safety and health technologies and programs.
- Have every employee understand and be responsible for incorporating safe behavior in daily business activities. Every employee is trained to work in a safe and healthy manner.
- Have operating standards, practices, systems and resources in place to implement this policy.

### Worldwide Health, Safety & Environment Systems at Manufacturing Operations

Health, Safety & Environment (HS&E) is a global community of resources responsible for ensuring that all manufacturing facilities worldwide are operated safely and legally; that process hazards are minimized or eliminated; that health risks are identified, managed or eliminated; and that waste from sites is reduced as much as possible. Several thousand employees spend all or a portion of their time on HS&E management. This totals more than 953 full-time equivalents, up from 919 last year because of P&G's acquisition of Gillette.

There are three major components to a site's HS&E organization: the base component which includes Environmental, Technical Safety and Industrial Hygiene & Safety; Fire Protection Systems and Medical Systems.

P&G uses a phased, detailed Risk Assessment process to evaluate the safety of processes and initiatives being introduced at its own manufacturing operations as well as at contractor manufacturing operations. The Risk Assessment process is designed to enable high-speed innovation.

P&G regularly verifies that the Health, Safety & Environmental program at all its manufacturing facilities meets the intent of the global environmental management standard ISO 14001. This year, we extended verification to the global health and safety management standard OHSAS 18001.

Verification completed in September 2006 was conducted by ERM (Environmental Resources Management), a highly respected international consulting firm in the fields of environment, health, safety and sustainability.

## P&G China Honored for Employee Well-Being

China's Ministry of Health has recognized P&G's Huangpu plant with a National Occupational Health Role Model Enterprise award. This year is the first in which the Chinese government has presented awards for promoting occupational health and safety.

P&G is the only U.S. company, and the only consumer products company, to receive an award.

### HS&E Benchmarking

Benchmarking continues to be an important tool used by P&G to assess and maintain the health of its global HS&E program. It provides Corporate HS&E with important external data to verify the robustness of our performance and to identify improved management and technology approaches.

To that end, P&G works with many multi-national as well as European companies to understand their performance in areas such as injury/illness, workers compensation, property loss and regulatory fines, and HS&E personnel productivity. In addition, we are routinely involved in studies led by GEMI (Global Environmental Management Initiative, with a membership of more than 41 multinational companies) that survey several key HS&E topics. As a result of this work, we have concluded that compared to other leading companies, P&G has:

- Strong HS&E performance results
  - Injury/illness rate for employees – lowest 25 percent
  - Lost workday rate for employees – lowest 25 percent
  - Penalties paid (in dollars per billion dollar sales) – lowest 33 percent
  - Property loss (in dollars per billion dollar sales) – lowest 33 percent
- "Best in class" HS&E operations costs (in dollars per billion dollar sales) due to shift of more HS&E work to site technicians than most other companies.

While P&G's current situation is quite positive, our long-term challenge is to continue delivering excellent benchmarking results.

### Fire Protection Systems

P&G operates its fire protection program on the basic principle that each facility is unique and should have a program designed to meet its specific requirements. The Insurance Division, working with Global Business Unit fire protection leaders and local management, determines the appropriate level of fire protection for each P&G location.

Each facility's program is organized and built around the following key elements:

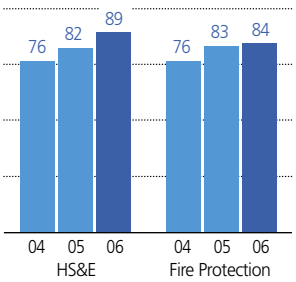
- Protection Engineering
- Maintenance and Inspections
- Prevention Programs
- Emergency Response
- Qualified Personnel

Each facility has a fire defense profile that describes in detail the program requirements.

### Plant HS&E Leadership Training

A key indicator of Health, Safety & Environment (HS&E) system capability is the percentage of plants with trained and qualified leaders. Leadership candidates train on-site for an extended period after attending a week-long "distance learning" event where their knowledge and ability to handle specific situations are assessed. For full qualification, the candidates must complete a qualification project at their own plant. Currently, more than 89 percent of plants worldwide have leaders qualified by Corporate/GBU staffs.

**PERCENT OF PLANTS WITH QUALIFIED LEADERS**




### HS&E Program Costs

There are two aspects of HS&E program costs:

1. Capital costs for new HS&E equipment.
2. People and operating costs for existing facilities.

HS&E capital costs for 2005-2006 were $39 million (approximately three times as high as last year) to ensure compliance in our facilities. This included the purchase and construction of pollution control equipment such as wastewater pretreatment systems and air emission controls.

HS&E total costs for operating existing sites in 2005-2006 decreased to $172 million. (This does not include the $28 million in revenue gained from recycling activities.)

## Industrial Hygiene and Safety

The health and safety of Procter & Gamble employees are paramount in the principles of the Company.

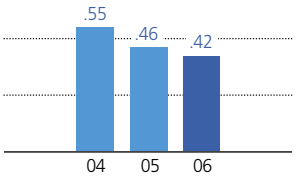
*Nothing we do is worth getting hurt.*
*Safety can be managed.*
*Every illness and injury could and should have been prevented.*
*Safety and health are everyone's responsibility.*

The Company tracks and reports two metrics for worker safety – total incident rate (TIR) and total lost workday case rate (LWDC). TIR includes all cases that result in loss of consciousness, lost workdays, restriction of work or motion, medical transfer to another job or medical treatment beyond first aid. LWDC includes all cases that involve days away from work or days of restricted activity beyond the day of injury or onset of illness.

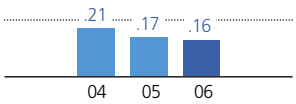
The TIR target for sites is to be below 1.5 cases per year, per 100 employees. To achieve such rates, programs to address employee safety such as safe behaviors, egonomics and confined space entry have been implemented. No target has been set for LWDC. Instead, incidents that potentially could lead to lost workdays are managed.

The following data is based on criteria established by P&G for use at all worldwide plants and technical centers. This year's total incident rate stayed nearly the same, at .42 versus .46 incidents per 100 employees, while the lost workday case rate also stayed the same, at .16 versus .17 cases per 100 employees.

**TOTAL INCIDENT RATE**
(injury and illness per 100 employees)




**TOTAL LOST WORKDAY CASE RATE**
(lost and restricted workday cases per 100 employees)



**40**
**million people are infected with HIV/AIDS**

## HIV/AIDS

Worldwide, 40 million people are infected with HIV/AIDS. Statistics are frightening; it is estimated that someone becomes infected every six seconds.

Infection rates in some African countries run as high as 40 percent of the population. AIDS has become the leading cause of death in sub-Saharan Africa, with more than 28 million people infected. In addition to the many, many lives lost, there are an estimated 14 million children orphaned by AIDS.

### HIV/AIDS Policy

All employees, including those who are HIV-infected or with AIDS, are treated consistently with the Company's Purpose, Values and Principles by the Company, their managers and co-workers. Among other things, that means that each individual is treated with dignity and respect, and that we do not discriminate against any individual based on any difference not related to performance. We treat employees with HIV/AIDS the same as we treat those with other serious illnesses.

Specifically, an employee who is HIV-infected or with AIDS:

- has the same employment rights and responsibilities as other employees.
- has the same eligibility for employee benefits and programs, including medical care and disability coverage, as non-infected employees.
- is afforded privacy and confidentiality protection consistent with the Company's handling of confidential, medical or other sensitive information.
- is provided management support to remain productive.

With HIV/AIDS impacting sub-Saharan Africa more than any other area in the world, P&G's sub-Saharan organization is leading the Company's HIV/AIDS effort. P&G's effort, which began in 1998, was revised in 2004 to coordinate with the latest national and international developments and standards. The effort's objectives are to:

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**HIV/AIDS**
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- Use employee and family awareness and prevention programs at our African locations to help prevent the spread of HIV/AIDS.
- Offer medical plans that assist employees with HIV/AIDS to get life-prolonging medication, and in some cases supplement these plans with additional Company support.

The workplace portion of the effort consists of the following elements:

- Establishing baseline measurements, such as for knowledge, attitude, perception and disease prevalence
- Conducting risk analysis and impact assessment, considering issues such as costs to P&G and impact on customers, suppliers, health care facilities
- Implementing prevention strategies, such as awareness training, voluntary counseling and testing for HIV/AIDS and sexually transmitted disease
- Implementing wellness programs to keep infected employees as healthy as possible and providing post-exposure prophylactics, anti-retroviral treatment, Nevirapine, vitamins and nutritional supplements and home-based care
- Evaluating and monitoring the effectiveness of these interventions
- Assessing and improving Company benefits

Specific P&G activities to fight HIV/AIDS in Africa include:

### Awareness Training

Awareness training was launched in October 2004 and continued during 2005. We are using a Web-based portal, weekly e-mailed curricula and special campaigns to educate employees. The campaigns focus on special events (e.g., World AIDS Day, the Christmas season, Valentine's Day, Women's Day and World TB Day), and the portal provides all employees with access to more than 1,300 pages of HIV/AIDS information.

