P&G

# Linking Opportunity with Responsibility

Sustainability Report

2004

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

**P&G's Statement of 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.

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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 pursues this mission through a multistakeholder process of open dialogue and collaboration in the design and implementation of widely applicable sustainability reporting guidelines. The GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein.

on the Web

Please visit these Web sites:
For further information about the GRI, http://www.globalreporting.org

For the latest P&G news and shareholder and career information, http://www.pg.com

**On the Cover**
A mother and child in Haiti drink clean water because of P&G's Safe Drinking Water Program. Please see the Sustainability in Action section for more details.

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

Note: Years listed in this report's data charts signify the fiscal year ending June 30.

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# CEO Statement

**Earning Your Trust**

Fair dealing and doing what's right for the long term are fundamental at P&G. It's how P&G people have done business for generations. It's at the heart of the trust our Company and our brands have earned – and must continue to earn every day, everywhere – from consumers, business partners, and the communities in which P&G people live and work. It is the essence of P&G's integrity and leadership.

Preserving and strengthening P&G's reputation is every employee's job. It starts with business performance: We must deliver reliable, consistent growth. We met this challenge in fiscal 2004 with results that culminated in increasingly strong performance over the past three years. Since July 2001, P&G cumulative sales have grown 30 percent, and they exceeded $50 billion for the first time ever, this past year. Earnings per share have grown more than 40 percent cumulatively in the past three years, and the Company's cumulative Total Shareholder Return has increased more than 80 percent since July 2001.

These are solid results, but we know that consistent financial performance is only one part of our responsibility as a company. It is necessary but not sufficient. To continuously earn trust, we must grow with integrity, and we must lead in ways that fulfill our Purpose of improving consumers' everyday lives.

Growing with integrity requires ethical business conduct everywhere we do business. This can be a demanding challenge in an organization of 110,000 people in nearly 80 countries. One important way we respond to this challenge is by clarifying the Company's expectations for how we operate through our Worldwide Business Conduct Manual, which we have updated and are redeploying this year to reflect changes in our own organization and in the world around us. It includes clear principles, standards, examples, and resources to guide behavior everywhere we operate. We consider it imperative that every employee understand that P&G will not tolerate illegal or unethical behavior. While we value and expect business results, we place equal value on how we achieve those results.

We also strive to earn the trust of shareholders, business partners, and other stakeholders by fulfilling our Purpose. In the letter that follows from George Carpenter, Director of P&G Corporate Sustainable Development, you'll learn of the most recent steps we've taken to improve consumers' everyday lives – now and for generations to come.

P&G is committed to fulfilling its responsibility to all our stakeholders. And P&G people are dedicated to making P&G a company of great results and – equally important – of great values and character.

A. G. Lafley

Chairman of the Board,
President, and Chief Executive

# Vision

**Creating Corporate Social Opportunity**
We have just completed a year of tremendous progress toward our vision that P&G can link business opportunity with corporate responsibility to create a concept we call "corporate social opportunity." We believe that we can build our businesses while contributing our part to help address some of the toughest global health and social issues.

In last year's Sustainability Report, I identified three key challenges that P&G faces as we work toward this vision:

1. To create new businesses with sufficient scale to fund research and development and market-development costs.
2. To develop new business models appropriate to lower-income, developing-country markets.
3. To lower costs to make products affordable in undeveloped markets that lack large-scale supply chain and distribution efficiencies that are normal in richer, developed markets.

P&G's safe drinking water work is a good example of the progress we're making in all three areas. We've chosen this as a key focus area based on the United Nations Millennium Development Goal of providing improved access to safe drinking water.

First, this is a new business opportunity for P&G, with the potential scale to reach millions of people who today do not have access to safe water. It is based on a simple and affordable technology developed in collaboration with the U.S. Centers for Disease Control and Prevention (CDC). The product has been shown in health trials conducted by the CDC to reduce diarrheal illness by up to 50 percent. The product is called PUR Purifier of Water and treats even heavily contaminated drinking water so it meets World Health Organization (WHO) standards.

Second, we are developing new business models based on effective public-private partnerships. P&G has joined with USAID, Johns Hopkins University, Population Services International (PSI), and CARE to form the Safe Drinking Water Alliance. This is a $5 million effort to learn how to best provide P&G's safe drinking water technology, using three different models: a commercial model in Pakistan, a social model in Haiti, and an emergency relief model implemented most recently in Ethiopia.

- In May, we launched PUR in the Sindh province of Pakistan using P&G's commercial distribution infrastructure. We augmented this with more than 1,400 educators and a broad alliance of global and local partners to help people understand the importance of safe drinking water to the health of their families.

- In Haiti, we're working with PSI, a nonprofit NGO, to reach into areas where economic and infrastructure constraints limit our ability to pursue a commercial model. This is a great example of reaching new consumers and new markets, and we plan to expand this model in the coming year with new partnerships in sub-Saharan Africa.

- We are working with UNICEF, AmeriCares, the International Rescue Committee, CARE, and other global relief groups to provide the product to people who need safe drinking water because of natural disasters and conflict situations. Through our partners, we have provided more than 30 million liters of safe drinking water this past year to help in some of the world's worst disasters, including the Bam earthquake in Iran and the devastating floods in Haiti and the Dominican Republic.

Third, the low cost of the product – about the price of an egg in many poor countries – and our partnerships with governments and NGOs, are creating ways to make this product affordable in undeveloped countries not benefiting from economies of scale or distribution channels that penetrate rural markets. The social model described above that is being used in Haiti and Africa is an example of this.

We are only starting to turn our vision into reality. But imagine a world where corporations, in partnerships with civil society and government, can significantly deliver on the UN Millennium Development Goal of addressing the world's most critical health issues. This improvement in society will provide the foundation for sustainable growth.

In June, we were honored to receive a World Business Award in support of the UN Millennium Development Goals, from the International Chamber of Commerce, the UN Development Program, and the International Business Leaders Forum for our safe drinking water program. This is motivation to continue on our journey to bring corporate social opportunity to life.

George D. Carpenter

Director
Corporate Sustainable Development

# P&G Profile

# P&G Profile

For 166 years, P&G has been providing trusted, high-quality brands that make every day better for the world's consumers. The Company markets nearly 300 products (Global Key Brands are listed below) in more than 160 countries around the world.

P&G's worldwide headquarters is located in Cincinnati, Ohio, U.S.A. The Company has on-the-ground operations in almost 80 countries worldwide and employs nearly 110,000 people.

P&G is a publicly owned company. Its stock is listed and traded on the following exchanges: New York, Amsterdam, Paris, Basle, Geneva, Lausanne, Zurich, Frankfurt, and Brussels.

As of July 30, 2004, there were approximately 1,426,000 common stock shareholders, 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 sixth Sustainability Report for P&G's worldwide operations. Data in this report covers the period from July 1, 2003, through June 30, 2004. Last year's report covers the July 1, 2002, through June 30, 2003, time period. Financial information is given in U.S. dollars.

on the Web

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

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

## Global Key Brands

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

| Global Business Unit | Product Lines | Key Brands |
|---|---|---|
| Fabric and Home Care | Laundry detergent, fabric conditioners, dish care, household cleaners, fabric refreshers, bleach, and care for special fabrics | Tide, Ariel, Downy, Lenor, Dawn, Fairy, Joy, Gain, Ace Laundry and Bleach, Swiffer, Dash, Bold, Cascade, Mr. Clean/Proper, Febreze, Bounce, Cheer, Era, Bonux, Dreft, Daz, Flash, Vizir, Salvo, Viakal, Maestro Limpio, Rindex, Myth, Alomatik |
| Beauty Care | Hair care/hair color, skin care and cleansing, cosmetics, fragrances, and antiperspirants/deodorants | Pantene, Olay, Head & Shoulders, Clairol's Herbal Essences, Nice 'n Easy, Natural Instincts and Hydrience, Cover Girl, SK-II, Max Factor, Hugo Boss, Safeguard, Rejoice, Secret, Old Spice, Zest, Vidal Sassoon, Pert, Ivory, Lacoste, Aussie, Infusium 23, Camay, Noxzema, Infasil, Joy Parfum, Valentino, Sure, Wash&Go, Wella, Koleston, Wellaflex, Shockwaves, Rochas, Escada, Gucci |
| | Feminine protection pads, tampons, and pantiliners | Always, Whisper, Tampax, Lines Feminine Care, Naturella, Evax, Ausonia, Orkid |
| Baby and Family Care | Baby diapers, baby and toddler wipes, baby bibs, baby change and bed mats | Pampers, Luvs, Kandoo, Dodot |
| | Paper towels, toilet tissue, and facial tissue | Charmin, Bounty, Puffs, Tempo |
| Health Care | Oral care, pet health and nutrition, pharmaceuticals, and personal health care | Crest, Iams, Eukanuba, Actonel, Vicks, Asacol, Prilosec OTC, Metamucil, Fixodent, PUR, Scope, Macrobid, Pepto-Bismol, Didronel, ThermaCare, Blend-a-med |
| Snacks and Beverages | Snacks and beverages | Pringles, Folgers, Millstone |

## Building for the Future

**William Procter and James Gamble, Founders, Candle & Soap Business**

**$1 Million Net Sales**

**Regional U.S. Markets**

**1837** 1840 1850 1860 1870

## P&G's Billion-Dollar Brands

In order of appearance in photo above, left to right.

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

**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.

**Actonel**
A prescription medication to treat and prevent postmenopausal osteoporosis.

**Wella (Koleston)**
The newest member of the P&G Beauty Care family, with hair care products used in salons and at home.

**Charmin**
America's favorite bathroom tissue.

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

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

**Pringles**
Potato chips: Once You "Pop" the Fun Doesn't Stop!

**Crest**
Oral care products, creating beautiful, healthy smiles everyday.

**Tide**
Tough cleaning power that gets out laundry stains.

**Ariel**
Fabric cleaning and care at its best.

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

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

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

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

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

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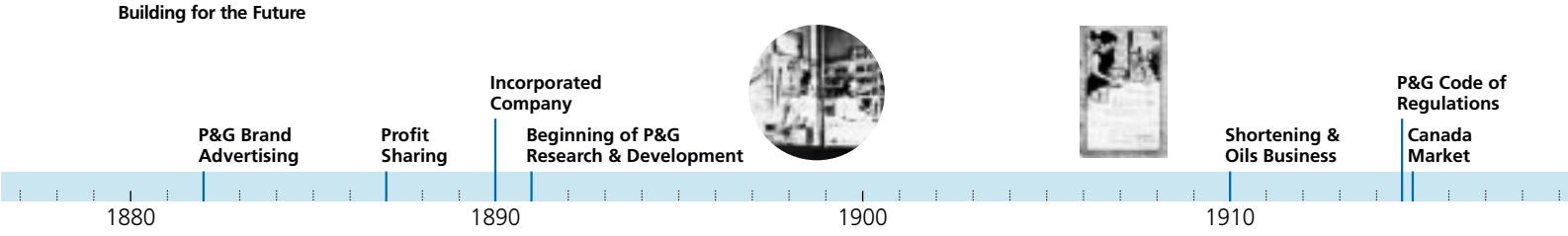
**Building for the Future**



# Organizational Structure

P&G's unique organizational structure makes it easy for innovation to flow across the enterprise and around the world, to learn about consumer needs as early as possible, and to commercialize the best ideas and innovations profitably and quickly. We designed our organization to be global and local at the same time. This may seem like a paradox, but we believe that meeting this challenge is key to our success.

P&G is organized around Global Business Units (GBUs) that manufacture and market our products. GBUs are responsible for spreading product innovations across the Company's product categories and geographic markets.

- Fabric & Home Care includes products for laundry, dishwashing, fabric enhancement, and cleaning hard surfaces.
- Baby & Family Care focuses on paper-based products – tissues, towels, diapers, and baby wipes.
- Beauty Care includes cosmetics, hair care products, deodorants, feminine hygiene products, and fragrances.
- Health Care includes pharmaceuticals and products for personal health care, oral care, and pet health and nutrition.
- Snacks & Beverages products include coffee and potato chips, as well as products for use in commercial establishments.

P&G's four core categories – Fabric Care, Hair Care, Baby Care, and Feminine Care – account for nearly 50 percent of sales and an even greater percentage of profit.

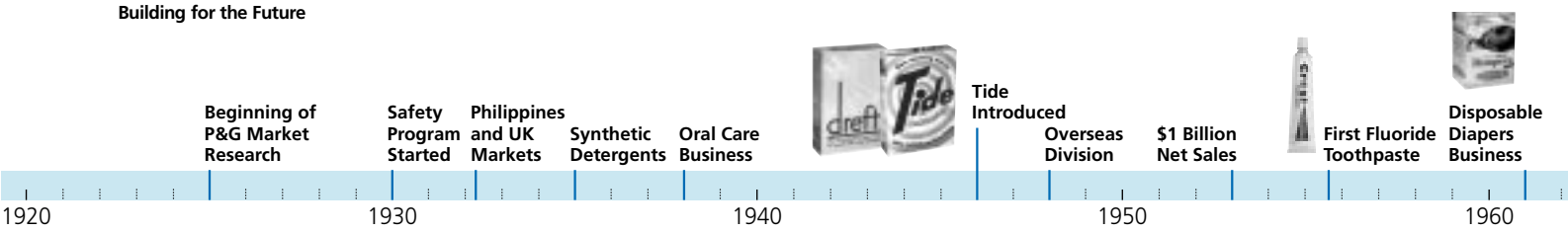
In addition to GBUs based on product lines, P&G also has Market Development Organizations (MDOs), which are organized by geography. MDOs move initiatives to local markets faster, more creatively, and at less cost. They tailor the Company's global programs to local markets and use their knowledge of local consumers and retailers to help P&G develop market strategies to guide the entire business.

Both the Corporate Functions and Global Business Services organizations leverage our size to deliver better-quality services internally, at significantly lower cost.

Corporate Functions covers two main focus areas: 1) upstream research and development working with new, cutting-edge knowledge, and 2) corporate needs not covered by GBUs or MDOs, such as corporate human resources and corporate external relations, as well as the sales effort called Customer Business Development.

Global Business Services provides support services to P&G business units and to P&G employees. These services include accounting and financial reporting, information technology, purchases, employee services such as payroll and benefits administration, and workplace services, including facilities management.

**Building for the Future**



# The Five GBUs Operate in the Seven MDOs

## Global Business Units (GBUs)

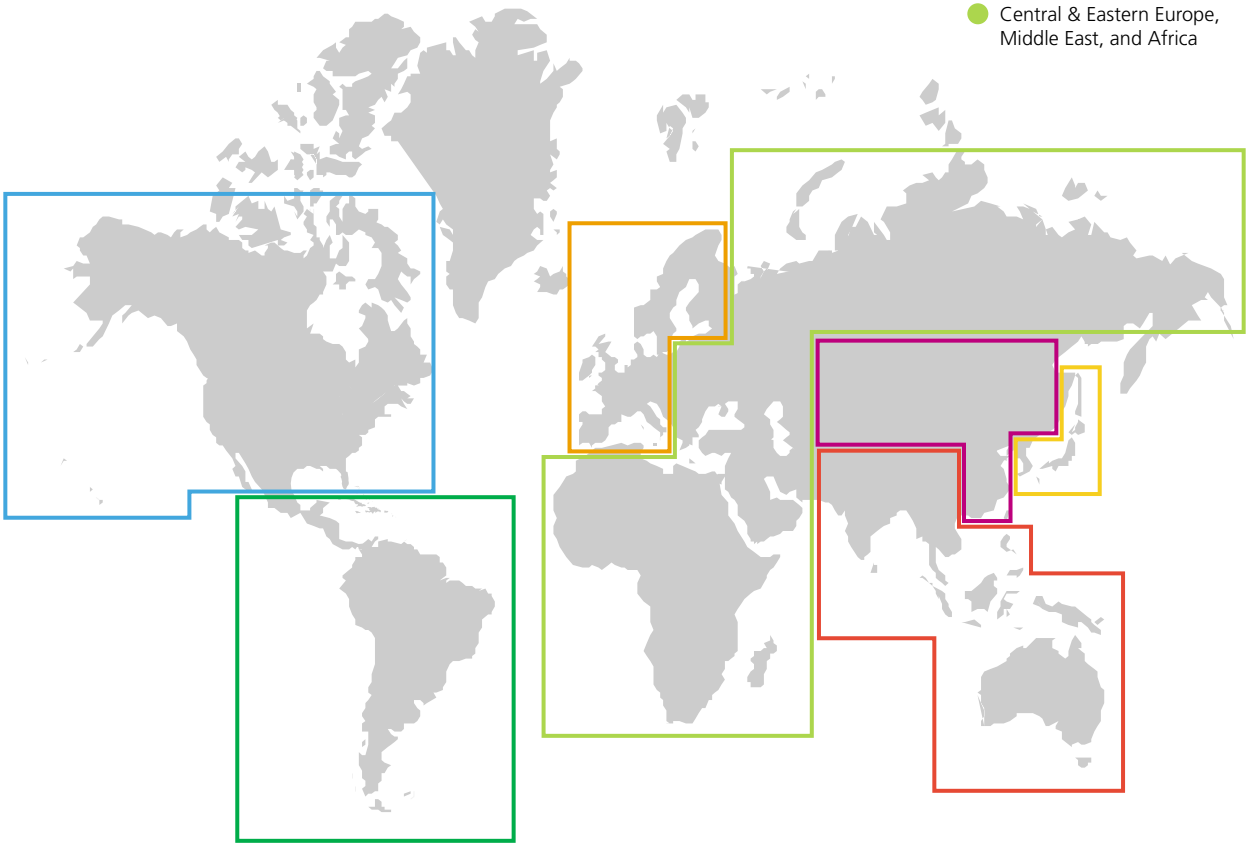
- Business Strategy and Planning
- Brand Innovation and Design
- New Business Development
- Full Profit Responsibility

Fabric and Home Care
Beauty Care
Baby and Family Care
Health Care
Snacks and Beverages

## Market Development Organizations (MDOs)

- Market Strategy
- Customer Development
- External Relations
- Recruiting

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



## Corporate Functions

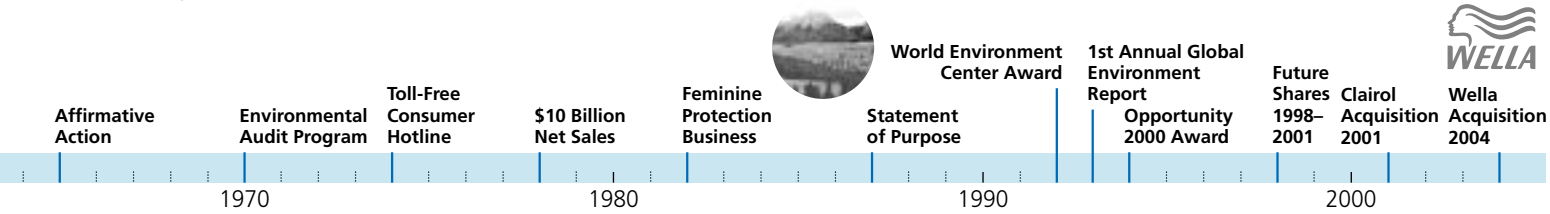
- Cutting-Edge Knowledge
- Transfer Best Practices
- Function Work Supporting P&G Corporation

## Global Business Services

*Key Business Processes*

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

**Building for the Future**



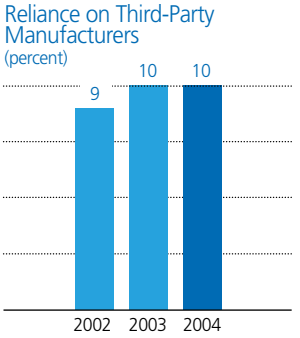
# Plant Locations

| 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 |
| Anaheim | Anaheim | United States | Snacks & Beverages |
| Anchieta | Anchieta | Brazil | Fabric & Home Care |
| Apizaco | Apizaco | Mexico | Family Care |
| Atlanta | Atlanta | United States | Snacks & Beverages |
| 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 Care |
| Barquisimeto | Barquisimeto | Venezuela | Fabric & Home Care |
| Beijing | Beijing | China | Fabric & Home Care |
| Bekasi | Jakarta | Indonesia | Health Care |
| Belleville | Belleville | Canada | Feminine Care |
| Binh Duong | Binh Duong | Vietnam | Fabric & Home Care |
| Blois | Blois | France | Beauty Care |
| 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 Care |
| Chengdu | Chengdu | China | Fabric & Home Care |
| Chochiwon | Chochiwon | Korea | Family Care |
| Chonan | Chonan | Korea | Feminine Care |
| Cincinnati | Cincinnati | United States | Fabric & Home Care |
| Coevorden | Coevorden | Netherlands | Health Care |
| Crailsheim | Crailsheim | Germany | Feminine Care |
| Dammam | Dammam | Saudi Arabia | Fabric & Home Care |
| Dover | Dover | United States | Baby Care |
| Escuintla | Escuintla | Guatemala | Fabric & Home Care |
| Euskirchen | Euskirchen | Germany | Baby Care |
| Gattatico | Gattatico | Italy | Fabric & Home Care |
| Gebze | Gebze | Turkey | Feminine Care |
| Goa | Goa | India | Health 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 |
| Hamburg | Hamburg | Germany | Snacks & Beverages |
| Havant | Havant | United Kingdom | Feminine Care |
| Henderson | Henderson | United States | Health Care |
| Huangpu | Guangzhou | China | Beauty Care |
| Hub | Hub | Pakistan | Beauty Care |
| Hunt Valley | Cockeysville | United States | Beauty Care |
| Ibadan | Ibadan | Nigeria | Feminine Care |
| Iowa City | Iowa City | United States | Beauty Care |
| Istanbul | Istanbul | Turkey | Fabric & Home Care |
| Jackson | Jackson | United States | Snacks & Beverages |
| Jeddah | Jeddah | Saudi Arabia | Baby Care |
| Jijona | Alicante | Spain | Baby Care |
| Kansas City Coffee | Kansas City | United States | Snacks & Beverages |
| 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 Care |
| Mataro | Mataro | 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 |
| Montornes | Salida | Spain | Feminine Care |
| Naucalpan | Mexico City | Mexico | Health Care |
| Nenagh | Nenagh | Ireland | Beauty Care |
| Neuss | Neuss | Germany | Family Care |
| New Orleans | New Orleans | United States | Snacks & Beverages |
| Novomoskovsk | Novomoskovsk | Russia | 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 |
| Pomezia | Pomezia | Italy | Fabric & Home Care |
| Porto | Custoias | Portugal | Fabric & Home Care |
| PUR | Minneapolis | United States | Health Care |
| Rakona | Rakovnik | Czech Republic | Fabric & Home Care |
| Rydalmere (Clairol) | Sydney | Australia | Beauty Care |
| Sacramento | Sacramento | United States | Fabric & Home Care |
| Santiago | Santiago | Chile | Baby Care |
| Seaton Delaval | Whitley Bay | United Kingdom | Beauty Care |
| Sherman | Sherman | United States | Snacks & Beverages |
| Shiga | Shiga | Japan | Beauty Care |
| South Brunswick | New Jersey | United States | Snacks & Beverages |
| St. Louis | St. Louis | United States | Fabric & Home Care |
| Stamford (Clairol) | Stamford | United States | Beauty Care |
| Takasaki | Takasaki | Japan | Fabric & Home Care |
| Talisman | Mexico City | Mexico | Beauty Care |
| Targowek | Warsaw | Poland | Baby Care |
| Tepeji | Tepeji | Mexico | Baby Care |
| Tianjin | Tianjin | China | Beauty Care |
| 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 Care |

Note: Data as of July 2, 2004

## Manufacturing Outsourcing

Most of our products are produced or assembled in P&G-owned facilities. However, we rely on third-party manufacturers for about 10 percent of our total manufactured volume. This has increased during the past few years, and we will continue to evaluate third-party manufacturers for our products in the future.




## Financial Information

The Company reported net earnings of $6.48 billion for the fiscal year ended June 30, 2004, an increase of 25 percent compared to $5.19 billion in 2003. Results included a charge of $538 million in 2003 and $706 million in 2002, related to the Company's restructuring program.

Diluted net earnings per share were $2.32 in 2004, compared to $1.85 in 2003, and $1.55 in 2002, including the restructuring charge impact of $0.39, $0.50, and $1.05 per share, respectively.

Net sales were $51.41 billion in 2004, up 19 percent from last year.

One of our first discretionary uses of cash is dividend payments. Common share dividends grew 13 percent to $0.93 per share in 2004, representing the 48th consecutive fiscal year of increased common share dividends. Total dividend payments, to both common and preferred shareholders, were $2.54 billion, $2.25 billion, and $2.10 billion in 2004, 2003, and 2002, respectively.

### Financial Highlights

| Amounts in millions except per-share amounts | **2004** | 2003 | 2002 |
|---|---|---|---|
| Net Sales | **$51,407** | $43,377 | $40,238 |
| Selling, General, and Administrative Expenses | **16,504** | 13,383 | 12,571 |
| Income Taxes | **2,869** | 2,344 | 2,031 |
| Net Earnings | **6,481** | 5,186 | 4,352 |
| Basic Net Earnings Per Common Share[1] | **2.46** | 1.95 | 1.63 |
| Total Assets | **57,048** | 43,706 | 40,776 |
| Long-Term Debt | **12,554** | 11,475 | 11,201 |
| Shareholders' Equity | **17,278** | 16,186 | 13,706 |

[1] Restated for two-for-one stock split effective May 21, 2004.

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 on page 7.

- Fabric and Home Care
- Beauty Care
- Baby and Family Care
- Health Care
- Snacks and Beverages

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

### Net Sales by Global Business Units Prior to Restructure

| Amounts in billions | **2004** | 2003 | 2002 |
|---|---|---|---|
| Fabric and Home Care | **13.9** | 12.6 | 11.6 |
| Beauty Care | **17.1** | 12.2 | 10.7 |
| Baby and Family Care | **10.7** | 9.9 | 9.2 |
| Health Care | **7.0** | 5.8 | 5.0 |
| Snacks and Beverages | **3.5** | 3.2 | 3.2 |
| Corporate | **(.7)** | (.3) | .4 |
| Total | **51.4** | 43.4 | 40.2 |

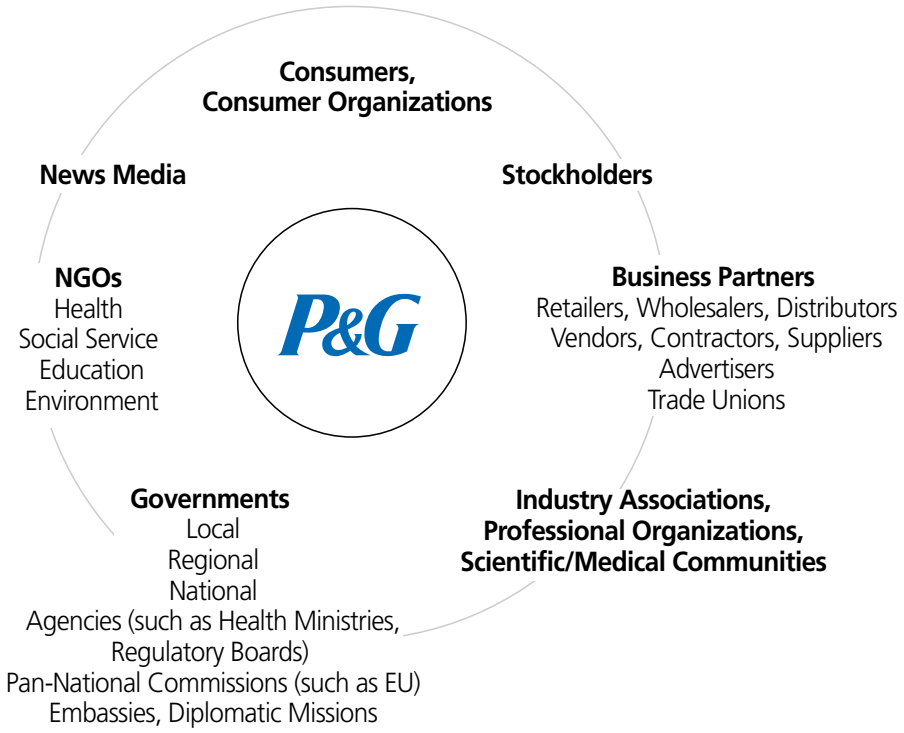
For more financial details, please see P&G's 2004 Annual Report:

http://www.pg.com/investors/financial_reports/annualreports.jhtml

**Stakeholders**
A stakeholder is anyone who has an interest in or interaction with P&G. Stakeholders can be internal, such as the Company's 110,000 employees and its Board of Directors, or external.

External stakeholders include P&G's consumers who use our products 2 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's External Stakeholders



## Major Acquisitions

Net cash used for acquisitions in 2003-2004 totaled 7.48 billion. The two major acquisitions were Wella and Hutchison Whampoa China Ltd. (Hutchison).

### Wella

P&G acquired a controlling interest in Wella AG in September 2003.

In June 2004, P&G and Wella entered into a Domination and Profit Transfer Agreement. The agreement entitles P&G to exercise full operating control of Wella and receive 100 percent of future earnings. P&G is to pay a guaranteed perpetual annual dividend payment to holders of Wella's remaining outstanding shares unless they wish to tender their shares.

The cash paid for the Wella acquisition was $5.09 billion.

The acquisition of Wella, with more than $3 billion in annual net sales in more than 150 countries, gives P&G access to the professional hair care category as well as greater scale and scope in retail hair care, hair colorants, cosmetics, and fragrances. The acquisition also provides potential for significant synergies with P&G's existing hair care business.

### Hutchison Whampoa

In June 2004, P&G bought the remaining 20 percent stake in its China venture for a gross cash outlay of $2 billion. This purchase from Hutchison gave P&G full ownership of its China operation.

The P&G-Hutchison venture was established in 1988, when P&G began operations in mainland China. At that time, P&G had a stake in the business of almost 70 percent. P&G and Hutchison restructured the original joint venture in 1997, which increased P&G's ownership to 80 percent and included provisions for a future buyout of the remaining 20 percent.

## Major Divestitures

Proceeds from the divestiture of certain non-strategic brands and other asset sales generated $230 million in cash flow in the current year.