### Surveys

We have surveyed employees twice. In 2004 we assessed our employees' HIV vulnerability by exploring their knowledge, attitude and practices (KAP). In 2005 we conducted an anonymous prevalence survey to determine the number of employees who are HIV-positive.

The 2004 KAP survey enabled us to

- Collect information to guide the development of a comprehensive HIV/AIDS strategy.
- Obtain baseline information against which to measure and monitor efficacy and impact of the program over time.

Almost three-quarters of our employees participated. The majority acknowledged the existence of HIV/AIDS and had accurate perceptions of their personal risks. The majority knew of our workplace policy and were interested in our Voluntary Counseling & Testing program. The next survey of this type will be conducted during the first quarter of 2007.

We used information from the prevalence 2005 survey to help us provide adequate resources (e.g., benefits, recruitment, training) and focus them effectively. More than two-thirds of our employees participated. Nearly all in the high-risk category (i.e., younger employees) participated, and their infection rate was far lower than national averages.

Using results from this prevalence survey, we completed an impact assessment. It confirmed that we have the right program in place to reduce/mitigate the effect of HIV/AIDS on the business.

Web

For more information on P&G's anti-HIV/AIDS work in South Africa, please visit:
www.pg.com/content/pdf/01_about_pg/corporate_citizenship/sustainability/reports/pg_south_africa_2004_hiv_aids_report.pdf

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***P&G treats employees with HIV/AIDS the same as those with other serious illnesses.***

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**HIV/AIDS**
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### PUR Purifier of Water and HIV/AIDS

People who have HIV/AIDS are more susceptible to water-borne diseases, including parasites, viruses and pathogenic bacteria. Therefore, the global response to HIV/AIDS needs to include provision of safe drinking water. In Haiti, Kenya, Uganda, the Dominican Republic and an increasing number of other countries, we are seeing that safe drinking water helps improve the lives of people with HIV/AIDS.

Healthy Living Kits that include PUR are being provided in several countries by our partner organizations. Community support groups are educating people living with HIV/AIDS about the importance of safe drinking water in helping them feel and function better. P&G has also made it possible for people with HIV/AIDS to sell PUR in their communities to earn income.

For more information on PUR, please go to page 68.

P&G participates in HIV/AIDS programs in Latin America and Asia as well. For example:

P&G Mexico joined with other large corporations in 2004 to form a business coalition called CONAES (National Entrepreneurial Council on AIDS). The objective of CONAES is to "eradicate HIV/AIDS discrimination in workplaces." P&G is now a member of the Executive Committee of CONAES, which has started designing a Latin American regional labor policy on HIV/AIDS. To encourage more HIV/AIDS discrimination-free workplaces, CONAES plans to conduct a broad company survey and follow up by presenting awards to companies that have developed anti-discrimination programs and polices.

P&G China educates its employees about HIV/AIDS using e-mail, websites, brochures and poster campaigns on World AIDS day. Medical staff provide prevention information to all new employees.

# Diversity

## Diversity Position

Diversity is a fundamental component of P&G's culture and integral to our "How to Win" business strategy for success. P&G has a strong legacy of ownership, commitment and accountability regarding diversity because we recognize the direct link between the Company's success, short-term and long-term, and engaging the full power of all our employees. We believe a fully utilized and diverse work force creates competitive advantage and fulfills P&G's Purpose, Values and Principles.

P&G is committed to being a leader. We want our brands to lead in their categories and our Company to be a leader in our industry and our communities. Our mission is to be, and be seen as, the best consumer products company in the world. In order to achieve our mission, we must be among the best places to work and leverage diversity as a competitive advantage. Our corporate challenge is to become the most in-touch company in the world. To be in touch is to practice – and believe passionately in – diversity and inclusion.

To ensure we are "in touch" with our global markets, customers and business partners, our business leaders

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**Diversity Position**
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relentlessly pursue valuing, trusting, respecting and leveraging individual differences and inclusion. Thus, we are more creative and innovative in developing products and services that improve the lives of the world's consumers.

### Leadership Focus and Accountability

A.G. Lafley, Chairman of the Board, President and Chief Executive, holds himself accountable for leading diversity and monitoring progress in every part of our Company. He expects top leadership to hardwire diversity into their business strategies, establish clear expectations and demonstrate personal accountability. This requires top management to show strong, visible leadership, commitment and constant focus in order to achieve diverse leadership and work teams and robust systems for ongoing measuring and tracking of diversity progress.

Top executives conduct in-depth diversity reviews annually with organization heads across the business units, to assess progress and reinforce leadership accountability for corrective actions. The top 30 officers in the Company have diversity results tied to their stock options awards, and strong diversity performance influences top ratings. Diversity action plans are developed in each region of the world to reflect the greatest opportunity for advancement of local diversity strategies.

### Talent Support and Development

P&G strives to build a diverse and fully engaged organization by attracting the best talent from around the globe, leveraging the full talent of each individual through effective assignment and promotion planning processes, and executing with excellence the critical systems that affect and support retention of each employee.

We focus on establishing long-term relationships with educational institutions that have diverse populations of highly qualified students. To broaden our candidate base worldwide, we have launched Recruitsoft, our first fully global, web-based candidate management system. We supplement our base recruiting efforts by utilizing intern programs and participating in recruiting conferences and by outreach to high school students. We execute special programs such as INROADS and P&G Marketing and Finance Summer/Winter Camps to introduce students to P&G. Additional teams are available to help with efforts to recruit women around the globe and Hispanic, African-American, military and disabled candidates in the United States.

Our foundation systems for ensuring employee retention include effective first-year orientation/join-up programs, providing a good match with the first manager, developing coaching/mentoring/advocacy relationships, high-quality challenging work/career plans, training (virtual, classroom and external), and supportive work/life policies and practices. Employee support groups and network teams exist throughout the organization and contribute strongly to effective recruiting, join-up and development efforts. These groups include women globally and Hispanic, African-American, Asian/Pacific-American, gay/bisexual/lesbian and disabled employees in the United States.

### Inclusive Culture

P&G leaders are expected to build an inclusive work environment that welcomes and embraces diversity – an environment where people feel comfortable being who they are, regardless of their individual differences, talents or personal characteristics. This is an environment that

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## P&G Seeks Local Women in Saudi Arabia and Japan

"Working at P&G is one of the greatest opportunities I have been offered in my life, especially when a working woman in Saudi Arabia has limited choices," a P&G Arabian Peninsula employee says.P&G Arabian Peninsula hopes to attract more local women and then to train and retain them. The Female Talent Development Network helps them develop skills such as presenting and debating ideas and leading teams.

P&G Arabian Peninsula is also ethnically diverse, with more than 20 nationalities represented in its 850-person staff at three manufacturing sites and two offices.

Equal opportunity for women is also an issue in Japan, where advancement opportunities for women is distinctly less encouraging than in other developed nations. P&G Japan has gotten good results on its diversity program, with senior management that is 25 percent women, compared to an average 3.4 percent at other companies in Japan.

P&G Japan works with local governments and thought leaders to promote diversity. This year, activities included collaborating with Hyogo Prefecture to improve education materials used by local companies implementing diversity programs. P&G also contributed speakers to universities and business and government events on how to leverage diversity.

P&G Japan held its third Diversity Forum in spring 2006, inviting local government leaders and thought leaders to attend.

**Diversity Position**
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provides everyone equal access to information, opportunities and involvement so each person learns, grows, excels and maximizes his or her personal contribution.

Training, policy and sensing systems are utilized to reinforce development of an inclusive culture. Focused diversity training/learning processes are utilized to equip leaders to value and nurture differences in management experiences, styles of leadership, and problem-solving/decision-making approaches. All employees have access to supportive and enabling policies and practices in the areas of flexible work arrangements, family care, resource/referral services and personal wellness management to improve work/life balance and productivity. Employee surveys and culture sensing, as well as the diverse leadership networks, provide advisory data and learnings to top leadership about how to be more effective at leveraging local customer/employee practices and beliefs.

### Business and Community Partnerships

Improving lives in the countries and communities in which we operate is a long-standing P&G value. We are committed to making a difference in all our communities – from India to Kenya, from Canada to Brazil, from France to Australia. Around the world, P&G and its employees strive to improve lives every day. This has led to a focus on building effective business and community partnerships in areas where we can make a meaningful difference:education, volunteerism to improve the quality of life in our communities, and economic development.

Education is a means of improving quality of life and a pathway to fulfill personal aspirations. P&G supports educational programs, from preschool through college, through financial contributions and mentoring/tutoring programs. The volunteer leadership of P&G employees, who can be counted on to help with virtually every significant community project, greatly enhances the effectiveness of our contributions. Through volunteerism, P&G provides ongoing support, sponsorship and leadership for many civic, cultural and nonprofit organizations across all geographies in which we operate. In 2003-2004, the P&G Fund, the Company's philanthropic foundation, provided more than $25.3 million for educational programs, $13.6 million for health and human services, and over $8.4 million to civic, cultural and public service organizations that primarily benefit youth, women and minorities.