## Restructuring Program

In 1999, concurrent with a reorganization of our operations into product-based Global Business Units, we initiated a multi-year restructuring program. Total restructuring program charges were $538 million and $706 million after tax in 2003 and 2002, respectively. The program was substantially complete at the end of June 2003, with a remaining reserve of $335 million. Substantially all of the liability was settled through cash payments through June 30, 2004.

The Company continues to undertake projects to maintain a competitive cost structure, including manufacturing consolidations and workforce rationalization, as part of its normal operations.

## P&G Outsources HR Support to IBM

P&G has outsourced its employee services operations to IBM under a 10-year, $400 million agreement. IBM is now handling services for nearly 110,000 P&G employees in nearly 80 countries and has taken operational responsibility for P&G's human resources centers in Costa Rica, England, and the Philippines. Services provided by IBM include payroll processing, benefits administration, compensation planning, expatriate and relocation services, travel and expense management, and human resources data management.

Nearly 800 P&G employees were offered transfers to IBM, with 98 percent accepting the offers.

This outsourcing enables P&G to improve employee services while reducing costs. P&G selected IBM as its employee services partner after a competitive evaluation process that included review of several leading business service providers.

## Awards and Recognitions

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

P&G is the only company to appear on all seven *Fortune* magazine company lists in 2003, including:

- Best Companies to Work For
- Most Admired Companies
- Best Companies for Minorities
- MBA's Top Employers

P&G ranks among the top companies for Executive Women (National Association for Female Executives), African Americans (*Family Digest* magazine) and Best Corporate Citizens (*Business Ethics* magazine).

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## P&G Tops Dow Jones Sustainability Index

For the fifth straight year, P&G is the Non-cyclical Goods & Services industry sector leader in the global Dow Jones Sustainability Indexes (DJSI). The DJSI notes that "P&G integrates sustainability as a promising business concept and ranks as the sustainability leader in its industry."

Launched in 1999, the DJSI are the first global indexes tracking the financial performance of the leading sustainability-driven companies. Only the top 10 percent of the world's 2,500 largest companies are components of the DJSI World Indexes, with inclusion based on their sustainability performance. P&G has been a component of the index since its inception and industry leader for the Non-cyclical Goods & Services market sector since 2000.

To access the P&G DJSI 2005 Sustainability Leader report, please visit:

on the Web

http://www.sustainability-indexes.com/djsi_pdf/djsi_world/CompanyBiographies/Bios05/CBR_ProcterGamble_05.pdf

## World Health Organization Recognizes P&G Kazakhstan

The World Health Organization (WHO) recognized P&G's contribution to health care development in Kazakhstan. For the past five years, P&G has sponsored programs for the prevention of diaper dermatitis and educational programs for feminine hygiene and oral care, reaching about a million people. These programs help encourage healthy lifestyles in Kazakhstan.

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## P&G Costa Rica Recognized for Social Responsibility

P&G Costa Rica's Global Business Services Center has been recognized with the highest awards given by the American Chamber of Commerce and the Costa Rican Chamber of Commerce. Both honor P&G's community outreach efforts and volunteering initiatives that support equal access to educational opportunities and prevent students from dropping out of school.

This marks the third year in a row that P&G Costa Rica's Global Business Services has been recognized by the American Chamber of Commerce for the most significant and consistent contributions in the Social Category.

The award from the Chamber of Commerce of Costa Rica is the first ever given for Corporate Social Responsibility. It recognizes P&G's continuity in coordinating, implementing, and supporting activities that benefit either communities or society in general for at least three years in a row. Individual and corporate members of the Chamber nominated P&G for this honor.

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## P&G Canada Is Family-Friendly Employer

*Today's Parent* magazine has chosen P&G Canada as one of the 15 Top Family-Friendly Employers in Canada.

The magazine cited these benefits:

- Maternity payments of 95 percent of salary for up to 15 weeks.
- Flexible work options.
- The women's support workshop and the guest speaker forum addressing women's issues in the workplace.

## Corporate Awards

- In the nationwide Plant of the Year competition in Germany, P&G's Crailsheim plant won the award in the category Excellent Goal Setting and Performance Management. The competition is run by *Produktion*, one of the leading industry newspapers in Germany, and by management consultancy A.T. Kearney.
- P&G U.S.A. wins Latina Style 50 Awards for being best professional company for Latinas based on number of Latina executives, mentoring programs, education opportunities, child/dependent care support, childbirth leave, alternative work policies, women's issues, and Hispanic relations.
- P&G received 2004 Manufacturer of the Year for Global Logistics Excellence, *World Trade* magazine in collaboration with National Association of Manufacturers.
- P&G U.S.A. was listed in *Fortune* magazine as #1 in its industry and in top 3 for innovation, employee talent, quality of management, use of corporate assets, and quality of products/services.
- P&G named among world's most socially responsible companies by *Global Finance* magazine.
- P&G ranked #9 by Harris Interactive and the Reputation Institute for corporate reputation.
- P&G Bulgaria wins top award for Teen Info Program, which helps prevent and deal with teen crisis. Provides Web site and phone consultation with psychologists.
- P&G Latin America chosen for 3rd year by American Chamber of Commerce for Commercial Social Responsibility in Action Award.
- Chamber of Commerce in Costa Rica granted P&G's Global Business Systems organization there its Corporate Social Responsibility Award.
- P&G Korea received a Special Citation for Corporation Excellence for corporate citizenship, innovation, and exemplary business practice.
- P&G U.S.A. received Special Recognition at Cincinnati's Post-Corbett Awards for its donation to Cincinnati Art Museum and commitment to arts in general.
- P&G Kazakhstan was recognized by the World Health Organization for its contribution to health development in Kazakhstan.
- Clarin lists P&G Argentina as 20th Most Admired Company, according to survey.
- P&G Pakistan received the Consumer Protection Council Award "Helpline Trust" in recognition of its support for consumer protection activities.
- P&G makes *Fortune's* List of Blue Ribbon Companies.
- Alfa Bank and Lauder presented P&G Russia the first Award for Excellence in Foreign Investment for conducting business successfully in Russia.
- Oekko presented P&G Germany the #1 Corporate Branding Award in the sustainability area.
- P&G U.S.A. ranked #2 in 100 *Best Corporate Citizens* magazine and has been in top 5 past 5 years.
- P&G Germany named Best Internship Company 2003 by the student Web site praktika.de.
- P&G Austria was ranked 5th best employer 2004 in the Trend Spezial survey based largely on input from randomly selected employees.
- P&G Canada was chosen as one of Canada's Top 100 Employers 2004 by *Macleans* magazine, and was one of the top 15 Family-Friendly Employers in Canada 2004 by *Today's Parent* magazine.
- P&G is at the top of 2005 Non-cyclical Goods and Services in the Dow Jones Sustainability Indexes.
- P&G Japan selected as the Company of Consumer Excellence for 2003 by the Japanese Minister of Economy, Trade, and Industry for the most consumer-focused company.
- P&G Japan won Kobe City Award for good working environment for both men and women for 2003 and also for ecology for 2003.
- P&G Colombia ranked #2 as Best Place to Work in 2003 regarding credibility, respect, impartiality, pride, camaraderie.
- P&G Chile received several recognitions for being a great place to work in 2003 and 2004.
- Fater, P&G's joint venture partner in Italy, ranked 9th in Great Places to Work.
- P&G U.K. receives Business Supporter of the Year award from *Young Enterprise* magazine.
- P&G Spain named Most Family-Responsible Company in 2004.
- P&G U.K. was highly commended for Social Responsibility in the Surrey Business Awards.
- P&G Spain named 3rd Most Attractive Employer for Business by retailer Universum.
- P&G Belgium named 4th Most Attractive Employer for Business by retailer Universum.
- P&G U.K. scoops top prizes at U.K. ProShare Awards: Best Performance in Fostering Employee Share and Best Financial Education Programme for Employees.
- Corporate Standards Systems wins 2004 *CIO* magazine Enterprise Value award for demonstrating the business benefits of providing significant efficiency gains, material savings, and productivity increases.
- P&G Asia received the Grand Award by the Malaysian Society of Occupational Safety and Health for 2003 as the leader in our field. Award recognizes the strength of our Health, Safety & Environment (HS&E) programs, our underlying DMS processes, and most importantly, the tremendous ownership our people have for the entire HS&E program.
- In the U.K. *Financial Times* Best Company to Work For Awards, P&G was the highest placed FMCG company and won a special Whistleblower award for accessibility on issues resolution.
- P&G's Pomezia Plant in Rome won the Best Factory Award from Bocconi University for continuous improvement.
- P&G U.K. won Platinum Award for Diversity in the Workplace from Opportunity Now.
- P&G Europe received the Minister of Economy, Labour and Social Policy award for achievements and improvements done by Poland's Targowek Plant in field of ergonomics.
- P&G voted #1 by more than 6,000 U.S. consumers as Most Trusted of All Consumer Product Goods Companies with regard to privacy protection.
- P&G Romania earns People to People award as Best Corporate Volunteering Program in Romania. Objective of the program is to educate and involve young people in improving their communities.
- P&G U.K. (Egham & Brooklands) awarded Surrey Sustainability Business Awards in 2003 in the category of social responsibility.

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## Brand Awards

- Trofeu Ponto Extra 2003 trophy presented to P&G Brazil in cleaning category.
- *R&D* magazine selected P&G's Power-FacoRE suite of reliability engineering tools to receive a 2003 R&D 100 Award.
- Bonux wins 2003 Starcom Global Grand Prix Prize for P&G Lebanon.
- Puffs ranked #1 by Good Housekeeping Institute in U.S.
- Always, Alldays, Tampax, Pampers, Ariel, Pantene Pro-V Hair Care Line, Head & Shoulders, Blend-a-med, Secret, Old Spice, Safeguard, Lenor, Ace, and Comet received 15 awards in Kazakhstan's Choice of the Year Awards.
- Dash's Missione Bontà awarded Best Social Campaign in Italy by the PR professionals association Assorel.
- *Glamour* magazine's readers in Spain give Hair Category Award for 2nd year in a row to Pantene Pro-V Repair and Protect Intensive Mask.
- *Capital* magazine and Tren-D Group chose P&G Turkey as Most Admired Personal Care/Cosmetics and Cleaning Products Company in 2003.
- Pampers wins Advertising Award from the Venezuelan Advertisers Association.
- In Europe, Head & Shoulders and Max Factor Lipfinity win EACA EURO EFFIE Award.
- P&G Media received four Media Lions in Cannes, France, at the Lions Direct and Media Awards at the International Advertising Festival, recognizing thorough understanding of consumers and smart, innovative strategy. The jury cited three brands and one initiative:
  - Bonux in Lebanon – Multimedia
  - Pampers in Mexico – Radio
  - Vidal Sassoon in Japan – Traffic – Mobile phone
  - BeingGirl.com in the U.S. – Web site
- Actonel 35mg Dosepak receives Best of Show at 2003 AmeriStar Awards.
- P&G U.S.A. wins 3 Supplier Performance Awards in Retail Category by DSN Retailing Today, a trade publication for beauty aids, OTC medications, and household cleaners.
- Attento in Japan wins Dentsu Advertising Award in household goods category.
- *Ad Age* rated Prilosec OTC #3 new brand launch in 2003.
- P&G's Safe Drinking Water Program received the United Nations Development Program and International Chamber of Commerce World Business Award in support of the United Nation's Millennium Development Goals.
- At P&G France, Ariel Style was elected Product of the Year 2004 in the fabric care category; Kandoo Product of the Year 2004 in the baby care category; and Head & Shoulders Citrus Fresh Product of the Year 2004 in the shampoo category. Also, Head & Shoulders Smooth and Silky was elected Victoire de la Beauté 2004 in the shampoo category and Pantene Repair & Protect Mask Victoire de la Beauté 2004 in the intensive conditioner category. And Herbal Essences won Carrefour's Grand Prix de la Beauté 2004.

## Employee Awards

- U.S. National Association for Female Executives placed P&G in top 30 for best companies for female executives.
- P&G Korea wins Great Workplace award from *Economic Daily* for 2nd year in a row and Grand Prize in Fair Management category.
- P&G Puerto Rico rated #8 in Los 20 Mejores Patronos (The Top 20 Best Employers).
- P&G India ranked #1 Best Employer in India by *Business Today.*
- P&G India rated in Top 25 Best Employers in India by Hewitt Associates.
- Sangjoon Lee, Director, P&G Korea, received award from Ministry of Health & Welfare for contribution to Korean community.
- Sukhee Cho, TER Group Manager at P&G Korea, received award from Ministry of Health & Welfare for regulatory affairs and advertising.
- Paul Polman, P&G Europe, was awarded European Business Leader Year 2003: Global/Local by the *Wall Street Journal Europe*/CNBC.
- The U.S. Advertising Council honors P&G CEO A.G. Lafley with 50th Annual Public Service Award for his extraordinary commitment to public service in his personal and corporate endeavors.
- P&G Costa Rica was granted the Employer of Choice Award as a result of our participation in the country's biggest and most recognized recruiting fair.
- Global External Relations Officer Charlotte Otto received the 2004 Human Relations Award of the Cincinnati Chapter of the American Jewish Committee.
- In the U.K., two Rusham Park Technical Centre employees were honored with royal recognition for dedication and commitment to communities in which they live and work.
- Philippe Charrier, general manager and vice president of P&G France, was awarded the prestigious Legion of Honor by the French Ministry of Ecology and Sustainable Development in recognition of P&G France's long-standing commitment to the programs of the French seashore agency Conservatoire du Littoral et des Rivages Lacustres in the scientific, education, and communication fields.

## Environment Awards

- U.S. Environmental Protection Agency names P&G an Energy Star 2003 Million Monitor Drive Distinguished Participant for our national campaign to reduce greenhouse gas emissions by activating energy efficient features on computer monitors.
- P&G Oleochemicals receives The Malaysian Society of Occupational Health and Safety Grand Award 2003.
- P&G Canada received the Excellence in Safety Award from the Canadian Chemical Producers Association.
- P&G Argentina's Pilar Plant received Environmentally Responsible Company Award from Propiciar for its efforts in effluent management.

on the Web

For more information on awards received by P&G, please visit our Web site at: http://www.pg.com/news/quickref/quick_reference.jhtml?ltb=N30

**Policies, Organization, Management Systems**

## Policies, Organization, and Management Systems

**values**

integrity • trust • ownership • leadership • passion for winning

Sustainable development is a simple idea – ensuring a better quality of life for everyone, now and for generations to come. 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 other 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" provides products and services that improve the lives of 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, tell us to do this. They act as guidance for the development of our entire organizational structure, all over the world. They also lead us to a set of management systems and policies applied across the whole Company.

Success Drivers, 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.

## 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 they 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.**

**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.

**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.

**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.

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**Governance Structure**

P&G's Board of Directors has adopted guidelines for determining the independence of its Board members. At the time of this publication, 81 percent of P&G's Board members are from outside the Company.

Corporate Governance Guidelines have existed for a number of years and recently were amended. They provide recommendations on the qualifications for Board members regarding their expertise in guiding the strategic direction of the Company. Strategic direction includes issues related to environmental and social risks and responsibilities. The Board has several committees, including Audit, Finance, and Public Policy, to address issues such as the management of economic, environmental, and social risks, and responsibilities.

All shareholders may communicate in writing with the Board of Directors, and all have the ability to submit proposals in the Company's proxy statement pursuant to U.S. Securities and Exchange Commission rules. P&G does not have minority shareholders, as no one entity or group holds a majority position in Company stock.

on the Web

To read P&G's 2004 Annual Report, please click here: http://www.pg.com/investors/financial_reports/annualreports.jhtml

**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 comprised of variable, at-risk incentives, the majority based on the Company's long-term success. We also benchmark the Company's pay structure and 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.

**Corporate Governance and Management's Responsibility**
Procter & Gamble has been built through the generations by the character of its people. That character is reflected in our Purpose, Values and Principles and in how well we live them as individuals and as a Company. High-quality financial reporting is one of our responsibilities – one that we execute with integrity.

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. Key employee responsibilities are reinforced through the Company's Worldwide Business Conduct Manual, which sets forth the Company's commitment to conduct its business affairs with high ethical standards. Every one of P&G's employees – from senior management on down – is held personally accountable for compliance. The Worldwide Business Conduct Manual is available on our Web site 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 that conform in all material respects with accounting principles generally accepted in the United States of America. We monitor these internal controls through control self-assessments by business unit management and an ongoing program of internal audits around the world.

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 in our assessments, constructively challenge the approach to business opportunities, identify potential issues, and ensure reward and recognition systems are appropriately aligned with results.

Engaging our Disclosure Committee. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed is recorded, processed, summarized, and reported timely and accurately. 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 as a representative of the shareholders. Our Audit Committee comprises independent directors with the financial knowledge and experience to provide appropriate oversight. We review significant accounting policies, financial reporting, and internal control matters with them and encourage their independent discussions with our external auditors. Our corporate governance guidelines, as well as the charter of the Audit Committee and certain other committees of our Board, are available on our Web site at www.pg.com/company/our_commitment/corp_gov.

on the Web

To read P&G's 2004 Annual Report, please click here: http://www.pg.com/investors/financial_reports/annualreports.jhtml

# Policies

*These are the policies that support our Purpose, Values, and Principles.*

**Our Values and Policies**

As an important part of our Corporate Social Responsibility program, we have released a publication, *Our Values and Policies*.

This booklet provides sustainable development guidelines for business conduct that are based on P&G's Purpose, Values, and Principles. These key elements are of utmost importance for proper conduct and respect for all individuals in the quest for common prosperity.

*Our Values and Policies* can be downloaded at:

on the Web http://www.pg.com/content/pdf/01_about_pg/01_about_pg_homepage/about_pg_toolbar/download_report/values_and_policies.pdf

**Sustainability Guidelines for Supplier Relations**

We have developed a publication, *Sustainability Guidelines for Supplier Relations*.

This document shares what we expect from our suppliers in terms of business conduct and what our suppliers can expect from us. It explains that the foundation of our supplier selection guidelines 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.

*Sustainability Guidelines for Supplier Relations* can be downloaded at:

on the Web http://www.pg.com/content/pdf/01_about_pg/01_about_pg_homepage/about_pg_toolbar/download_report/guidelines_for_supplier_relations.pdf

### 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 employees through our human resources system and profit-sharing program. We train, educate, and develop our people. We instill 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 is designed to provide employees with a stake in the future of the Company. Our flexible work arrangements offer employees the opportunity to meet both business and personal needs. Programs such as these enable us to be a sustainable business and a viable part of the communities in which we do business.

We are working to support the Global Sullivan Principles through our products and businesses. We believe that by incorporating sustainable development in our business approach, we can meet the needs of consumers, employees, and shareholders. All these create conditions conducive to delivering the Global Sullivan Principles – a business proposition in which everyone wins.

### Diversity Data – Global Enrollment

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

| Global Enrollment % Female | **2004** | 2003 | 2002 |
|---|---|---|---|
| Management | **36.7** | 35.5 | 34.6 |
| All Other Employees[1] | **36.9** | 37.1 | 41.6 |

[1] The category of "All Other Employees" continues to be an evolving global database as more of P&G's plants are included.

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

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| % Minorities | | | |
| Management | **18.8** | 18.0 | 16.1 |
| All Other Employees[2] | **19.5** | 19.8 | 20.3 |
| % Female | | | |
| Management | **35.4** | 34.8 | 34.4 |
| All Other Employees[2] | **38.9** | 38.7 | 38.0 |

[2] Administrative, Technical, and Plant Technicians

### Diversity Policy

P&G has a strong legacy of ownership, commitment, and accountability for diversity because we recognize the direct link between the Company's success, both short-term and long-term, and engaging the full power of all our employees. We believe a fully utilized and diverse workforce creates competitive advantage and fulfills P&G's Purpose, Values, and Principles. Our business leaders relentlessly pursue valuing, trusting, respecting, and leveraging individual differences and inclusion to ensure we are "in touch" with our global markets, customers, and business partners. Thus, we are more creative and innovative in developing products and services that improve the lives of the world's consumers. Diversity is a fundamental component of P&G's culture and integral to our "How to Win" business strategy for success.

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 also expects top leadership to hardwire diversity into their business strategies, establish clear expectations, and demonstrate personal accountability. This encompasses showing strong, visible leadership, commitment, and constant focus that includes diverse leadership and work teams and robust systems for ongoing measuring and tracking of diversity progress.

At P&G, top executives conduct in-depth diversity reviews annually with organization heads to assess progress and reinforce leadership accountability for corrective actions across the business units. 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 online candidate management system. We supplement our base recruiting efforts by utilizing intern programs, participating in recruiting conferences, and increased 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.

continued on next page

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Our foundation systems for ensuring employee retention include effective first-year orientation/join-up programs, providing a good match with the first boss, 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 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 pre-school 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 2002/2003, the P&G Fund, the Company's philanthropic foundation, provided more than $23 million for educational programs, $12 million for health and human services, and more than $6 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 $1.1 Billion across nearly 700 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.

Summary
In 2004, P&G's solid progress in diversity was recognized in many U.S. surveys: Fortune's World's Most Admired (#1 in our industry category), Family Digest's Best Companies for African Americans (Top 7), DiversityInc's Top 50 Companies for Diversity (#30), Executive Women (Top 30), LATINA Style Magazine's Best 50 Companies for Latinas to Work, and the Ohio Governor's Minority Business Development Recognition Award. P&G global rankings for best places to work include: Latin America (Top 10), Chile (Top 5), Canada (Top 100), and Singapore's HRM Award for the Best Retention Strategies.

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.

**Child Labor and Worker Exploitation Policy**
P&G does not use child or forced labor in any of our global operations or facilities, and we expect suppliers and contractors with whom we do business to uphold the same standards. More specifically, we will not conduct business with suppliers employing child, prison, indentured, or bonded labor, or using corporal punishment or other forms of mental or physical coercion as a form of discipline.

In the absence of any national or local law, we will define "child" as less than 15 years of age. If local minimum-age law is set below 15 years of age, but is in accordance with developing country exceptions under International Labor Organization (ILO) Convention 138, the lower age will apply.

more info

For more information, please click here.

**Millstone Supports Sustainable Coffee**
Millstone Coffee has taken the lead to help Latin American coffee growers sustain themselves. The brand has launched Signature Collection coffees that improve quality of life for growers and offer consumers exceptional coffee.

Consumers wanting to help support coffee growers can look for these products:

- Millstone Mountain Moonlight Fair Trade Certified – This coffee is Fair Trade Certified by TransFair U.S.A., the only certifier of fair trade products in the United States. Fair Trade Certification guarantees consumers that a fair price has been paid for coffee grown on small family farms, and that the farmers' human rights are protected. TransFair U.S.A. is part of an internationally respected certification system, operating in over 60 countries worldwide.

- Millstone Cup of Excellence Signature Roast – This coffee comes from growers who win the prestigious Cup of Excellence. This award recognizes the best coffees grown each season in Brazil, El Salvador, Guatemala, Honduras, and Nicaragua. Millstone is the first major roaster to purchase and sell coffee from Cup of Excellence winners. P&G also donates substantial funds to the nonprofit organization TechnoServe, which organizes the Cup of Excellence competition as well as other activities that help coffee growers increase their incomes.

- Millstone Rainforest Alliance Certified Rainforest Reserve – This coffee is certified by the Rainforest Alliance, a leading international conservation organization. The Rainforest Alliance evaluates farms annually and guarantees that the coffee it certifies meets rigorous environmental and social standards. Rainforest Reserve was grown on farms that are vital refuges for wildlife and safe and healthy places to work.

Millstone Coffee is a gourmet brand sold by P&G in U.S. grocery stores.

on the Web

For more information, please visit:
www.millstone.com
www.cupofexcellence.org
www.transfairusa.org
www.rainforest-alliance.org

**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.

Our corporate policy implementation is highly regarded around the world for its focus on the consumer, and we are often asked to participate in government panels and symposiums to help influence and educate others.

on the Web

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

P&G adheres to U.S./European Union Safe Harbor principles. For more information, visit:
http://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:
http://www.bbbonline.org/

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**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 has a key role to play in this. 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.

more info

For more information, please click here.

**Animal Welfare**
P&G's first priority is the safety of its consumers. We view safety as an essential ingredient of all our products.

To achieve the highest safety standards, we evaluate all our products via a comprehensive risk assessment. Except where required by law, P&G does not use animals to evaluate the safety of non-food and non-drug consumer products. Of the limited animal testing we use, the majority of it relates to drug and health care products.

P&G people care about the welfare of animals. We have been able to reduce, refine, or replace animal testing due to increased use of historical data, use of sophisticated new computer models, and development of alternative research methods. P&G is further working toward the acceptance of animal research alternatives by governments around the world.

We are committed to the ultimate elimination of unnecessary regulatory testing. Where testing is still necessary, we will also meet or exceed standards established by the Animal Welfare Act of the United States, the U.S. Department of Agriculture, and Directive 86/609/EEC of the European Union.

on the Web

For more information on P&G's product testing, please visit: http://www.pg.com/science/animal_alt.jhtml

**International Animal Care Advisory Board Assists Iams**
Iams has begun working with an International Animal Care Advisory Board, which helps evaluate Iams' industry-leading research policy while providing advice on new research alternatives that provide for advanced levels of dog and cat care.

The Iams International Animal Care Advisory Board is an independent group that currently consists of eight members, representing various disciplines and fields of study, including veterinary medicine, animal husbandry, behavior, welfare, and ethics. They are:

- Michael Arms of the Helen Woodward Animal Center (a leading California-based shelter and adoption facility)
- Dr. Kathryn Bayne of the Association for Assessment and Accreditation of Laboratory Animal Care
- Rev. Kenneth Boyd, a professor of Medical Ethics at Edinburgh University Medical School and a research director of the Institute of Medical Ethics, Edinburgh, Scotland
- Dr. Kelley Donham, MS, DVM, of the College of Public Health at The University of Iowa is a Professor and Associate Head for Agricultural Medicine, Occupational and Environmental Health
- Dr. Stephen Hansen of the American Society for the Prevention of Cruelty to Animals
- Dr. Robert Hubrecht of The Universities Federation for Animal Welfare
- Dr. Irene Rochlitz, an independent veterinary consultant in feline welfare, Cambridge, England
- Dr. Andrew Rowan of the Humane Society of the United States

The advisory board members make periodic unannounced visits to Iams feeding study sites to provide reviews and recommendations. They have completed visits to all Iams facilities and have found all to be in compliance with the Iams research policy. Iams already has implemented many suggestions made by these experts and will continue to work with them to innovate on the industry-leading animal welfare program.

Iams considers this work non-proprietary and is readily sharing the results with the pet food industry and with other interested groups such as shelters. The work of this advisory board is a major step in a continued effort to enhance the well-being of dogs and cats around the world.

**Iams Amico del Cuore Campaign in Italy**
Iams has helped Italy's abandoned pets by donating more than 140,000 meals through its Amico del Cuore (Best Friend) campaign.

Consumers make the meals possible in two ways: They can buy an Iams product and call the toll-free number indicated on the package, or they can send in a story or drawing about a dog or cat. For each call, story, or drawing received, Iams donates a meal.

Iams launched Amico del Cuore in 2003 and extended the campaign for another year because of its popularity.

Every year, on average, 200,000 cats and 150,000 dogs are abandoned in Italy. Most of them get rescued by volunteers from animal welfare associations and go to their shelters. To reduce the incidence of pet abandonment, Iams promotes educational programs that help pet owners make good adoption choices and develop good relationships with their pets. These materials include the "Touring Club Italy Travel With Your Pet Guide," which lists places to stay that allow pets, plus a school program educating children about the pet abandonment problem.

### 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.

more info

For more information on P&G's Environmental Quality Policy, please click here.

### Climate Change Policy

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 the general public.

### Forest Resources Policy

P&G purchases forest resources – wood fiber and cellulose – to use in the manufacture of its Baby Care, Feminine Care, and Family Care paper products. The Company believes that these forest resources should be managed for long-term viability.

The Company provides suppliers with its requirements regarding the purchase of wood fiber and cellulose materials.

more info

To see those requirements, please click here.

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### 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:

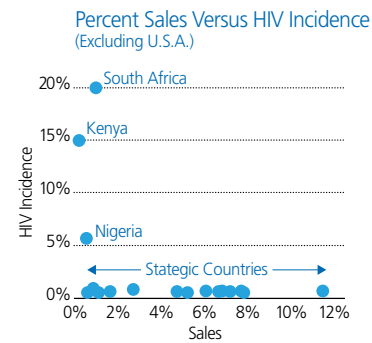
- Operate facilities safely and ensure processes are safe and healthy for our employees and residents of the surrounding communities. We will accomplish this by following uniform corporate safety standards around the world. Safe operations have been a long-standing part of Company culture, reflecting 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.

### HIV/AIDS

Though the spread of AIDS continues globally without an end in sight, it has not had a significant impact on the economics of P&G's global business. This is because none of our major markets are located in areas with high incidences, such as in sub-Saharan Africa. Nonetheless, P&G participates actively in the fight against AIDS, led by our organizations in sub-Saharan Africa.

more info

For more information see the "Sustainability in Action" section.




### 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 (PVP) by the Company, their managers and coworkers. 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, and
- is provided management support to remain productive.

# 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. This section provides an overview of our Management Systems.

## 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.

more info

For more information on Human Resources, please click here.

### Employee Privacy

P&G respects the privacy of every employee. We are committed to protecting the privacy of employee data and following all data privacy laws. Only data needed to conduct business and provide for the needs of employees will be collected. This data is protected with appropriate security systems and used only for intended purposes. Employees have reasonable access to data that the Company maintains about them.

### 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 workforce 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.

## Race for the Future

P&G Korea joined the Partners for the Future Foundation, a nonprofit organization in the American Chamber of Commerce, in a corporate/employee donation program called Race for the Future. The program helps the unemployed get education and vocational training.

P&G Korea employees signed up for a year of monthly payroll deductions, which the Company matched. Participation was outstanding – 100 percent. Donated funds in the amount of US$16,500 went to the Home of Love, a job training facility for the handicapped.