P&G is committed to the economic development of minority- and women-owned businesses and suppliers around the globe. P&G has one of the oldest supplier diversity programs in the United States, spending more than $1.145 billion

across nearly 1,300 minority- and women-owned suppliers. Additionally, P&G provides continuing leadership in the advertising industry by partnering with our agencies to refer applicants to each other and help minorities gain entry into commercial production companies.

## Diversity Data

P&G continues to focus on diversity as a global strategy and expects its work force to become increasingly diverse. Global data on enrollment by gender is shown in the following table:

**GLOBAL ENROLLMENT % FEMALE**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Management | **39.0** | 38.0 | 36.7 |
| All Other Employees[1] | **39.0** | 38.4 | 36.9 |

The percentages of minority and female employees in the United States are shown in the following table:

**U.S. ENROLLMENT**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| % Minorities | | | |
| Management | **21.0** | 19.6 | 18.8 |
| All Other Employees[1] | **19.0** | 18.7 | 19.5 |
| % Female | | | |
| Management | **37.0** | 36.3 | 35.4 |
| All Other Employees[1] | **40.0** | 39.6 | 38.9 |

[1] Administrative, Technical and Plant Technicians

### Summary

In 2005, P&G's solid progress in diversity was recognized in many national surveys: *Fortune's* America's Most Admired Companies (#1 in our industry category), one of *Fortune's* 100 Best Companies to Work For, *DiversityInc's* Top 50 Companies for Diversity (#27 from #30 last year), recognized by the National Association for Female Executives as one of the top 30 Companies for Executive Women.

## Sustainability Guidelines for Supplier Relations

The foundation of our Sustainability Guidelines for Supplier Relations is our Statement of Purpose, Values and Principles. We operate within the spirit and letter of the law and maintain high ethical standards wherever we conduct business. We will actively seek business relationships with suppliers who share our values and promote the application of these high standards among those with whom they do business. The Sustainability Guidelines for Suppliers can be downloaded at:

Web www.pg.com/content/pdf/01_about_pg/ 01_about_pg_homepage/about_pg_toolbar/ download_report/guidelines_for_supplier_relations.pdf

Summary of our supplier guidelines:

1. We expect our suppliers to comply with all applicable laws of their country, including laws relating to employment, discrimination, environment, and health and safety. Suppliers who knowingly violate laws or have repeated problems conforming to them will not receive our business.
2. Commercial bribery is illegal and subject to criminal penalties in many countries, including the United States. Any personal payment or bribe to individuals employed by P&G's customers or suppliers, or receipt of a bribe or personal payment by P&G employees is strictly prohibited. Even in locations where such activity may not, technically speaking, be illegal, it is absolutely prohibited by Company policy.
3. P&G supports universal human rights, particularly those of our employees; the communities within which we operate; and the parties with whom we do business. In our business award decisions, we will continue to place substantial value upon incumbent and potential suppliers who consistently respect basic human rights.
4. P&G utilizes fair employment practices, as well as strives to provide a safe, healthful and productive work environment for its employees. The Company respects employees' right to freedom of association, third-party consultation and collective bargaining where allowed by law. The Company expects suppliers to uphold the same standards. Specifically:

- We will not conduct business with suppliers employing child, prison, indentured or bonded labor, or using corporal punishment or other forms of mental and physical coercion as a form of discipline.
- We expect suppliers to conduct their business without unacceptable worker treatment such as harassment, discrimination, physical or mental punishment, or other forms of abuse.
- At a minimum, we expect our suppliers to comply with all applicable wage and hour laws, and rules and regulations, including minimum wage, overtime and maximum hours.
- We expect suppliers to provide a safe work environment, to prevent accidents and injury, and to minimize exposure to health risks.
- We seek to do business with suppliers who share our concerns for and commitment to preserving the environment. At a minimum, suppliers must meet all current, applicable environmental rules, regulations and laws in their countries.

The management system is owned by the Global Vice President – Purchasing and has three components:

1. **Communicate** – All purchasing personnel who interface with suppliers are trained on the supplier guidelines and how to conduct supplier assessments. We communicate the guidelines to our suppliers once a year and reinforce our expectations in our contracts. This makes compliance with the guidelines a condition of business and therefore grounds for disqualification for all new and ongoing supply agreements.
2. **Check** – Ongoing periodic performance assessments are done as part of regular commercial and technical supplier visits. Emphasis is placed on suppliers that are high-risk because of country of operation or potential hazard. In addition to these internal assessments, we have third-party assessments to identify areas for improvement.
3. **Correct non-compliance** – When potential non-compliance issues are identified, they are communicated to the supplier as part of the closing meeting. Corrective actions including formal notification and a remediation action plan are then implemented. In some cases we require immediate action to achieve compliance, or we halt business. These include child or forced labor and egregious health and safety violations presenting immediate danger to human health. If a compliance issue is not resolved in a timely manner, the business relationship is terminated.

## Consumers

At P&G, "The Consumer is Boss." We are committed to meeting the needs of our consumers and providing products that improve their lives. We embrace and promote this mindset throughout the development and marketing of our products.

We set out to delight consumers by bringing to market only new products and product improvements that genuinely meet their needs better than ever. Before establishing a project for a new product or line extension, P&G technologists research consumer needs in-depth to identify and understand those needs that are not adequately met.

Following thorough screening of these products to ensure safety and compliance with all relevant legal requirements, P&G market researchers appoint panels of consumers to try out the products and answer the key question: Do these products better meet consumer needs in practice? Based on what consumers tell us in these early trials, the test product may be rejected or adapted and improved.

Our commitment to our consumers does not stop there. When our products reach the market, we want to hear about consumers' experiences with them. They can easily reach our Consumer Relations organization via toll-free numbers listed on our packages, and websites . We learn a great deal from the more than 7 million consumers worldwide who contact us every year.

Our skilled Consumer Relations advisors are expert in responding quickly and effectively to occasional requests for urgent help (such as following a child's accidental ingestion of a detergent), answering general questions and listening to comments. Consumers call to ask for information or to tell us about their experiences with a product – a delight or, less fortunately, a disappointment. Listening to consumers enables us to retain the features of our products that consumers like, make improvements where necessary, and address specific issues such as difficulties with packaging or product availability in their local stores. Consumer calls give us critical early indications about acceptance of our new initiatives as well as valued feedback about established products. These comments have influenced product development, packaging, the way we manage direct marketing and promotions, the way we communicate with consumers to enable them to get the very best from our products – and more.

This consumer learning is so valuable to us that we have implemented leading-edge tools to bring the voice of the consumer to those who can make a difference within P&G. In the United States and Western Europe, we have created "Listening to The Boss." Via this internal website, P&G managers responsible for product development, marketing and manufacturing listen to consumers describing their delights and disappointments with our brands. The website is a library of selected and edited consumer calls, letters and e-mails. (Privacy guidelines are strictly adhered to.) A new Consumer Relations system will provide even faster access to worldwide consumers' comments. This has already been launched in Asia and will continue to roll out to all Consumer Relations teams worldwide.

We listen carefully to consumers' views on important topics such as animal testing, waste management and others. More details about our efforts in these areas are elsewhere in this report.

# At P&G, the consumer is boss!

## Approach to Animal Welfare and Alternatives

P&G products are used in homes around the world 3 billion times a day, and we are committed to safeguarding the health of our many consumers.

Sometimes, to ensure materials are safe and effective, we must conduct research involving animals. This is a last resort. We consider such research only after every other reasonable option has been exhausted. The vast majority of our tests do not use animals. Wherever possible, we use computer models, synthetic materials, published scientific studies and comments from consumers about products they use. P&G is well-known for leadership in developing alternatives to animal tests, investing more than $200 million and helping to develop more than 50 alternative methods.

**Investing**
> $200 million
**and developing**
50
**alternative methods**

We approach our work with respect, openness and responsibility by using animals as a last resort, working with animal welfare organizations and ensuring high standards of care. We collaborate with governments and academia to promote the acceptance of alternatives. We actively share our discoveries so that others can benefit from them. News of our advances has been shared in more than 300 scientific publications. We seek input from the world's leading experts to continuously improve our approach.

Web For details of our policy and practices please go to: http://www.pg.com/science/animal_alt.jhtml

On this website you can also learn about:

- Ongoing work to advance our animal welfare and animal alternatives programs in our regular *Forward Focus* newsletter;
- P&G's participation in the 5th World Congress on Alternatives & Animal Use in the Life Sciences (2005), a leading global scientific forum on refining, reducing and replacing the use of animals in research.
- The joint declaration by P&G and the Humane Society of the United States committing the two organizations to a strategic partnership that aims at the elimination of animal use for consumer product safety evaluation.
- P&G's commitment to the European Partnership for Alternative Approaches (EPAA), which aims to accelerate the rate at which alternatives are agreed upon, validated and put into practice.
- P&G's support of the European Animal Welfare and Alternatives Awards offered by EUROTOX and the Humane Society International.

Web For more technical articles regarding animal welfare, please go to: http://www.pgperspectives.com/en_UK/general/research-with-animals_en.html

# Iams Brings Health to Pets and Smiles to People

In Europe and North America, the Iams brand uses its technologies and expertise to improve the health of consumers' pets. Beyond that, Iams looks for opportunities to help dogs and cats that don't have owners and also to link pets with people they can help.

Here are some ways Iams is helping animals:

### Royal Dutch Guide Dog Foundation

In the Netherlands, Iams' Eukanuba brand is partnering with the KNGF (the Royal Dutch Guide Dog Foundation) to support the well-being of guide dogs used by people with sight disorders.

Eukanuba is donating puppy food for the guide dogs' training program. The food's high level of docosahexaenoic acid enhances the dogs' intelligence and makes them more trainable. Guide dogs have high performance demands placed on them, and Eukanuba's premium nutrition helps them maximize their performance.

KNGF is the largest organization in the Netherlands training guide dogs.

### Friends for Life

To help the thousands of pets left homeless by hurricanes in 2005, Iams established the Iams Friends for Life Fund at the Greater Cincinnati Foundation. The fund raised nearly $60,000 for nonprofit organizations that cared for the pets, reuniting them with their families where possible, or finding them new homes. In addition, Iams donated more than 200,000 pounds of dog and cat food to shelters in the affected areas.

Iams will continue the Friends for Life Fund permanently, with the mission of "bringing together people and pets for a lifetime of health, happiness and love."

Iams is also continuing its other efforts to find homes for orphan pets. The annual Iams Home 4 the Holidays adoption drive set a program record during the 2005 Christmas season by securing homes for more than 328,000 pets. This was achieved through a worldwide partnership with more than 1,900 shelters.

Working closely with the American Society for the Prevention of Cruelty to Animals, Iams introduced more than 400 U.S. shelter organizations to the Meet Your Match Canine-ality Adoption Program. This program makes better matches between potential adopters and the available shelter dogs by assessing and color-coding pets and adopters. During a pilot program at the Kansas Humane Society of Wichita, using Meet Your Match reduced pet returns by more than 50 percent.

### Reducing Strays

In its efforts to control the population of stray dogs, Iams granted two awards this year for mass neutering programs. Turkey's Fethiye Friends of Animals Association received 15,000 euros (US $18,425), and Romania's ROLDA (Romanian League in Defense of Animals) received 10,000 euros (US $12,283).

Mass neutering programs have reduced the number of strays, improved the health of neutered strays and changed the attitudes of municipal authorities toward the management of strays.

Web

To learn more about the Fethiye Friends of Animals Association, please go to: http://www.straydogsturkey.org

To learn more about ROLDA, please go to: http://www.rolda.org

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**Iams Brings Health to Pets and Smiles to People**
continued from previous page

And here are some ways Iams is helping pets to help people:

### Handicapped in France Benefit from MIRA Dogs

Iams France works with MIRA toward its mission to provide dogs to handicapped people, at no cost. The dogs are trained in Canada to help recipients become more autonomous and to adapt to everyday life and work toward rehabilitation. MIRA is one of only a few associations providing dogs to children.

Iams' role is to donate food for the MIRA dogs during training and after they go to their new homes.

Web

To learn more about MIRA, please visit:
www.mira.ca

### Two Efforts in Geneva, Switzerland, Help Pets Help Adults and Children

A Swiss association that runs a shelter for the needy didn't want to turn away people with dogs. People coming to Le C.A.R.E.'s shelter are lonely and in need of warmth and companionship, so welcoming their pets makes sense. Iams makes this possible by supplying some 600 kg (more than 1,320 pounds) of Eukanuba food annually.

The ClairBois Lancy nursing institution, which takes care of 42 physically and mentally handicapped children, receives biweekly visits from therapy dog Cleo. Cleo is a Bernese Mountain Dog who belongs to a P&G employee and participates in the Pets as Therapy program. Staff at ClairBois Lancy report positive physical and psychological responses from children who interact with Cleo.

## Advertising Policy and Sustainable Development

If sustainable development is about ensuring a better quality of life for everyone, now and for generations to come, then advertising plays a key role. Advertising helps inform consumers about products and services and facilitates consumer choice. After all, it is consumers themselves who are best placed to choose how best to improve their own quality of life.

We believe advertising contributes to sustainable development in a variety of general and specific ways. Achieving sustainability in the marketplace requires effective competition to drive innovation and increased efficiency. Competition thrives on advertising, and advertising thrives on competition. Innovation leads to better products and services, and more variety and choice for consumers.

There are also many specific business-building opportunities in which advertising contributes to sustainable development by improving lives around the world. Advertising:

- Often involves health education and awareness raising in developing countries, such as in P&G's Healthy Smiles dental health campaign in China.
- Provides social or environmental messages as part of public service or corporate campaigns. P&G's Open Minds campaign in India, for example, raised public awareness of the plight of India's working street children while collecting money to fund their education.
- Promotes innovative products that have environmental or social benefits.
- Promotes more sustainable use of existing products to maximize environmental or social benefits. For example, the WashRight campaign, run in Europe by P&G and other members of the European Detergents Association, promotes correct usage of laundry products and efficient use of water and energy.
- Communicates the sustainability attributes and performance of companies and other organizations offering products and services as the public increasingly wants to know more about them.

Despite contributions to sustainable development, advertising's role and effects have been questioned. Advertising has been blamed for spreading Western lifestyles around the world and for promoting excessive consumption in developed countries.

Spreading awareness of how other people live is one of the inevitable consequences of the global media revolution. We do not accept that people in developing countries should be denied a better quality of life. The first priority of sustainable consumption must be to provide access to adequate consumption opportunities for everyone. Nearly half the world's population lives on less than $2 per day. They need access to adequate products and services that can improve their daily lives.

In developed countries, the idea that advertising fuels over-

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**Advertising Policy and Sustainable Development**
continued from previous page

consumption overplays the importance of advertising, since it cannot make people buy things they do not want or need. Advertising can inform and influence and help consumers make more informed decisions, but it is consumers who choose how best to improve the quality of their own lives. Advertisers alone are unable to regulate the overall demand for goods and services.

However, there are clear responsibilities, as well as opportunities, for advertisers such as P&G. There is a responsibility to ensure truth in advertising and to ensure that messages are legal, decent and honest. We also assume our responsibility to ensure the sensitive portrayal of all groups in society, including women, children, the elderly and minorities. For this reason, P&G actively supports truth-in-advertising mechanisms and conforms to relevant national codes and guidelines wherever we operate.

The contribution of advertising to sustainable development is discussed in more detail in the report "Industry as a Partner for Sustainable Development – Advertising." It was written by the advertising industry in collaboration with the United Nations Environment Program. P&G helped the World Federation of Advertisers and the European Association of Communication Agencies write this report, which was presented at the World Summit on Sustainable Development in 2002.

## Personal Information Privacy

Advances in computer technology have made it possible for detailed information to be compiled and shared more easily and cheaply than ever, around the globe. That can be good news for society as a whole and for individual consumers.

At the same time, as personal information becomes more accessible, each of us – companies, associations, government agencies, consumers – must take precautions against misuse of that information. Several countries already have laws protecting consumers from misuse of their personal information, and many others are following suit.

P&G places high priority on safeguarding people's personal information. Even in countries without privacy legislation, we still adhere to our privacy policy. We want to have the trust of consumers and all others who do business with us, including employees, shareholders, retail customers and recruitment candidates.

P&G's robust privacy program is managed by a Global Privacy Council. Our first objective is to protect an individual's personally identifiable information as if it were our own. All outside companies handling data on our behalf are required to abide by our privacy principles.

Externally, P&G has been a strong advocate of work within the industry to protect the privacy of consumers. For example, P&G has been a leader in the effort to make privacy notices more consumer friendly, and have recently made our online marketing statement available in 39 languages. We are also active in the industry effort to create privacy and security guidelines for Secure Vendor relationships.

Web

For more information on P&G's global privacy principles, please visit:
www.pg.com/company/our_commitment/privacy_policy/privacy_policy.jhtml

P&G adheres to U.S./European Union Safe Harbor principles. For more information, visit:
www.export.gov/safeharbor/

In the United States, P&G is an active participant in the Better Business Bureau OnLine (BBBOnLine) Privacy Seal Program. For more information about BBBOnLine, visit:
www.bbbonline.org/

## Live, Learn and Thrive In Action

P&G's Purpose is to improve the everyday lives of the world's consumers. We have long made a difference in the causes we support, but we recognize we can make an even greater, more enduring impact by focusing on a consistent cause where the need is great and there is a clear fit with P&G strengths, brands and current programs.