P&G provided not only monetary support to the Home of Love but also hope that its students can stand on their own to improve their lives.

**Insurance Systems**
The Corporate Insurance Program sees that P&G is protected from potential major losses. It tries to secure the best coverage at the lowest cost.

more info

For more information on Insurance Systems, please click here.

**Human and Environmental Safety of Our Products**
The Product Safety and Regulatory Affairs (PS&RA) organization is responsible for ensuring that products and packages are safe. This means 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."

more info

For more information on Human and Environmental Safety, please click here.

**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 at 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 annually, and a report of the Business Continuity Program's status is made each January to the Audit Committee.

**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 886 full-time equivalents.

more info

For more information on HS&E Systems, please click here.

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

To that end, P&G conducted an in-depth HS&E benchmarking study with Alcoa, Dow, Duke Energy, du Pont, Georgia-Pacific, Intel, and Nova Chemical. This study verifies that P&G continues to perform strongly in the areas of injury/illness, workers compensation, property loss, and regulatory fines, as compared to the benchmarked companies. In addition, it showed that P&G has one of the most decentralized HS&E approaches; this has helped us achieve the lowest HS&E cost per billion dollars of sales within this group. A second study conducted by this group of companies, along with BP and Johnson & Johnson, confirmed that we have very strong approaches in the areas of compliance with the law, sustainable development, and HS&E cost management.

During the past year, P&G continued participating in several other benchmarking studies involving other multinational companies headquartered in the United States and in Europe. For example, one of these studies involved a comprehensive review of HS&E activities at 17 leading U.S. companies. Another study involved a similar review with five Europe-based companies. Other studies were lead by GEMI (Global Environmental Management Initiative, with a membership of more than 40 multinational companies) and surveyed several key HS&E topics.

As a result of this work, we have concluded that, when compared to other leading multinational companies, P&G has:

- Strong HS&E performance
  - Injury/illness rate for employees – lowest 25 percent
  - Lost workday rate for employees – lowest 25 percent
  - Penalties paid (in $/yr per $billion sales) – lowest 33 percent
  - Property loss (in $/yr per $billion sales) – lowest 33 percent
- "Best in class" HS&E operations costs (in $/yr per $billion sales)
- Shifted more HS&E work to site technicians than most other companies. This is one of the reasons for our lower costs.

While P&G's current situation is quite positive when compared to peer companies, the long–term challenge is to continue delivering excellent benchmarking results.

**Medical Systems**
P&G's Global Medical organization advises and assists management and employees in assuring a safe, healthful work environment through the delivery of preventive health and clinical services. These services are for all employees, not just those at manufacturing sites.

Global Medical manages health issues that may affect employees, technologies, and brands. As P&G is a principles-driven company, all medical system work is undertaken in the following order of priority:
1. Save a Life (Protect our People)
2. Obey the Law (Protect Company 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 other compelling business needs.

**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.

In Mataro, Spain, P&G hosted a drill that prepared the community to handle a chemical emergency.

**Emergency Protection Goes Beyond the P&G Plant**
P&G shares its emergency response expertise with communities in which it operates, around the world.

In Pilar, Argentina, for example, P&G assists with training of volunteer firefighters. The Company also makes a financial contribution, such as this year's donation of a gas-oil pump. The pump allows gas-oil from the fuel station to flow directly to the firefighters' quarters, saving time and reducing combustibility. With this approach, P&G helps the community maintain a well-trained firefighter team with resources sufficient to meet any type of emergency.

In Mataro, Spain, P&G's Household Care plant has been called on to help its local area prepare for emergencies.

The town asked the plant to host a training exercise last winter for students at the local government's school for firefighters. The plant organized a drill around a simulated chemical release. The drill involved 15 student firefighters, the plant's emergency response team, the local fire brigade, local police, and local government officials. The event improved the town's ability to coordinate key players and to be better prepared, overall, in the event of an actual emergency.

P&G was chosen from the Mataro area's 80 chemical facilities because of its outstanding safety and emergency protocols and its previous participation in joint exercises with local fire and civil defense teams.

This was the first time the town of Mataro had tested its protocol for chemical emergencies, so the drill was featured on local TV news, reaching more than 40,000 households.

Mataro's town hall requested that P&G continue hosting emergency exercises. This summer, the plant held a drill for Mataro's civil defense personnel, helping them reapply P&G's emergency response plan for other chemical facilities in the region.

# Principal Industry and Business Associations

P&G holds membership in many industry, business, and environmental associations whose activities are related to the Company's. Please click on the links below to view these memberships.

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**Europe, Middle East, and Africa**

more info

For a complete list, please click here.

**North America**

more info

For a complete list, please click here.

**Latin America**

more info

For a complete list, please click here.

**Asia**

more info

For a complete list, please click here.

**Worldwide**

more info

For a complete list, please click here.

**International Network to Promote Household Water Treatment and Safe Storage**

P&G is a founding and active member of the International Network To Promote Household Water Treatment and Safe Storage, backed by the World Health Organization (WHO). The Network includes more than 30 expert groups committed to the important health benefits of purifying drinking water at the household level in the developing world, particularly for children and other vulnerable people.

# Stakeholder Interaction

**Communities**

Each P&G production facility has site-specific activities to build constructive relationships with local authorities, local industry associations, neighbors, local action groups, thought leaders, and news media. Depending on the culture of the community in which the plant is located, 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.

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

**NGOs: Local - Regional - Global**

more info

For more information, please click here.

**Scientific Community**

more info

For more information, please click here.

**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 also works closely with authorities to provide assistance for a variety of programs around the globe. P&G provides business and scientific expertise, funding (either financial or donations of product), and employees' time to a wide variety of projects.

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**Protecting P&G Brands from Counterfeiters**

Through its Global Brand Protection Group, P&G has made impressive progress in shutting down some of the world's most notorious counterfeiters. P&G's approach involves

- Teaming up with other companies affected by counterfeiting to lobby for tougher intellectual property rights legislation and enforcement.
- Using both conventional and proprietary enforcement approaches to close counterfeit manufacturing operations and to stop retailers from selling counterfeit products.
- Working with governments to educate their customs officers, judiciary, prosecutors, legislators, and law enforcement officers about intellectual property rights.

Global counterfeiting is estimated to be a $450 billion industry. That's more than 10 times the size of P&G. The counterfeiting trade's profits can be huge and often fund terrorists and organized crime.

Studies show that consumers who purchase a counterfeit product, believing it to be genuine, talk about its poor performance to family and friends, with all of them declining to buy the product again for up to a year.

### Philanthropic Contributions

P&G and its employees have a long-standing commitment to being good citizens and neighbors in all places where we do business around the world. We believe we have a responsibility to use our resources – money, people, and energy – wisely. We show our commitment through financial support and volunteerism.

Our historic focus on communities with P&G operations has grown into a commitment to improving the lives of children in need.

Global philanthropic contributions made by P&G, The P&G Fund, and Corporate Contributions for the past three years are provided in the following table:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Total | **$103,647,125** | $84,572,906 | $77,746,930 |

### P&G's Geneva Office Reaches Out to Children in Need

Even in Geneva, a business capital, there are children in need. And more of them than people often realize. That's why employees at P&G's Geneva office volunteer their time and skills to five children's charities in that city.

Activities this year include:

- Helping one of the charities update its logo.
- Assisting at weekly workshops run by the Children of Clair Bois, an organization serving children with multiple handicaps.
- Donating tickets to children's parks.
- Translating documents.
- Donating P&G products.

P&G Geneva volunteers offered consulting services to Païdos, a charity helping adolescents in trouble. This included providing expertise in marketing strategies, communication, and target group identification.

The dilemma: How to keep the kids off the streets. The solution: Open the Youth Café Bar. And make it festive by donating some Pringles. Though consulting services are no longer needed, one of the P&G volunteers has stayed with this project, spending time with the Café kids one night a week.

### P&G Helps French Children Participate in Sustainable Development

P&G France and the educational publisher Nathan have added an important feature to the innovative Web site they developed in 2002. The site shows teachers how to integrate the concept of sustainability into subjects they already teach and, with this new feature, how their students can become directly involved in sustainable development activities.

The site offers two projects the students can participate in, by collaborating with local NGOs: One is a school-building project in Afghanistan, in collaboration with CARE France, the other a well-construction project in China, in collaboration with the Enfants du Ningxia association. The French children communicate with the Afghan and Chinese children about education and water and about ideas to make the Afghan and Chinese children's daily lives better.

P&G supervises and funds the Web site, which has been endorsed by France's Ministry for Environment and Sustainable Development. P&G also helps the two projects with financial donations.

on the Web

To see the site, please visit:
www.eduquer-au-developpement-durable.com

### P&G Helps UN Promote Volunteerism in Egypt

P&G Egypt sponsored and was one of four companies presenting their corporate social responsibility programs at the United Nations Development Programme Open Volunteer Day in Cairo in December. The objective of this event was to get Egyptian companies involved in volunteerism and in various activities that contribute to Egypt's social development.

P&G's presentation included information on its international sustainable development projects as well as its wide range of local community activities. Many volunteers and celebrity guests visited the booth and took brochures. The Minister of Youth came by to learn about the Company's contributions to Egyptian society and its investments and operations in Egypt.

**Consumers**

At P&G we have declared that "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 what consumers have to tell us about their experiences with them. Providing toll-free numbers on our packages makes it easy to contact us. Via our Consumer Relations organization, we learn a great deal from the more than 5 million consumers worldwide who contact us every year.

Our skilled Consumer Services advisors are expert in responding quickly and effectively to occasional requests for urgent help (such as following 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 Web site, P&G managers responsible for product development, marketing, and manufacturing listen to consumers describing their delights and disappointments with our brands. The Web site 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.

**Science in the Box**

Feedback from consumers as well as from government, public interest groups, and the scientific community has told us that people want to know about the science and safety behind our products.

In late 2002, our Fabric & Home Care business launched www.Scienceinthebox.com. The site contains a wide range of information regarding product research and development, safety, and sustainability for our laundry and cleaning products in Western Europe. It also provides opportunity for dialogue via on-line surveys and e-mail.

Since its launch, use of the Science in the Box Web site has grown steadily; we now get more than 20,000 visitors every month. Numerous European media and government authorities have cited it as a leading example of corporate information sharing.

In 2003, we upgraded Science in the Box. We then held a stakeholder workshop in the Netherlands to gather feedback and engage in dialogue about issues surrounding our Fabric & Home Care products. Participants included representatives from scientific institutes, industry, consumer organizations, and environmental and social non-governmental organizations, as well as policymakers and journalists. Ideas from this workshop are being used to make further improvements to Science in the Box.

We also are exploring how the Science in the Box concept might be expanded to our other business units. And we are developing a corporate site – P&G Perspectives – to share our views on a range of public policy and scientific issues relevant to our business.

on the Web

To see the Science in the Box Web site, please visit www.Scienceinthebox.com

### Combined Stakeholder Dialogues

P&G convenes workshops, inviting scientists, regulators, and NGOs to come together to discuss specific issues and attempt to reach a common understanding. P&G gains invaluable experience from these types of interactions. These dialogues also hold great promise for frank discussions in the future.

### Shareholders

There are approximately 1,426,000 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 30, 2004.

We work to increase the value of P&G stock for all our shareholders in a variety of ways, including growing the Company's sales and earnings each year. Our Shareholder Services team is available every day to answer questions, listen to shareholder feedback, and provide perspective on Company decisions.

Contact Info:

E-mail us at shareholders.im@pg.com.

Call for financial information at 1-800-764-7483 (call 1-513-945-9990 outside the United States and Canada).

Speak to a Shareholder Services representative at 1-800-742-6253 (call 1-513-983-3034 outside the United States and Canada). They are available Monday through Friday, 9 a.m. - 4 p.m. EST.

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

on the Web

For more information, please visit:
http://www.pg.com/investor

### Sustainable Development Congress in Turkey

P&G co-sponsored Turkey's first Sustainable Development Congress for the Business World, in cooperation with TEMA (the Turkish Foundation for Combating Soil Erosion, for Reforestation and the Protection of Natural Habitats) and TOBB (the Union of Chambers and Commodity Exchanges of Turkey). The Congress was aimed at accelerating sustainable development action initiated by the Turkish business community and providing understanding that allows the business community to broaden its activity.

In addition to speakers from P&G, TEMA, and TOBB, there were speakers from the State Planning Organization DPT, the United Nations Development Program, the World Business Council for Sustainable Development, Shell, the Turkish LP gas company Aygaz, the European Commission, the World Bank, and the Turkish Ethical Values Center. In the audience were local and national regulatory officials, academicians, and NGOs.

P&G made two presentations at the Congress, one on the 21st century role of business in sustainable development and another giving examples of P&G Turkey's local sustainability projects. P&G also participated in a panel discussion on the future of sustainable development in Turkey and what needs to be done.

Discussion at the Sustainable Development Congress for the Business World will help Turkey's business community do more to further sustainable development.

**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 – improving the cleanliness of our homes, personal hygiene, nutrition and health, and enabling an overall better quality of life. One expectation of such products is that they will be safe, meaning 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.

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 – (http://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. cosmetic products associations; work in Canada to implement renewed chemicals legislation; the promotion of risk assessment via the U.S. Alliance For Chemical Awareness (http://www.chemicalawareness.com) and the American Chemistry Council; and development of a targeted risk assessment approach in Europe, via the European Center for Ecotoxicology and Toxicology of Chemicals, an industry-sponsored research organization (http://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 (AISE) to provide consumer guidance on how to use detergents properly (http://www.washright.com), as well as formulation improvements. We launched and then expanded a P&G Internet site (http://www.scienceinthebox.com) to help inform consumers and stakeholders about the science and safety behind our European cleaning products. (See Science in the Box, page 34.)

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 also often 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.

# Performance

# 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 are 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 processes in place:
- Key terms are 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 processes, as appropriate.

**Acquisitions and Divestitures**
All plants that operated during the fiscal year either reported data, or it was estimated based on past performance, except for the recent Wella acquisition. For the eco-efficiency graphs, the production units from Wella were also excluded.

Five sites were either shut down or divested during the fiscal year. The emissions from each were prorated based on the number of months operated.

**Major Opportunities and Impacts Associated with Products and Services**

Environmental Protection
- Resource Use
- Water
- Waste Reduction

Social Responsibility
- Health
- Hygiene
- Education

Economic Development
- Shareholder Value
- Employment
- Taxes, Fees, and Contributions

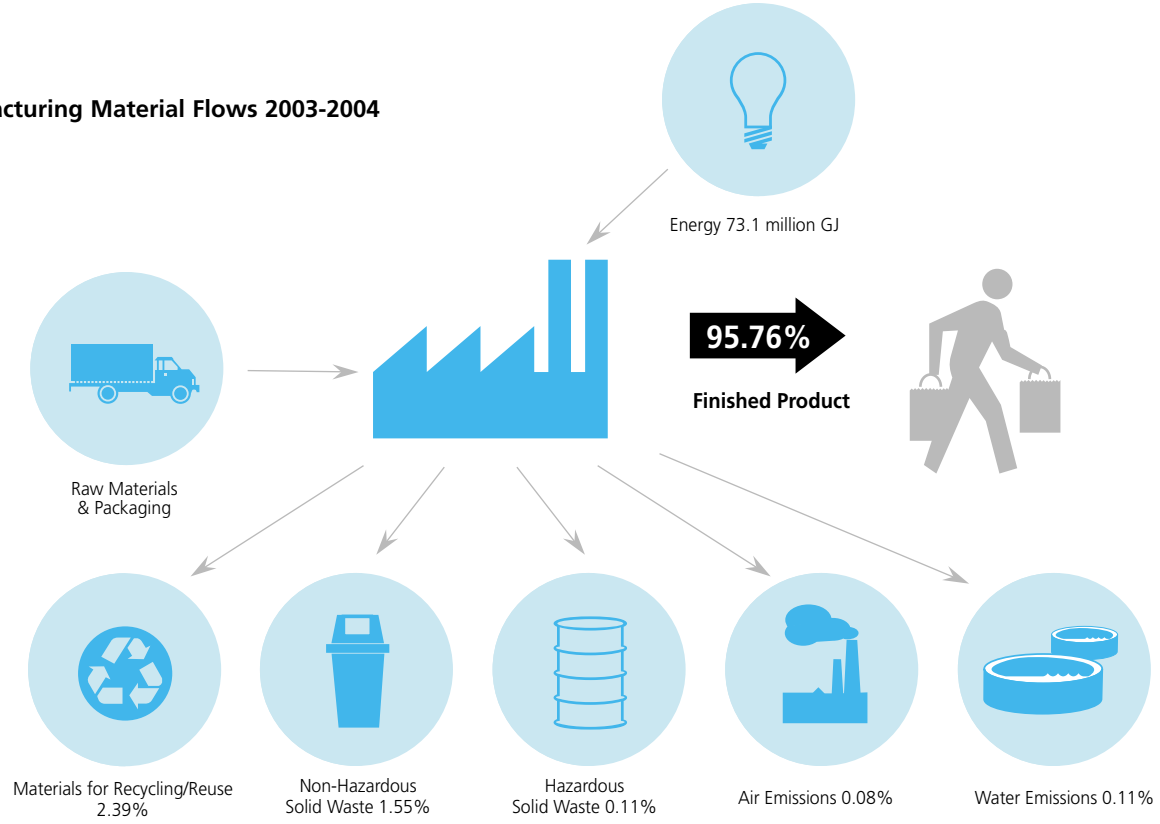
The very nature of producing and using products causes P&G and consumers to use resources and to generate wastes and emissions. P&G is committed, through its Environmental Quality Policy, to reducing or preventing this whenever possible.

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.

# Environmental

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 manufacturing waste (which is largely non-hazardous) is low.

## Manufacturing Material Flows 2003-2004




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

| All waste units are in thousands of metric tonnes unless otherwise noted.† | Totals | | | 2004 Global Business Unit Detail* | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | 2002 | **BFC** | **FHC** | **BC** | **HC** | **SB** |
| Production | | | | | | | | |
| Product Shipped | **18,471** | 17,055 | 16,151 | 4,132 | 10,072 | 1,332 | 1,367 | 1,568 |
| Raw Materials from Recycled Sources | **102** | 119 | 208 | 102 | 0 | 0 | 0 | 0 |
| Waste | | | | | | | | |
| Generated Waste | **817** | 793 | 798 | 428 | 155 | 148 | 42 | 44 |
| Percent Recycled / Reused Waste | **56%** | 52% | 54% | 61% | 51% | 53% | 48% | 52% |
| Disposed Waste | | | | | | | | |
| Solid Waste | | | | | | | | |
| Non-Hazardous | **300** | 317 | 304 | 153 | 52 | 60 | 19 | 16 |
| Hazardous | **21** | 9 | 19 | 1.4 | 14.4 | 3.8 | 1.4 | 0 |
| Effluents (Excluding Water) | **21** | 35 | 23 | 4.0 | 7.4 | 5.5 | 1.0 | 3.0 |
| Air Emissions** | **16** | 24 | 20 | 10.2 | 2.8 | 0.4 | 0.5 | 2.0 |
| Other | | | | | | | | |
| Energy Consumption ($10^5$ GJ)¶ | **731** | 758 | 706 | 470 | 146 | 51 | 32 | 32 |
| Greenhouse Gas Emissions** ¶ | **2,937** | 3,122 | 3,148 | 2,087 | 464 | 159 | 116 | 111 |
| Water Consumption (million cubic meters) | **79** | 86 | 85 | 54.0 | 14.1 | 5.2 | 1.8 | 3.4 |
| SARA Releases (metric tonnes)*** | **1,843** | 1,567 | 1,274 | 0.12 | 1,345 | 39 | 459 | 0 |

† 1 metric tonne = 1,000 kg = 2,205 lbs.
* BFC = Baby & Family Care; FHC = Fabric & Home Care; BC = Beauty Care; HC = Health Care; SB = Snacks & Beverages.
** 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.
¶ Energy use and greenhouse gas emissions have been restated using conversion units recommended by the U.S. Department of Energy in its 1605 reporting initiative. The major change was in the conversion of electricity from kilowatt hours to gigajoules (GJ). Actual energy use didn't change. The greenhouse gas emission factors changed slightly.

## Energy

Energy eco-efficiency*, as measured by production units per gigajoule (GJ), improved 18 index points. Improvements were throughout the business units.

Results are shown in absolute value by business unit and also presented in eco-efficiency format. Our eco-efficiency is more than 71 percent greater than in 1990, meaning there is 71 percent more product being made per unit of energy. Last year, we restated the electricity usage figures to 1990. The actual usage wasn't changed, just the conversion to gigajoules.

Family Care improved by more than 5 percent by improving drying technology as well as application of best practices. Energy audits and benchmarking with similar Family Care plants helped identify easy-to-achieve improvements.

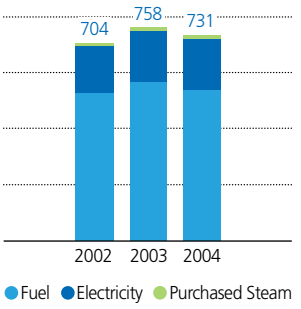
As part of our ongoing efforts to minimize losses, the Company does a loss analysis at the plant level. Losses are defined as anything not shipped out the door as product, including energy used. When energy is identified as a major loss at a plant, it receives intense focus for loss reduction.

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

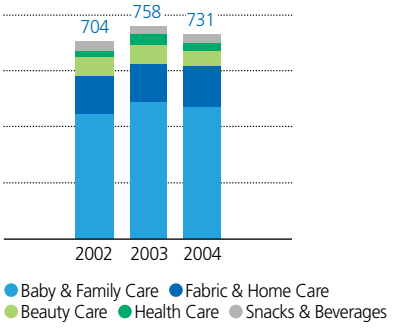
on the Web

To learn more, please visit:
http://www.wbcsd.ch/templates/TemplateWBCSD4/layout.asp?MenuID=1

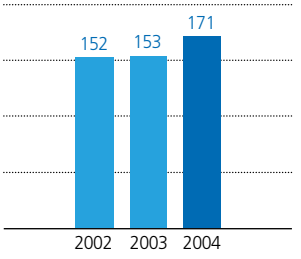
Energy Consumption
(by type, $10^5$ GJ)




Energy Consumption
(by GBU, $10^5$ GJ)




Energy Eco-Efficiency
(global production units / gigajoule, indexed vs. 1990)




### P&G Runs Energy-Efficient Computer Monitors

The U.S. Environmental Protection Agency has recognized P&G for its energy-saving computer practices. The Company was one of only six organizations honored nationwide for outstanding leadership in the ENERGY STAR® Million Monitor Drive, a national campaign to reduce greenhouse gas emissions by activating energy-efficiency features on computer monitors.

Using free IT tools from ENERGY STAR, the six organizations will save more than 45 million kilowatt hours per year. This will save more than $3 million in energy costs and prevent almost 35,000 tons of carbon dioxide emissions.

Computer monitors come with built-in ENERGY STAR power management features. Activating these features saves energy by allowing the monitors to go into a low-power "sleep" mode when inactive. A simple touch of the mouse or keyboard "wakes" the monitor. The Environmental Protection Agency estimates that roughly 40 percent of the United States' computer monitors don't take advantage of these features, costing businesses and organizations millions of dollars a year in wasted electricity.

"Protecting the environment through sound, energy-efficient practices is a priority for us," said Robin Tollett, Corporate Health, Safety & Environment. "The ENERGY STAR program has been good for our bottom line and good for the environment. ENERGY STAR just makes good business sense."

The U.S. Environmental Protection Agency recognized P&G for its use of energy-saving features on computer monitors.

**P&G Saves and Even Produces Energy**
P&G plants continuously search for opportunities to reduce energy consumption. This contributes to the United Nations' efforts to minimize the negative effects of climate change.

Here are a few examples of energy saved over the past year, along with an example of extra energy produced:

- In the Western European plants where P&G makes powder laundry detergents, a "Connect and Save Energy" task force is identifying potential energy savings. Tools being used include benchmarking, understanding energy usage in manufacturing processes, prioritizing, and studying both time-tested and new technologies. The task force encourages information sharing and reapplication of good ideas, connecting thought leaders within P&G and also among external groups such as other companies and energy experts.

  The task force expects a 10 percent energy saving within 12 to 18 months. This is especially important now, with Western Europe's energy costs expected to rise about 15 percent a year for several years. Reducing energy costs will help keep down manufacturing costs and thus the cost of detergents.

- In North America, the Family Care plants making tissue and towel products continued a multi-year energy and water reduction effort. The effort emphasizes "best performance" benchmarking, efficient use of steam and compressed air, and optimization of plant energy control systems.

  A number of energy projects and operating system improvements have been completed in the past year. These include upgrades to compressed air controls at several plants and installation of new paper-drying equipment. Overall, these improvements have led to a 5 percent increase in energy efficiency for P&G's North American business.

- Production of Pampers diapers generates paper dust, which the plant in Euskirchen, Germany, used to collect in plastic bags. Now the plant has a filter press that makes compact pellets from the dust. The pellets have a high caloric value and are sold as fuel to produce energy.

**Cogeneration Power Plants at Crailsheim**
P&G's paper products plant at Crailsheim, Germany, recently needed to increase its central heating capacity. The need arose following several building expansions as well as shutdown of the Pampers module, which used to generate heat that the plant recovered.

Normally, Crailsheim would install another boiler. But an engineering study by an outside firm revealed an opportunity to reduce carbon dioxide and also save money.

Crailsheim receives its electrical power and natural gas from local supplier STW (Stadtwerke Crailsheim). Under a cooperative agreement, STW installed two gas-driven Sokratherm CHP – cogeneration – units, operated by a 12-cylinder MAN motor, inside the plant's central heating station. This was done at no out-of-pocket expense to P&G. The plant pays only for heat consumed.

The units' electrical power capacity is 680 kilowatts, heating power about 1,000 kilowatts. With an estimated annual unit run time of 5,380 hours, Crailsheim can produce 3,650 megawatt hours of electricity and 5,380 megawatt hours of thermal energy, at an overall efficiency exceeding 90 percent. There are no losses as a result of power transportation; normal losses in Germany are in the range of 4 percent. $CO_2$ reduction is 2,900 metric tonnes annually.

Plans are to increase the unit's run time to 6,900 hours annually by means of a 500-kilowatt absorption cooling unit – trigeneration. This will lead to power production of 4,690 megawatt hours of electricity and a $CO_2$ reduction of 3,600 metric tonnes annually.

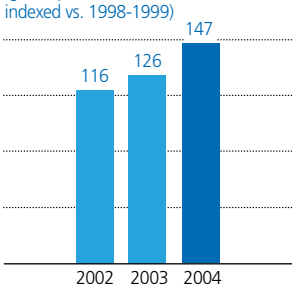
Crailsheim's changes should position the plant well for the EU's emissions trading scheme that comes into effect in 2005.

Crailsheim Plant, Germany.

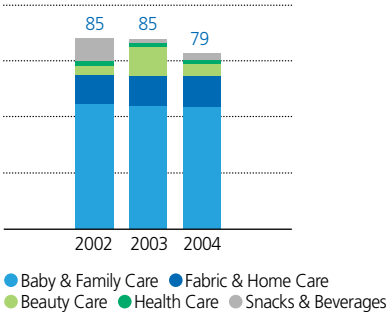
## Water

Water use has decreased this year while production increased, resulting in the eco-efficiency's increasing by 21 index points. Efforts to reduce water consumed are showing results. The height of the bars (amount of water consumption) has changed substantially between 2002 and 2004 because one of our larger sites, in Cincinnati, Ohio, moved from one GBU to another. This site has since reduced its water use and was one of the main contributors to the overall reduction.

Water Consumption Eco-Efficiency
(global production units / cubic meters, indexed vs. 1998-1999)




Water Consumption
(by GBU, thousand / cubic meters)




### Clairol Receives Green Circle Award

P&G's Clairol plant in Stamford, Connecticut, is a recipient of a 2003 Green Circle Award from the Connecticut Department of Environmental Protection. The award recognizes Clairol's effort to recycle reverse-osmosis reject water by using it in the plant's scrubber and cooling systems. This resulted in a 20 percent reduction in the use of drinking-quality water.

### P&G Helps City Design Wastewater Treatment System

P&G's Alexandria plant in Louisiana has been working with its local community on a new wastewater treatment system. The project involves seeking funding, selecting technology, and system design. The new system will provide needed wastewater capacity for the City of Pineville, facilitate commercial and residential development, and prevent the need for the P&G Alexandria plant to add pre-treatment technology.

The new wastewater treatment system is a joint effort of the P&G Alexandria plant, the City of Pineville, and local civil engineering contractor Pan American Engineers. P&G brought in corporate expertise from the Environmental & Wastewater Resources group in its North America Fabric and Home Care Health, Safety and Environment department.

### Vallejo Plant Donates Treated Water to Local Gardens

Mexico City's Vallejo plant has found a way to keep parks green and gardens blooming in its community.

Vallejo has installed its own wastewater treatment system and uses treated wastewater to water the plant's green areas. Nonetheless, some of this wastewater still needs to be discharged. A donation program with Azcapotzalco Municipality puts this wastewater to good use, helping to overcome community water shortages, especially during the dry season. Under the program, Vallejo has committed to donating 40 cubic meters of treated water daily, which can be increased if needed.

Vallejo and other plants across Latin America have been installing wastewater treatment and reuse systems since 1990. These plants include Anchieta, Brazil; Pilar, Argentina; and more recently Barquisimeto, Venezuela. Today, the first three have zero industrial discharge, while Barquisimeto is about to complete the transition. At Vallejo, there has been a more than 30 percent decrease in raw water consumption.

## Emissions, Effluents, and Wastes

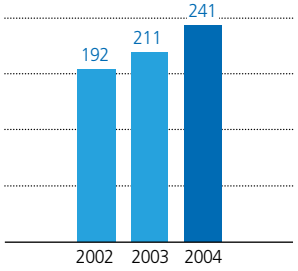
### Greenhouse Gas

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.