With that in mind, P&G has committed to focus on the development of children in need, ages 0-13, through our global cause, *P&G Live, Learn and Thrive*™. *P&G Live, Learn and Thrive*™ enables us to meet the needs of children in our diverse communities around the world.

**Live**

Help children in need ***live*** by ensuring they have a healthy start.

**Learn**

Provide children in need with places, tools and programs that enhance their ability to ***learn***.

**Thrive**

Give children in need access to programs that develop the life skills they need to ***thrive***.

*P&G Live, Learn and Thrive*™ comes to life through programs around the world and through our global signature program, *Children's Safe Drinking Water*. It addresses the more than 4,000 children who die every day from diseases caused by drinking unsafe water. While hundreds of country-specific *Live, Learn and Thrive*™ programs benefit children in P&G communities around the world, the *Children's Safe Drinking Water* program brings P&G's Cause to life on a global basis.

Following is a glimpse of some of these programs, including *Children's Safe Drinking Water*.

The global corporate signature program for *P&G Live ,Learn and Thrive* is *Children's Safe Drinking Water*. It addresses the more than 4,000 children who die every day from diseases caused by drinking unsafe water.

**Live Learn Thrive**

- Providing safe, drinkable water

## PUR and the Children's Safe Drinking Water Program

P&G's PUR Purifier of Water presents astounding opportunities to improve and even save lives in the developing world, where more than a billion people lack access to clean drinking water. Millions of them die, including about 2 million children. PUR offers a quick, easy and affordable way to clean contaminated water. It kills viruses and bacteria that cause typhoid and cholera. It effectively reduces parasites, pesticides such as DDT, heavy metals such as arsenic, and other dangerous contaminants.

P&G's main challenges regarding PUR are providing it where it's needed and ensuring its long-term use. To meet these challenges, P&G collaborates with public health organizations in the poorest parts of the world to make PUR available and teach people how to use it. A major partner, for example, is Population Services International (PSI), which markets health care products in developing countries on a nonprofit basis.

P&G sells PUR at cost for everyday consumer use and for use by global relief agencies. These agencies donate it to survivors of emergencies such as the recent southeast Asia tsunami and Pakistan earthquake. In sustained efforts, PUR provides income-producing opportunities for local entrepreneurs, who can buy it at cost and sell it to their neighbors at a small profit.

Together, P&G and its partners develop and execute plans to reach people who desperately need PUR. These plans include building awareness and acceptance of PUR as well as getting community leaders and retailers to support its use. P&G offers not only its PUR product but also its expertise in distribution, marketing and working with communities.

There are many ways P&G is tackling the enormous, urgent task of reaching people around the world who need PUR. Here are some of the past year's activities.

***PUR is like a mini water treatment plant. One PUR packet transforms dirty water into 10 liters of clean, safe drinking water in 20 minutes.***

More than a billion people in the developing world lack access to clean drinking water.

**Children's Safe Drinking Water**

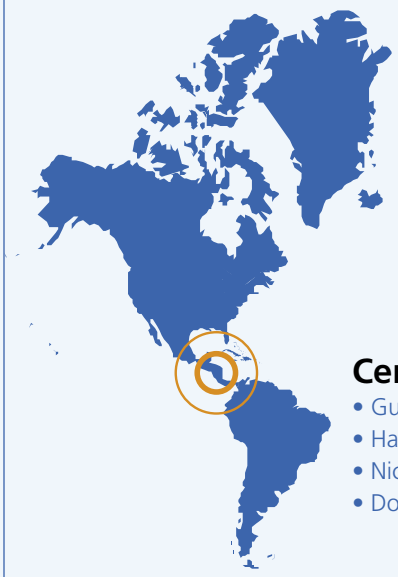
P&G Live, Learn and Thrive™ Initiative.

P&G has provided **50 million packets** of PUR Purifier of Water, enough to make **500 million liters** of safe drinking water, in communities that are likely decades away from public water treatment facilities. We are working with a diverse group of partners to distribute the product in not-for-profit social marketing and emergency relief situations.

**Social Markets**
- Haiti
- Uganda
- Dominican Republic
- Pakistan
- Kenya
- Malawi
- Ethiopia
- Botswana
- Democratic Republic of the Congo
- Republic of the Congo
- Indonesia

**Disaster Relief**
- Indonesia – tsunami
- Sri Lanka – tsunami
- Maldives – tsunami
- Bangladesh – floods
- Haiti – floods
- India – floods
- Pakistan – earthquake
- Iran – earthquake
- Ethiopia
- Botswana
- Angola
- Venezuela
- Nicaragua
- Chad
- Sudan
- Zimbabwe
- Burkina Faso
- Liberia
- Philippines
- Romania

**Global Focus Areas Specific to Children's Safe Drinking Water**



**Central America**
- Guatemala
- Haiti
- Nicaragua
- Dominican Republic

**Africa**
- Chad
- Botswana
- Uganda
- Sudan
- Mozambique
- Kenya
- Liberia
- Malawi
- Zimbabwe
- Ethiopia
- Nigeria

**Asia**
- Iran
- Bangladesh
- Pakistan
- Vietnam
- Sri Lanka
- Indonesia
- Maldives
- India

Web

For more information on safe drinking water, please visit:
www.pghsi.com/safewater/

# Africa

### Ethiopia

The P&G Fund made it possible for PSI to bring the Children's Safe Drinking Water program to Ethiopia, one of the 10 poorest countries in the world. An estimated 250,000 children die there every year from preventable diarrhea.

During a visit to a lakeside village, people from P&G and PSI checked that PUR's preparation instructions were clear in the local language. What about waiting 20 minutes for PUR to work, when the villagers don't have watches? No problem: They said they'd wait the amount of time it takes to cook "wat," the local stew.

In another village, one mother introduced to PUR immediately realized that the money she spends monthly to get clinic treatment for her son's diarrhea will buy PUR for an entire year.

***Ethiopian villagers had no trouble understanding how to use a filtering cloth to make clean water. They live near a lake which serves not only as a source of drinking water but also as a bathing lake for people and livestock.***

### Kenya

Children's Safe Drinking Water expanded throughout all of Kenya, following two years' work to begin introduction of PUR and to line up partners to help distribute it.

In addition to main partner PSI, an important partner is the Child, Family, and Wellness Shops, which has 67 retail outlets, many times in remote, rural areas. Nurses work in many of these shops and also conduct health education in schools, clinics and churches.

***A good place to introduce PUR is the waiting rooms of clinics, where mothers of babies are already focused on child health. Nurses show the mothers how to use PUR and tell them where they can buy it.***

***Jemima Odo (left), who has HIV and was featured in last year's Sustainability Report, wants readers to know that PUR is still keeping gastrointestinal distress away from her and her AIDS-orphaned grandchildren. Jemima maintains her weight of 110 pounds, compared to under 70 pounds before PUR. PUR also helps Jemima support herself and the orphans; she buys PUR at cost and sells it to her neighbors at a profit.***

***This year, P&G employees touched by the story of Jemima and her grandchildren decided to show that "someone far away cares about them." To help the family get better nutrition, they privately send money so Jemima can buy beans and maize. A separate donation has bought her a cow! Now, Jemima's grandchildren drink milk, and she reports this has greatly improved their growth and health.***

***This campaign has inspired others to donate to Jemima's community. "I am reminded of the ripples that form when a pebble is dropped into a lake," one employee says. "My help has been a pebble, and watching the ripples has been deeply satisfying to me."***

## Africa continued

***More than 700 children in Malawi's orphanages are drinking clean water because of PUR's donation.***

PUR prevented thousands of cases of diarrhea in Ugandan orphanages.

### Malawi

P&G brought Children's Safe Drinking Water to Malawi. People there commonly get their drinking water from crocodile- and hippo-infested rivers. Cholera outbreaks are common.
P&G is working with the Malawi Nurses Association to identify four orphanages that could use contributions of PUR. A year's worth of PUR was sent home with 500 nurses. This donation will help improve the nurses' health and allow them to provide better health care to others.

To start a PUR business that will be sustainable over the long term, P&G also provided the nurses with an initial allotment of PUR to sell through clinics and to use for generating income. The income buys more PUR for them to sell. They make $5 profit for every 240 PUR packets they sell – good money in a country where the average income is less than a dollar a day.

### Uganda

P&G is continuing its Water for Africa program, funded by the Company's UK/Ireland Market Development Organization. Water for Africa distributes free PUR to schools in high-need areas. For schools in refugee camps, the Samaritan's Purse organization donates buckets and cloths.

P&G is also continuing distribution of free PUR to the three Ugandan orphanages "adopted" in 2004. Local nurses estimate that PUR has prevented thousands of cases of diarrhea among children in these orphanages.

One of the three orphanages opened a new site, and PUR now goes to that site as well.

## The Caribbean

### Dominican Republic

P&G is teaming up with PSI to bring PUR into the Dominican Republic. To accomplish this, PSI is working with P&G's traditional commercial distributors, Corripio and the pharmacy chain Daniel Espinal, to provide PUR at low cost.

Impressed with PUR's humanitarian service, Corripio is also donating free advertising to PUR, and Daniel Espinal is conducting a campaign in which Dominicans purchase PUR to donate to the less fortunate.

### Haiti

Eighty percent of disease in Haiti is attributable to contaminated water. Even if the economy and unstable political situation improve dramatically, it's unlikely that everyone in Haiti would have clean water piped into their homes by the midpoint of this century.

But PUR is making a big difference right now: In its two years in Haiti, PUR has made possible 17 million liters of safe drinking water.

During the past year, the U.S. government has provided funding so PUR can be included in Healthy Living Kits for people with HIV/AIDS. The kits' recipients report that it is highly valued in helping them maintain their health.

## Asia

### Pakistan

Safe drinking water was one of the top needs for survivors of Pakistan's October 2005 earthquake, in which more than a million people lost their homes. Many people who had clean water in their homes before the quake needed PUR afterward.

Donations from P&G and from its employees as individuals provided enough PUR to make 100 million liters of clean water for earthquake survivors. Greenstar, Catholic Relief Services and UNICEF helped P&G get PUR where it was needed. USAID provided buckets and cloths.

Coincidentally, PUR is produced in Pakistan, but not in the area affected by the quake.

Separately, in Pakistan, P&G donated more than $1 million to PSI, in order to set up "social marketing" of PUR. "Social marketing" means that P&G sells PUR at cost to local vendors, who sell it for profit. PUR's social marketing program provides employment and stimulates local economies.

## Asia continued

***A health study in Karachi's slums was conducted by Project Hope and the U.S. Centers for Disease Control. The largest study ever conducted on the impact of household water treatment, it showed a 64-percent reduction in diarrhea when households treated their water with PUR.***

***Though these households have piped-in water, the pipes leak, and sewage gets mixed in with the drinking water.***

***In India, three relief agencies began distributing PUR and training community volunteers to demonstrate its use. This teacher in Bombay toured slum neighborhoods during monsoon season to demonstrate PUR.***

### More PUR highlights for 2005-2006

PUR joined ninemillion.org with a donation of more than 1 million PUR packets. The group builds awareness of the 9 million children in refugee camps. Others in the group are the U.N. High Commission on Refugees, Nike, Microsoft, Manpower and Merck.

PUR also joined the Global Water Council, to address the need for safe drinking water in schools. Current work focuses on providing safe drinking water in Kenya. It includes a CARE study in three Kenyan schools to determine the best approach for enabling a sustained intervention in rural communities.

PUR is working with UNICEF to determine the best way to increase provision of PUR in emergency relief situations and in schools. Efforts last year focused on providing safe drinking water during the Pakistan earthquake. This year, efforts are focusing on emergency relief work in Bangladesh, Vietnam, Ethiopia and Mozambique, as well as providing more PUR in Ugandan and Kenyan schools.

P&G scientists Phil Souter and Colin Ure won the National Inventor of the Year award from the Intellectual Property Owners Education Foundation. The award recognizes "the humanitarian efforts that led to the design and development of PUR Purifier of Water Sachets."

### How to Help

Service organizations and church mission groups are asking how they can help get PUR to people who need it. If your group is traveling to Haiti, the Dominican Republic, Uganda, Kenya, Pakistan or Malawi, you can purchase PUR from Population Services International and bring it yourself to local people.

PSI
1120 19th Street, NW, Suite 600
Washington, DC 20036
Phone 202-785-0072

Web or visit:
www.psi.org

Children's Safe Drinking Water

P&G Live, Learn and Thrive™ Initiative.

**Live Learn Thrive**

- Keeping young girls in school
- Lifting self-esteem and confidence

## Always Keep the Girl in School

Always has completed the first year of its Always Keep the Girl in School program in Kenya, helping 10,000 needy girls this year with their education. The program provides feminine pads to schoolgirls and urges consumers to buy pads to donate, with Always matching their donations. An organization called Girl Child Network is distributing the pads in rural areas and urban slums.

In Kenya, some 600,000 girls stay home from school several days a month because they can't afford sanitary protection. Or, they use unclean cloth and even leaves, which often leads to discomfort and infection.

Local media and activities such as youth concerts are helping Always spread the word about why this problem deserves attention and how consumers can donate.

So far, the campaign has resulted in distribution of about 30,000 packages of Always to schoolgirls. Always also arranged for registered nurses to visit schools to talk to girls about feminine hygiene as well as childhood marriages and pregnancies.

**Live Learn Thrive**

- Providing a safe place to live
- Part of society
- Reuniting children with their families

## A Safe Place for Street Children

In Northwest Africa, P&G's Ramadan des Coeurs (Ramadan of Hearts) program is helping homeless children get off the streets.

This year, the P&G Fund granted money to an organization called Bayti, whose mission is to reintegrate street children into society and if possible, to reunite them with their families. The money was used to purchase apartments to house 20 children. P&G Northwest Africa is also sponsoring a media campaign to publicize the plight of the street children.

P&G Northwest Africa employees got involved personally by volunteering for a day of painting at the apartments. Some bright colors transformed the apartments into more welcoming places for lucky kids who find safe haven there.

**Live Learn Thrive**

- Helping children stay healthy
- Providing access to education

## Manchay Vive Gets Children to School

P&G Peru's Market Development Organization is making education possible for deprived children through its Manchay Vive (Manchay Lives) program.

About 80,000 people live in Manchay, a desert area outside Lima. The settlement sprang up when peasants were fleeing terrorist threats in their area in the 1980s and 1990s. Today, the number of children exceeds the local public school's capacity, and their families can't afford the $15-a-month fee to send children to the Catholic school.

P&G Peru has committed $20,000 a year so that 60 children can attend the parish school and receive two full meals each day. The donation also covers a nursery for 40 pre-schoolers whose mothers couldn't take jobs for lack of child care. The pre-schoolers also receive two meals each day.

Additional P&G funding goes to staffing and supplying the parish medical center. This enables preventive care and treatment for 900 mothers and their children – about 3,000 people in all.

P&G Peru has committed to $20,000 a year to improve lives.

**Live Learn Thrive**

- Sponsoring children's education
- Building self-esteem and life skills

## Colors of Hope

P&G's Market Development Organization in Israel is helping a nonprofit organization named Tzeva to raise funds and awareness. The funding will build new "enrichment centers" in elementary schools around the country, and the awareness will attract new volunteers to mentor children at the centers.

The objective of this Colors of Hope effort is to help children 8 through 12 who suffer from low self-esteem and unrealized potential. Most of the children in Colors of Hope come from low-income families and have limited opportunities for personal growth. Close relationships with adults empower these children and enable them to fulfill their potential.

This year, P&G Israel's Market Development Organization ran a fundraising promotion, using media and campaigns in retail chains. The $63,000 raised will open a new Tzeva center. In addition, P&G Israel is urging employees to volunteer as Tzeva mentors.

**Live Learn Thrive**

- Success behaviors, succeed through knowledge
- Building confidence and skills for life

## Let's Succeed

In Dubai, orphans 8 through 13 can now have a three-day summer camp experience hosted by P&G volunteers. The camp focuses on self-esteem and success behaviors – setting a goal, working toward a vision and succeeding through knowledge, collaboration and discipline – in a fun and exciting environment. The P&G volunteers mentor the children during the camp day and even beyond.

Dubai's camp, accommodating 36 boys and girls per session, was started following the startup of similar camps in Jeddah and Dammam in 2005, and plans are to expand further. The camps invite not only orphans but also disabled children and children of prisoners.

The NGO Bait Alkhair is P&G's partner in Let's Succeed in Dubai. In Saudi Arabia, partners include government agencies and the Al Bir Association.

**Live Learn Thrive**

- Keeping families together

## Putting Kids Under a Decent Roof

With half a million French children living in poor conditions, P&G and Fondation de France are getting kids into better housing.

The program is called SOS Enfance Mal-Logée (SOS Childhood With No Decent Roof), and it has raised $2.2 million through store promotions since its establishment in 2000. The money has gone to 134 projects at organizations that renovate housing, fix or donate furniture and help families get into apartments with low rents.

Children who live in substandard conditions sometimes get taken away from their families. Putting the families in better housing keeps them together and gives the kids a better start in life.

***SOS Enfance Mal-Logée gets kids out of inadequate housing.***

**Live Learn Thrive**

• Providing health care for challenged children

## Healthy LifeStyle and Healthy Generation

Through P&G Russia's Healthy LifeStyle program, more than 28,000 underprivileged children are benefiting from sports. Healthy LifeStyle subsidizes access to sports facilities and provides sports equipment to social organizations working with children. The program covers children from preschool through high school in several regions.

An innovative feature started in 2005 is the Healthy Generation Project, offered to children at schools and nursery schools in Novomoskovsk, where P&G has a plant. This program uses state-of-the-art medical technology, such as computer equipment and biofeedback, to help children with health and psychological problems. They receive computer-based training for general health and for respiratory, musculoskeletal, psychoemotional and cardiac health as well.