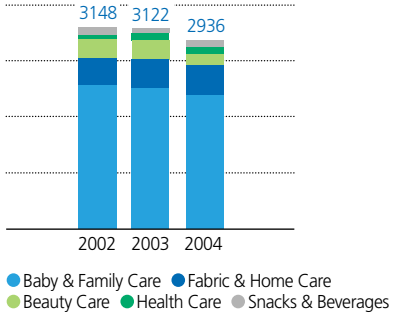
P&G's eco-efficiency of greenhouse gas has improved by 30 index points. Each point represents the amount of product leaving our plants per metric tonne of $CO_2$ emissions. The main reasons for this year's improvement are reduced reliance on coal burning and overall efforts to reduce energy usage.

In addition, absolute $CO_2$ emissions are lower this year due to reduced coal burning as well as multiple energy-saving projects. We are more than 240 percent more efficient as compared to 1990.

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)

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### Pilar Plant Recognized for Improvement

P&G's Pilar plant in Argentina has received the Environmentally Responsible Company award from Propiciar, recognizing the plant's effluent management achievement. The award cites "collaboration and the teamwork with the county toward the protection of environment and the quality of life of our district."

Propiciar is the local government agency that focuses on the environment.

CLIMATE R.E.S.O.L.V.E.
Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts

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

P&G continues its active participation in Climate R.E.S.O.L.V.E. (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts). This ambitious initiative was developed by the Business Roundtable in response to a call for voluntary action to reduce overall greenhouse gas emissions by 18 percent by 2012.

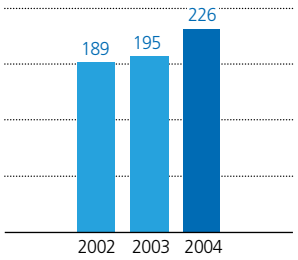
Over the past year, operational improvements coupled with reduced coal burning have led to a reduction of more than 12 percent on an intensity basis. The decrease was broad-based, with contributions from all P&G businesses.

## Total Waste for Disposal

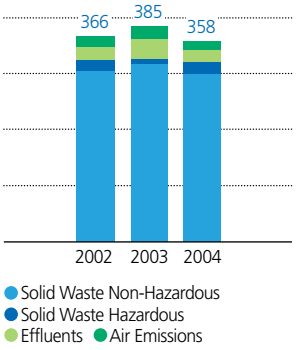
Total waste for disposal is our key management measure to keep waste under control. Total waste disposed comprises the sum of non-hazardous and hazardous solid waste, plus effluent measured as COD (chemical oxygen demand) and air emissions. It excludes recycling or reused waste. This measurement has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

Our disposed waste had a 31 point increase in eco-efficiency. This reduction was broad-based across all our GBUs.

Waste Disposed Eco-Efficiency
(global production units per metric tonne of waste, indexed vs. 1990)



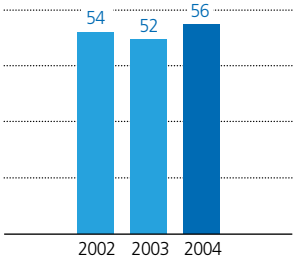

Waste Disposed
(by type of waste, thousands of metric tonnes)




## Waste Returned to Process or Market

The percentage of waste recycled remained flat, and revenue received from recycling remained steady at $21 million.

Waste Recycled or Reused
(percent of waste)




**Cairo Plant Improves Solid Waste Management**

P&G's manufacturing plant in Cairo, Egypt, initiated a solid waste management improvement project last year to minimize solid waste generation and increase recycling. The project yielded benefits for the environment, the local community, and P&G.

The project used the diverse skills and knowledge of a multifunctional team with representatives from four departments – Production, Storage, Technical Packaging, and Health, Safety & Environment. The team leveraged existing P&G systems and procedures and tackled the issue in two steps:

1. understanding the different types and main sources of solid waste.
2. using market research to identify market opportunities for recycling.

The team streamlined the plant's solid waste handling process and achieved a 19 percent reduction of solid waste at the source. It increased the recycling of solid waste from 66 percent to 88 percent by involving external recycling companies. Overall, solid waste sent to the local landfill has decreased by 14 tons a month. These improvements have contributed to environmental protection as well as the quality of life and the economy of the local community. In addition, the Cairo plant benefits from selling recyclable material.

**P&G Finds Innovative Ways to Recycle Manufacturing Waste**
Around the world, P&G plants are finding innovative ways to recycle waste from their manufacturing processes. This keeps waste out of landfills, makes it available for productive uses, and even saves P&G money. Here are some examples:

- Louveira, Brazil: This site has achieved a net reduction in waste of more than 300 metric tonnes per year, despite a production increase of 30 percent.

  One project involved recycling a variety of plant waste, including corrugated cardboard, plastics, diapers and feminine pads, shampoo bottles, and Hipoglós Pomade Tubes. The plant contracts with a supplier, who separates the materials and finds outlets for recycling them. This project takes care of most of the plant's solid waste.

  Another project improved disposal of waste from the health care business, including Vicks and Hipoglós Pomade. These wastes came in the form of return products from stores. They previously went to an incinerator, and the ash was landfilled. Now the returns go to a cement plant, where they are burned for fuel for making cement.

  A third project involved plastic residue that used to go to a landfill. Now it is being used in the roof manufacturing process.

  Not only did these three projects keep P&G wastes out of landfills, they also saved P&G more than $210,000 in waste handling costs.

- Dover, Maryland: This plant has waste in the form of unsold finished product. The product used to go to an incinerator or a landfill. Over the past year, the plant tested an arrangement that involved selling the waste to a supplier, who composts it into usable material. This change reduced the plant's landfill waste by about 40 percent and its waste handling costs by 25 percent. Other P&G sites are studying this arrangement.

- Akashi, Japan: This plant has been working on reducing industrial waste by recycling defective product and unused raw materials. The plant contracts with a waste operator who separates defective diapers into cotton and other material. The cotton gets made into products for house cats, such as sheets and litter. Another waste operator takes the remaining raw material for processing into pellets to be made into plastic products such as flowerpots.

- Cairo, Egypt: This plant identified an opportunity to recycle some solid waste that used to go to landfill. The waste now goes to several contractors for processing and reuse. This project increased the waste recycled at the plant from 66 percent to 88 percent and keeps an additional 14 metric tonnes of solid waste out of the landfill each month. It also saves the plant 210,000 euros (US$250,000) annually.

- Mehoopany, Pennsylvania: This plant implemented a process to help it reclaim lost revenue from materials that ended up in the trash rather than being sold as scrap.

  In an interim step, the plant sorted recyclable materials from compacted waste loads destined for a waste-to-energy facility. This effort also involved helping employees understand the importance of separating these materials and finding productive outlets for the previously discarded materials. The effort yielded a 20 percent reduction annually in the volume of disposed waste.

  Now the system has been improved so that segregation takes place while the waste is still on the manufacturing line versus after manufacturing. This should make reclamation more effective, increase revenue from sale of the materials, and reduce hauling charges.

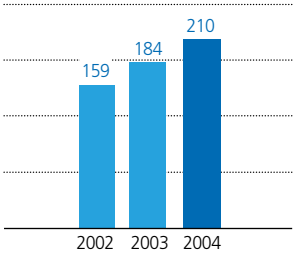
- Cabuyao, Philippines: Children in two Filipino schools are learning in classrooms made from scraps from P&G's Cabuyao plant. Materials from the making of diapers, Joy dishwashing liquid, and Downy fabric softener were used to make concrete blocks for the school expansions. Additional blocks were made for use at Philippine air force bases and for other public construction projects. And "honey cones" embankment protection materials were made for erosion prevention at a canal that irrigates rice fields.

## Non-Hazardous Solid Waste Disposed

Overall, the non-hazardous solid waste disposed to landfill has decreased this year, resulting in a 26 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)



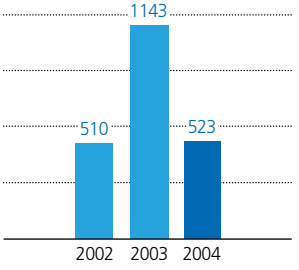

## Hazardous Solid Waste Disposed

Hazardous waste has increased (shown as lower eco-efficiency). This was due in large part to a major increase from a one-time cleanup at one of our plants in France.

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.

### Hazardous Solid Waste Eco-Efficiency

(global production units per metric tonne, indexed vs. 1990)



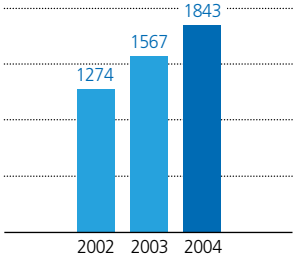

## SARA 313 Releases (United States only)

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 18 percent, proportional to production increases at plants using those chemicals.

### SARA 313 Releases

(global total metric tonnes released or transferred)

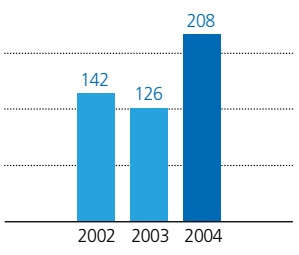



## Air Emissions

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 33 percent, resulting in a higher eco-efficiency. The decrease was related to the reduction in coal burning.

### Air Emissions Eco-Efficiency

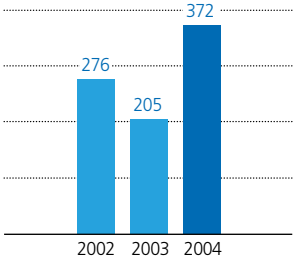
(global production units per metric tonne, indexed vs. 1990)



### Effluents to Water

Wastewater COD (chemical oxygen demand) went down more than 40 percent, resulting in a much higher eco-efficiency. The increase in eco-efficiency was in part due to a number of sites' going to "zero discharge" and additional wastewater treatment.

Wastewater COD Eco-Efficiency
(global production units per metric tonne of COD, indexed vs. 1990)




## Audit Programs

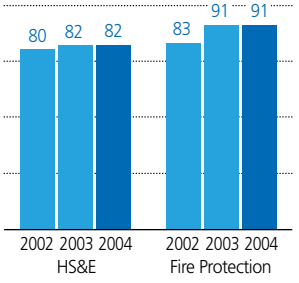
P&G's internal standards go beyond legal compliance and apply to all its plants worldwide. The fundamental philosophy is to have the same standards worldwide, implemented by trained professionals at all plants and audited each year using a consistent, comprehensive approach. The metrics used are consistent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

P&G HS&E audit programs are designed to ensure compliance with national, state, and local regulatory requirements as well 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.

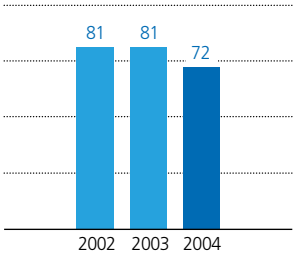
Audits measure performance against a mandatory set of standards and standard operating procedures. The target performance is eight or better on a 10-point scale. Audit results are consistent with last year's results. The percent of plants conducting audits is less than previous years.

The Company reviews its sites on a frequent basis. The chart shows percent of sites receiving an audit this year.

Percent of Plants
with Audit Scores > 8.0




Percent of Plants Conducting
Annual Audits



### 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.

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

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Number | **64** | 67 | 45 |
| Fines | **$28,320** | $154,756 | $39,026 |

The number of fines stayed about the same as last year while the severity, as measured by fines, fell more than 80 percent. Transportation-related incidents continue to be a focus area.

A breakdown of 2004 Notices of Violation (NOVs) and Occupational Safety & Health Act (OSHA) interventions follows:

| | Number | Fines |
|---|---|---|
| Water-Based | 31 | $2,630 |
| Air-Based | 6 | $6,240 |
| Solid Waste-Based | 1 | $0 |
| Paperwork | 0 | $0 |
| Transportation-Based | 23 | $18,200 |
| Other | 3 | $1,250 |
| Worker Safety | 0 | $0 |
| Total | 64 | $28,320 |

### Environmental Liabilities

P&G is subject to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Accrued environmental liabilities for remediation and closure costs were $36 million and $34 million at June 30, 2004 and 2003, respectively. Current year expenditures were not material.

### Notice of Violation

The Notice of Violation reported in 2003 for our plant in Wisconsin was quickly and successfully resolved by mid-2003. It involved reporting of air emissions.

The incident occurred during the start-up phase of a new, automated reporting system that correctly captured more than 95 percent of the required data. We reported the missing 5 percent. Subsequent testing confirmed that all actual air emissions were within regulatory limits. The regulatory agency was satisfied, and no further action was needed. We are confident that the reporting system is now 100 percent reliable.

# Economic

on the Web

Additional economic data can be found in our financial report at:
http://www.pg.com/content/pdf/01_about_pg/01_about_pg_homepage/about_pg_toolbar/download_report/annual_report.pdf

## Economic Development

Innovation is P&G's 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 28,000 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 that enhance the lives of the world's consumers.

Through technology donations, universities and other not-for-profit research institutions can receive these off-strategy, yet highly valuable, patents and technology know-how, and provide the research and development needed to bring them to commercial reality. P&G is excited to see these technologies reach their full potential. Each donation fosters applied research development work at universities and research institutions and can eventually deliver new revenue streams to the universities through out-licensing and/or start-ups. As part of the donation, P&G receives a tax benefit for our shareholders.

## Financial Highlights

| Amounts in millions except per-share amounts | **2004** | 2003 | 2002 |
|---|---|---|---|
| Net Sales | **$51,407** | $43,377 | $40,238 |
| Net Earnings | **6,481** | 5,186 | 4,352 |
| Before-Tax Earnings | **9,350** | 7,530 | 6,383 |
| Total Assets | **57,048** | 43,706 | 40,776 |
| Basic Net Earnings Per Common Share[1] | **2.46** | 1.95 | 1.63 |
| Dividends Per Common Share[1] | **0.93** | 0.82 | 0.76 |

[1] Restated for two-for-one stock split effective May 21, 2004.

## Technology Donations, Fiscal Year 2003-2004

Through P&G's technology donations, we contribute valuable patents, seed money, time, and resources to U.S. universities and research institutions for the enhancement of education and the long-term benefit of society. These nonprofit groups can continue the research efforts, providing a venue for development of potential new products and technologies. Listed is an overview of technologies donated last year, along with their sustainability implications.

| Technology | Recipient | Sustainability Implications |
|---|---|---|
| Oral Cancer Therapy | Cornell University | Treatment to combat oral cancers caused by, for example, cigarette smoking. |
| Periodontal Disease Treatment | Columbia University | Treatment to prevent and treat periodontitis. |
| Insect Control | University of Florida | Safe and environmentally friendly vapor phase insecticides for home or commercial use. |
| Cubosomes | Cincinnati Children's Hospital | Improved cubic liquid crystals useful in drug delivery in a controlled-release fashion. |
| Alopecia and Glaucoma Treatment | Duke University | Novel compounds for the treatment of hair loss and glaucoma. |
| Cancer Chemotherapy Drug Resistance Inhibitor | Moffitt Cancer Center | Prevents and/or treats drug resistance, making cancer chemotherapy more effective against leukemia and other diseases. |

## Global Purchases

P&G is a global company. We produce our brands in 114 plants in 42 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 required to make our products.