Healthy Generation is a joint project with P&G, the city of Novomoskovsk, and local health and education agencies.

**Live Learn Thrive**

• Enhancing special needs children's lives

## Barney Helps Children Overcome Disabilities

Special-needs children in Greece are enjoying horseback riding, courtesy of Barney and P&G's Therapeutic Riding program.

P&G Greece adopted Barney and finances his expenses so he can help 30 children with their rehabilitation. The children are trying to overcome physical, mental and emotional disabilities.

Learning to ride directly helps physical symptoms of certain conditions, and for some children is the only time they can enjoy the sensation of walking and being independent. Thus, Barney helps both the children's health and their quality of life.

**Live Learn Thrive**

- Providing safe water sources

## Better Hygiene for Vietnamese Students

P&G Vietnam has partnered with the Binh Duong Labor Union to develop a clean-water program for local schools. Under the program, P&G donates funds so the labor union can construct new water sources and replace rundown bathrooms.

This year, clean water and new bathrooms came to four schools in Binh Duong province's rural Phu Giao district, serving 1,700 students. The schools got new sanitary wells, deep enough to provide water even during the dry season. Work is underway to bring similar wells and bathrooms to six additional schools in Binh Duong province.

**Live Learn Thrive**

- Children making a difference for less fortunate children

## A Chinese New Year Gift for Orphans

As a treat for orphans for Chinese New Year 2006, China's Safeguard brand conducted a national campaign to bring comfort and caring into their lives.

Partnering with the China Children & Teenager's Foundation, Safeguard donated soap worth RMB 600,000 (nearly $80,000) to orphanages around the country and encouraged consumer donations of books, toys and stationery.

Safeguard spread the word via China's most influential parenting website (www.yaolan.com) and China's 350 top stores. Safeguard also brought a van to six big cities to collect donations.

Specifically for elementary school children, Safeguard sent out a "call to action" to the half-million children in its school network. The children donated books, toys and stationery and also made personal visits to orphanages.

The campaign yielded more than 4,000 donations. In time for the New Year, Safeguard delivered the donations to more than 30 orphanages, reaching more than 50,000 orphans.

Safeguard delivered donations to more than 50,000 orphans.

**Live Learn Thrive**

- Access to education
- Equipping at-risk youth with skills for life

## Toronto Kids Get Skills to Succeed

Many children in a low-income suburb of Toronto need extra assistance in order to do well in school. It's a high-turnover suburb with high-density living. Many residents are just learning English, and single-mother households and violence are common. A disproportionately high number of children are orphans and foster children. Schoolchildren tend to score low on tests.

Because of a gift from P&G, students in grades 1 through 8 can now attend the Homework Club at the Braeburn Neighborhood Place. There they receive tutoring and help with homework, and they enjoy activities that build learning skills in reading, writing, math and technology.

P&G also financed expansion of a Kindergarten Readiness Program, bringing it to two new neighborhoods. Pre-schoolers in the target neighborhoods tend to show significant difficulty in establishing appropriate relationships and delays in language, cognitive and motor skill development. The Kindergarten Readiness Program offers activities such as storytelling, music and crafts, to develop learning, language, problem-solving and social skills as well as skills in following directions and establishing healthy relationships.

Parents and teachers of children in these programs are reporting significant improvements in learning and behavior.

# Students receive tutoring and enjoy activities to build skills

**Live Learn Thrive**

- Provide an opportunity to improve skills
- Fostering memories and forming dreams

## Project Connect Turns Summer into Learning Time

Children who live in homeless shelters in P&G's headquarters city get a valuable treat in summer; through Project Connect, P&G makes it possible for them to attend an activity and food-filled summer camp. Between 200 and 250 children in Cincinnati, Ohio, benefit from this camp experience each year.

Project Connect gives children the basics for living, the time to learn and the tools to thrive. The summer program includes classroom learning, expeditions to libraries and museums, crafts and physical activities such as swimming. P&G funds staff, field trips and supplies. All materials – even swimsuits and towels – are provided, as well as two meals and a snack daily.

The objective of Project Connect is for the homeless children to improve their reading skills, learn new life skills, build memories and form dreams.

**Live Learn Thrive**

- Helping children stay healthy

## Dantrium IV Donation Saves a Life

A donation by P&G, plus quick response by medical students, saved a little girl's life in Ecuador this year.

She was undergoing a hospital procedure when she developed a severe allergic reaction to the anesthesia. This happens occasionally, and unless the patient receives P&G's Dantrium IV drug, there's only a 10-percent chance of survival.

The hospital didn't have Dantrium IV. But a doctor there remembered that a team from the humanitarian organization Interplast was in Ecuador on a two-week mission involving free reconstructive surgery for children. Interplast doctors always carry Dantrium IV, donated by P&G.

Interplast doctors put the Dantrium IV into the hands of medical students they were training. The students drove several hours to deliver the drug to the hospital, where it pulled the girl through her ordeal.

Interplast doctors travel to developing countries to operate on children with deformities. P&G Pharmaceuticals donates Dantrium IV to them on an ongoing basis as part of its Live, Learn and Thrive program. Reconstructive surgery made safer by Dantrium IV helps children regain mobility and improve physical appearance, both of which give them a better chance to succeed in school and in social interactions.

Web

For more information on Dantrium IV, please visit: www.pgpharma.com.

For more information on Interplast, please visit: www.interplast.org.

**Live Learn Thrive**

- Providing nutrition and health care
- Mothers learn about baby care

## Argentina's Babies Attend Celebration of Life

Argentina's Pampers brand continues its Mamás del Corazon (Mothers of the Heart) program, in partnership with UNICEF. More than 100 Customer Business Development employees in Argentina worked on fundraising and publicity this year for a UNICEF project called Redinfa. Redinfa works with low-income families to improve the health, development and education of young children.

With Pampers' help, Redinfa sponsors Celebration of Life events in communities around Argentina. At Celebration of Life, babies get weighed and measured, to check their overall health and nutrition. The goal is for at least 10,000 babies in 15 provinces to be monitored. So far, more than 2,200 babies have been enrolled.

Redinfa is building a large network of volunteers in Argentina, consisting of community leaders in the fields of nutrition, early childhood development, health care, etc. Each volunteer works weekly with 10 local mothers to teach them about baby care. In Argentina, about 85 percent of children under 2 live in poverty, and 25 percent do not receive sufficient nutrition.

**Live Learn Thrive**

- Improve reading while learning respect for living things

# Teaching Kids to Care About Animals

Iams is partnering with Operation Outreach-USA, a nonprofit organization that improves children's literacy skills while teaching respect for living things. Iams donates books about interactions between people and animals. Each child receives two books to use in the classroom and then take home.

This program reaches third-graders and their teachers in 61 schools. Over nine years, the program has reached nearly 52,000 schoolchildren. It operates in five states where Iams has facilities as well as in New York City. This year, the program will add involvement by Iams employees and local animal shelters.

"Students and teachers have all learned what it is to truly give care and protection to our animal friends," says one teacher. "An additional benefit to this program is the increased sensitivity our children now have to the importance of being kind to animals and each other as well."

Operation Outreach-USA focuses on literacy, academic achievement and the building blocks of strong character.

**Live, Learn and Thrive**™

# Index

This is the eighth Sustainability Report for P&G's worldwide operations. Data in this report covers the period from July 1, 2005, through June 30, 2006. Financial information is given in U.S. dollars.

This report was prepared using the Global Reporting Initiative's (GRI) July 2002 Sustainability Reporting Guidelines. The mission of the GRI is to promote international harmonization in the reporting of relevant and credible corporate economic, environmental, and social performance information to enhance responsible decision making. The GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein.

Web

For further information about the GRI, www.globalreporting.org

For the latest P&G news, in-depth information on P&G's brands, and for shareholder and career information, please visit www.pg.com

| GRI# | Index Listing | Page(s) |
|---|---|---|
| **Profile** | | |
| 1.1 | Statement of vision and strategy | 3 |
| 1.2 | Statement from CEO | 2 |
| 2.1 | Name of organization | 5 |
| 2.2 | Major products and/or services, including brands, if appropriate | 7, 13 |
| 2.3 | Operational structure | 10, 11, 13 |
| 2.4 | Description of major divisions, operating companies, subsidiaries, and joint ventures | 11, 13 |
| 2.5 | Countries where operations are located | 12 |
| 2.6 | Nature of ownership | 5 |
| 2.7 | Nature of markets served | 5, 11 |
| 2.8 | Scale of reporting organization | 5, 14 |
| 2.9 | List of stakeholders | 16 |
| **Report Scope** | | |
| 2.10 | Contact person | 87 |
| 2.11 | Reporting period | 5 |
| 2.12 | Date of most recent report | 6 |
| 2.13 | Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and specific limitations of scope | 6, 10, 14 |
| 2.14 | Significant changes in size, structure, ownership, or products/services that have occurred since the previous report | 16 |
| 2.15 | Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period | N/A |
| 2.16 | Explanation of the nature and effect of any restatements of information provided in earlier reports | N/A |
| 2.17 | Decisions not to apply GRI | N/A |
| 2.18 | Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits | 30, 37, 51 |
| 2.19 | Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information | N/A |
| 2.20 | Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report | 30 |
| 2.21 | Policy for independent assurance | N/A |
| 2.22 | Means to get additional information and reports about economic, environmental, and social aspects of the organization's activities | 14, 61 |
| **Structure & Governance** | | |
| 3.1 | Governance structure of the organization, including major committees under the board of directors that are responsible for setting strategy and oversight of the organization. | 10, 18 |
| 3.2 | Percentage of impendent board directors | 19 |
| 3.3 | Process for determining board expertise | 19 |
| 3.4 | Board-level process for overseeing sustainable management | 19 |
| 3.5 | Linkage between executive compensation and achievement of the organization's financial and non-financial goals | 18, 58, 59, 60 |
| 3.6 | Organizational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies | 10, 31 |
| 3.7 | Mission and value statements | 8, 9 |
| Shareholder mechanisms to provide information to Board | | 19 |
| Stakeholder Engagement | | |
| 3.9 | Basis for identification and selection of major stakeholders | 19, 20 |
| 3.10 | Approaches to stakeholder consultation | 20 |
| 3.11 | Type of information generated by stakeholder consultations | N/A |
| 3.12 | Use of information generated by stakeholder engagements | N/A |
| 3.13 | Explanation of whether and how the precautionary approach or principle is addressed by the organization | 21, 22 |
| 3.14 | External developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organization subscribes or which it endorses. | 27 |
| 3.15 | Principal memberships in industry associations | 23 |


N/A = Not applicable. P&G only reports on data that is relevant to the business. It does not collect data that is used solely for the sustainability report.

| GRI# | Index Listing | Page(s) |
|---|---|---|
| Stakeholder Engagement (continued) | | |
| 3.16 | Policies and/or systems for managing upstream and downstream impacts | 34, 36, 40, 48, 49, 59, 61 |
| 3.17 | Approach to managing indirect economic, environmental, and social impacts resulting from its activities | 9, 29, 33, 35, 40, 48, 49, 54, 55, 56, 58, 59, 60, 63, 75, 76 |
| 3.18 | Major decisions during the reporting period regarding the location of, or changes in, operations | N/A |
| 3.19 | Programs and procedure pertaining to economic, environmental, and social performance | 18, 31, 52, 53, 55 |
| 3.20 | Status of certification pertaining to economic, environmental, and social management systems. | N/A |
| **GRI Content Index** | | |
| 4.1 | Table Identifying Location of Indicators | 82 |
| **Performance Indicators** | | |
| Integrated Indicators | | |
| **Economic Indicators** | | |
| Direct Economic Impact – Customers | | |
| EC1 | Net Sales | 14, 33 |
| EC2 | Geographic breakdown of markets | P&G reports data by global business units. |
| Direct Economic Impact – Suppliers | | |
| EC3 | Costs of good, materials, and services purchased | 35 |
| EC4 | Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements | N/A |
| Direct Economic Impact – Employees | | |
| EC5 | Total payroll and benefits broken down by country or region | 37, 55 |
| Providers of Capital | | |
| EC6 | Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares | See Our Annual Report |
| EC7 | Increase/Decrease in retained earnings at end of period | See Our Annual Report |
| Public Sector | | |
| EC8 | Total sum of taxes of all types broken down by country | N/A |
| EC9 | Subsidies received broken down by country or region | See Our Annual Report |
| EC10 | Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group | 37, 67 |
| **Environmental Indicators** | | |
| Materials | | |
| EN1 | Total materials use other than water, by type | 41 |
| EN2 | Percent of materials used that are wastes | 41 |
| Energy | | |
| EN3 | Direct energy use | 43 |
| EN4 | Indirect energy use | 43 |
| Water | | |
| EN5 | Total water use | 44 |
| Biodiversity | | |
| EN6 | Location and size of land owned, leased, or managed in biodiversity-rich habitats | P&G does not track biodiversity land use as in general we do not operate in these areas. |
| EN7 | Major impacts on biodiversity | P&G does not track biodiversity land use as in general we do not operate in these areas. |

| GRI# | Index Listing | Page(s) |
|---|---|---|
| **Environmental Indicators (continued)** | | |
| Emissions, Effluents, and Waste | | |
| EN8 | Greenhouse gas emissions | 45 |
| EN9 | Use and emissions of ozone-depleting substances | We do not use ozone depleting substances in our manufacturing operations. |
| EN10 | NOx, SOx, and other significant air emissions by type | 47 |
| EN11 | Total amount of waste by type and destination | 46, 47 |
| EN12 | Significant discharges to water by type | 47 |
| EN13 | Significant spills of chemicals, oils, and fuels in terms of total number and total volume | N/A |
| Environmental Impacts of Products/Services | | |
| EN14 | Significant environmental impacts of principal products and services | 40, 48, 49 – Please visit www.scienceinthebox.com |
| EN15 | Percentage of weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed | P&G is a consumer goods company. End use of products generally means product is disposed of. |
| Compliance | | |
| EN16 | Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, subnational, regional, and local regulations associated with environmental issues | 50 |
| **Social Performance Indicators – Labor Practices/Decent Work** | | |
| Employment | | |
| LA1 | Breakdown of work force by region/country/type | N/A |
| LA2 | Net employment creation and average turnover segmented by region/country | N/A. We do not track this data. |
| Labor/Management Relations | | |
| LA3 | Percent of employees represented by independent trade unions | While employees are free to join a union, the Company does not track this data. |
| LA4 | Policy and procedures involving information, consultation, and negotiations with employees over changes in the reporting organization's operations (e.g. restructuring) | N/A |
| Health & Safety | | |
| LA5 | Practices on recording/notification of occupational accidents/diseases | 50 |
| LA6 | Description of formal joint health and safety committees comprising management and worker representatives and proportion of work force covered by any such committees | 54 |
| LA7 | Standard injury, lost day, and absentee rates and number of work-related fatalities | 50 |
| LA8 | Description of policies/programs (for the workplace and beyond) on HIV/AIDS | 56, 57 – Please visit www.pg.com/sr |
| Training/Education | | |
| LA9 | Average hours of training per year per employee by category of employee | We do not track this information. |
| Diversity/Opportunity | | |
| LA10 | Description of equal opportunity policies or programs, as well as monitoring systems to ensure compliance and results of monitoring | 36, 58, 59, 60 |
| LA11 | Composition of senior management and corporate governance bodies, including female/male ratio and other indicators of diversity as culturally appropriate | 19 – Please see our Annual Report |
| LA17 | Specific policies and programs for skills management or for lifelong learning | 56 |
| **Social Performance Indicators – Human Rights** | | |
| Strategy/Management | | |
| HR1 | Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results. | 61 – Please view our Values and Policies, 8 & 9 |

| GRI# | Index Listing | Page(s) |
|---|---|---|
| | Strategy/Management (continued) | |
| HR2 | Evidence of consideration of human rights as part of decisions, including selection of suppliers/contractors. | 61 – Please view our Values and Policies, 8 & 9 |
| HR3 | Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring. | 61 – Please view our Values and Policies, 8 & 9 |
| | Non-Discrimination | |
| HR4 | Description of global policy and procedures/programs preventing all forms of discrimination in operations | 61 – Please view our Values and Policies, 8 & 9 |
| | Freedom of Association | |
| HR5 | Description of freedom of association policy | 61 – Please view our Values and Policies, 8 & 9 |
| | Child Labor | |
| HR6 | Description of policy excluding child labor as defined by ILO Convention 138 | 61 – Please view our Values and Policies, 8 & 9 |
| | Forced/Compulsory Labor | |
| HR7 | Description of policy to prevent forced labor | 61 – Please view our Values and Policies, 8 & 9 |
| | **Social Performance Indicators – Society** | |
| | Community | |
| S01 | Description of policies to manage community impact | 20, 34 |
| | Bribery & Corruption | |
| S02 | Description of policy, procedures/management systems, and compliance mechanisms for organizations and employees addressing bribery and corruption | 61 |
| | Political Contributions | |
| S03 | Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions | 61 – Please view our Values and Policies, 8 & 9 |
| S04 | Awards received relevant to social, ethical, and environmental performance | 15 |
| | **Social Performance Indicators – Product Responsibility** | |
| | Consumer Health & Safety | |
| PR1 | Policy for policy for preserving customer health and safety during use of products and services, and extend to which this policy is visibly stated and applied, as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring. | 49, 62 |
| | Products & Services | |
| PR2 | Description of policy, procedures/management systems, and compliance mechanisms related to product information and labeling. | 49 |
| | Respect for Privacy | |
| PR3 | Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy. | 66 |
| PR9 | Description of policies, procedures/management systems, and compliance mechanisms for adherence to standards and voluntary codes related to advertising. | 65, 66 |

# Contact

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