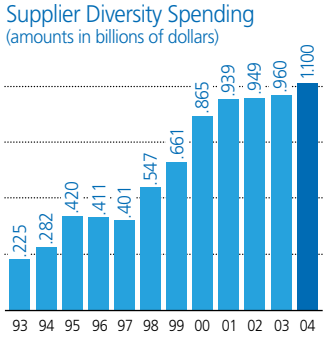
## Supplier Diversity Program

In 1972, P&G established a program to identify and work with minority-owned businesses in the United States. Today, the Supplier Diversity Program has nine people dedicated to this work. The Vice President of Purchases serves as Executive Sponsor.

Purchases through the Supplier Diversity Program exceeded $1.1 billion during fiscal year 2003-2004. This spending accounted for about 9 percent of P&G's total U.S. spending. P&G is one of only 14 companies in the United States at this level.

As minorities become a larger proportion of America's population, P&G sees its role as a facilitator of economic health for minority businesses and the households that rely on them for income.

Supplier Diversity Spending
(amounts in billions of dollars)




*Our ongoing commitment to investing in minority- and women-owned business enterprises has resulted in increasing expenditures.*

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**Middle East: Progress for Women**

P&G has been furthering the progress of women in the Middle East, both inside and outside the Company.

Inside the Company, the four women in the Arabian Peninsula office in Jeddah, Saudi Arabia, have made great strides since they started in 2000. Then, local regulations and customs required them to be hired as contractors, at less pay than their male counterparts, and also to work in a separate building.

The women, along with some of their male colleagues, asked for changes that would enable them to contribute more fully.

A year later, the women became official P&G employees, with full governmental support, equal rights, strong career paths, and an office in the same building as their male colleagues. Today, though they work in a separate office area, out of respect for local customs, they have top-of-the-line technology, including a teleconferencing tool that allows face-to-face interaction with the men without violating local beliefs. One has become the Arabian Peninsula's first woman brand manager, another has become a Consumer Marketing Knowledge manager, and a third has taken an international assignment.

Progress this year has been so great that the four women attended a major strategy meeting in the same room with the men. The meeting featured a woman speaker addressing gender diversity. One of the four women employees – the brand manager – serves as diversity leader for the Arabian Peninsula and will be rolling out diversity training in the region over the coming months.

The Arabian Peninsula's plan is to hire four more women by spring 2005, in Finance & Accounting as well as in Marketing and Consumer Marketing Knowledge. The women also will move to new offices that allow joint meetings with both women and men employees.

Outside the Company, P&G Saudi Arabia celebrated the 20th anniversary of Always feminine pads with a program called Celebrating You… Always. The program recognized and supported Saudi women.

Celebrating You… Always highlighted the achievements of Saudi women and also raised funds for three women's charities. Two dozen women of achievement, in fields including education, medicine and social affairs, visited more than 100 schools and colleges to enlist student participation. Students signed a banner, pledging to donate to a local charity. P&G pledged a donation for each signature on the banner.

Celebrating You… Always was designed and executed in cooperation with a number of well-known charity institutions in Saudi Arabia, as well as with the professional women who worked with the students.

Celebrating You… Always generated more than 50,000 signatures, yielding SR89,000 (US$24,000) for the charities. P&G added another SR150,000 (US$40,000) to support their vocational training programs.

Some 120 Saudi women of distinction attended the program's final event. They included representatives of women's welfare associations and charities and local and pan-Arab media. At the event, Princess Sarah Al Anqari, wife of the governor of the western region, launched The Saudi Women's Achievement Award, which annually will recognize leading Saudi women and their work.

# Social

### 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.

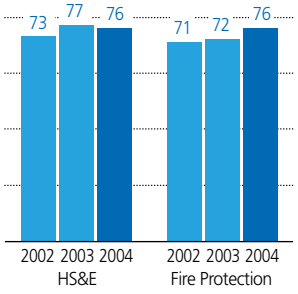
### Benefits

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.

### Plant HS&E Leadership Training

A key indicator of 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 special situations are assessed. For full qualifications the candidates must complete a qualification project at their own plant. Currently, more than 70 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 Health, Safety & Environment (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 2003/2004 were $24.6 million (slightly less than 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 2003/2004 were $158 million. (This does not include the $21 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.

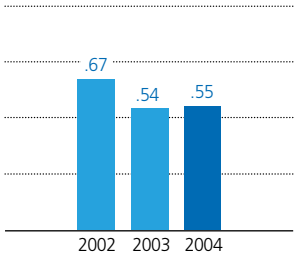
*Nothing we do is worth getting hurt.*
*Safety and health can be managed.*
*Every illness and injury could and should have been prevented.*
*Safety and health are everyone's responsibility.*

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.

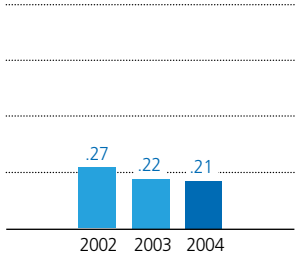
The TIR target for sites is to be below 1.5 cases per 100 employees worldwide. To achieve such rates, programs to address employee safety, such as safe behaviors, ergonomics, and confined space entry, have been implemented. No target has been set for LWDC because of our belief that one has to manage incidents that potentially could lead to lost workdays.

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 .55 versus .54 incidents per 100 employees, while the lost workday case rate also stayed the same, at .21 versus .22 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)



Sustainability In Action

# Sustainability in Action

**Key Sustainability Focus Areas**

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.

## Why Water?

Water affects the lives of all of us, each day. 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.

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.

## Why Health and Hygiene?

Health and hygiene affect all of us, in both the developed and the developing worlds. 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 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.

Photo courtesy of UNICEF/Pirozzi

# Water

## P&G's Safe Drinking Water Program

One of the UN Millennium Development Goals is to halve the proportion of people without access to or able to afford safe drinking water by 2015. Today, more than a billion people lack access to safe drinking water, so meeting this target is a significant challenge. It requires that at least 125,000 unserved people be connected to safe water supplies each day.

An estimated 2 million children each year – 5,000 each day – die because of diarrheal diseases, many of which could be prevented with safe drinking water.

Though efforts are underway around the world to bring safe and sufficient water services to these people, P&G has a way to bring clean water right now to those not yet reached. We do this with a new product we invented called PUR Purifier of Water.

PUR is a low-cost, simple-to-use water treatment system for household use. PUR's technology and ingredients are based on those used in municipal water treatment systems in the developed world. The product is ideal for the developing world because it costs one U.S. cent to purify a liter of water.

PUR comes in a sachet that gets mixed with 10 liters of water. In a few minutes, dirt and other contaminants separate from the water. The water gets poured through a filter cloth and stands for 20 minutes. This process removes pathogenic bacteria, viruses, and parasites. The result is clean, safe water that meets World Health Organization guidelines.

P&G's safe drinking water technology is a breakthrough for consumers in the developing world because

- It is affordable.
- It gives consumers control of their own water supplies, in their own homes.
- It visibly proves that water has been cleaned.

PUR was developed by the Procter & Gamble Health Sciences Institute in collaboration with the U.S. Centers for Disease Control and Prevention. In tests in Guatemala, Pakistan, and Kenya, PUR reduced the incidence of diarrhea by up to 50 percent. In a test in Bangladesh, PUR reduced the poisonous arsenic from well water so it met local safety standards.

## PUR Supports Millennium Development Goals

PUR Purifier of Water has won an International Chamber of Commerce World Business Award for supporting the UN Millennium Development Goals. This is the first worldwide awards program to recognize the significant role business can play in the implementation of the UN's targets for reducing poverty around the world by 2015.

Winning projects were selected by an independent judging panel drawn from business, labor, research and academic organizations, environmental groups, and the United Nations.

P&G provides PUR Purifier of Water at cost to global relief agencies so they can provide safe drinking water in emergency situations. PUR has been used in Botswana, Chad, Malawi, Liberia, and Zimbabwe. PUR Purifier of Water is also being tested in several markets to learn how it can be provided on a sustainable basis in the developing world.

The Millennium Development Goals were established by world leaders at the UN Millennium Summit in September 2000. The Goals include:

- universal primary education
- promotion of gender equality
- eradication of extreme hunger
- improved maternal health
- environmental sustainability
- reduction of child mortality

Local Water

Add PUR and stir

Filter through cloth

Clean, safe water

PUR Purifier of Water

Tide 1-Banlaw provides a major lifestyle improvement for Filipinos.

**New Tide Economizes on Rinse Water**
An innovative new Tide product in the Philippines is saving water in households that rinse laundry manually. Instead of having to rinse soapy clothes three or four times, consumers rinse only once if they use Tide 1-Banlaw (Tide 1-Rinse, in English).

In the Philippines and other developing countries, consumers often wash by hand or in semi-automatic machines that don't rinse. Doing laundry may require carrying water to the laundry area as well as repeated wringing. The strenuous physical requirements of rinsing can cause hand and back pain.

In the Philippines specifically, many households receive only limited water and only during limited hours. Rinsing three or four times can get expensive or may not even be possible.

Filipino housewives typically do laundry three to five times a week, with each session lasting two to three hours.

Tide 1-Banlaw dramatically conserves water as well as time and effort, freeing women to do other things for their families.

Because some consumers try to cut down on rinsing by using less detergent than necessary, their wash often comes out dingy. With Tide 1-Banlaw, they're more likely to use the correct amount of detergent, resulting in cleaner wash. The product's formula also helps with this by preventing minerals and particulates in the water from depositing on the clothes.

Tide 1-Banlaw uses a new silicone technology. It is being test marketed in Davao and is expected to be sold throughout the Philippines and also in other countries where hand rinsing is common.

## Health and Hygiene

**P&G Helps Children's Health Via UNICEF's Fresh & Caring Start**
This is the fourth consecutive year P&G has worked with the U.S. Fund for UNICEF (the United Nations Children's Fund) on the Give Kids a Fresh and Caring Start campaign. The objective of the collaboration is to provide children around the world a better chance to grow to adulthood in health, peace, and dignity.

Dawn dishwashing liquid donated 10 cents for each Dawn product sold during September and October of 2003, for a total of $150,000. This put Dawn above the $1 million mark for contributions over the four years of the campaign.

Additionally, the Dawn, Downy, Bounce, and Tide brands issued coupons in millions of U.S. newspapers, donating 10 cents to the Halloween campaign Trick or Treat for UNICEF for each coupon redeemed. This generated another $200,000.

**Safeguard Dramatically Improves Life in Developing Countries**
Over the past decade, P&G has been taking its North American Safeguard bar soap brand to developing countries. Safeguard's antibacterial benefits have greatly improved health and hygiene in places such as the Philippines, Pakistan, and China.

### Clean Water in the Philippines
P&G continues its partnership with UNICEF to provide water and sanitation facilities in the Philippines.

In a project called Handog 2big Operation in the local language – H2O for short – P&G's Safeguard soap and UNICEF are providing water and sanitation facilities, along with hygiene education programs, in 21 schools. The two-year program is expected to benefit more than 10,000 students.

Local people are volunteering labor and materials to build the facilities. UNICEF oversees construction and provides the remaining materials. P&G is funding H2O in the amount of P$4 million (nearly US$70,000).

H2O follows a five-year P&G/UNICEF program that brought water and sanitation facilities to communities and schools through construction of 190 water supply systems and 500 toilet facilities. This program reached more than 60,000 Filipinos.

A 2000 World Health Organization survey showed that 10 million Filipinos need safe water and 13 million need sanitation facilities. Unhygienic conditions in the Philippines lead to diarrhea, the foremost cause of death there.

## P&G Fights HIV/AIDS in Africa

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 orphans.

With sub-Saharan Africa being the most impacted area in the world as regards HIV/AIDS, P&G's sub-Saharan organization is leading the Company's anti-AIDS effort. We are also seeking ways to combine our Safe Water program with the distribution of AIDS drugs – starting in Uganda and Haiti. This will prevent the diseases associated with unsafe water from impacting individuals who have a depressed immune system due to HIV.

P&G's effort, which began in 1998, was revised this year to coordinate with the latest national and international developments and standards. The effort's objectives are to:

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

The workplace portion of the effort consists of the following elements

- Establishing baseline measurements, such as knowledge, attitude, perception (KAP), 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 (STD) diseases and
- Implementing "Wellness programs" strategies to keep infected employees as healthy as possible and providing Post exposure prophylactics (PEP), anti-retroviral treatment (ART), Nevirapine, vitamins and nutritional supplements, and home-based care.
- Evaluating and monitoring the effectiveness of these interventions.
- Assessing and improving Company benefits.

The goals for the next two years are:

- 80 percent of employees will volunteer for "Know Your Status" testing.
- 80 percent of employees will visit the Company's HIV/AIDS Web site.
- Employees' knowledge, attitude, and perception (KAP) will improve.
- P&G will have qualified, in-house peer educators and/or counselors at a ratio of one for every 50 employees.

The oversight and evaluation of the program is the responsibility of the sub-Saharan African Vice President and the Human Resource Associate Director. P&G also has offered our management knowledge and people resources to the U.S. Embassy in South Africa to help it deploy the $5 billion in aid promised by the U.S. President's Emergency Plan for AIDS Relief (PEPFAR).

on the Web

For more information on P&G's anti-HIV/AIDS work in South Africa, please visit http://www.pg.com/sr

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## Hand Washing

Hand washing sounds simple to people who have abundant soap and running water, though it's a task that often gets skipped in developing countries. Hand washing is critically important in preventing the spread of disease.

### Study Shows That Hand Washing Saves Lives

Washing hands with soap is effective in preventing diarrhea among children at highest risk of death from this illness, according to a study done by P&G and the U.S. Centers for Disease Control and Prevention and published in the Journal of the American Medical Association.

The study was conducted in 900 households in Karachi, Pakistan, one of many cities in the developing world in which diarrhea commonly leads to death. P&G provided Safeguard soap to two-thirds of the households in the study. Over the course of a year, results showed that the households receiving soap reported only half the incidence of diarrhea as the other households. Importantly, the study showed that hand washing can prevent diarrhea among those most vulnerable and at greatest risk of death – infants under 12 months and people who are malnourished.

### Bidding Farewell to Disease

An education campaign in China has helped people understand the importance of hand washing in preserving health and preventing disease. People in three major cities came to the Mobile Health Education Wagon to see how germs get transmitted via the touch of a hand. The Wagon featured an interactive demonstration, using fluorescence, to show germ transmission in a vivid way.

Called Bidding Farewell to Disease Starts with Hand Washing – Health Education China Tour, the campaign was organized by the Safeguard Research Institute for Family Hygiene and the China Medical Association.

Education regarding hand washing became a critical need in China during the recent SARS epidemic.

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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.

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## 2004 Sustainability Report

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# Addendum

"For More Information" links from previous pages in this report.

## Policies, Organizations, and Management Systems

**Policies**

### Child Labor And Worker Exploitation Policy

P&G does not use child or forced labor in any of our global operations or facilities. We do not tolerate unacceptable worker treatment such as the exploitation of children, physical punishment or abuse, or involuntary servitude. We expect our suppliers and contractors with whom we do business to uphold the same standards. Should a pattern of violation of these principles become known to the Company and not be corrected, we will discontinue the business relationship.

For purposes of implementing the above policy, we will employ the following definitions:

CHILD LABOR:
- We will look first to the sovereign laws of the country in which we are doing business.
- In the absence of any national or local law, we will define "child" as less than 15 years of age.
- If local minimum-age law is set below 15 years of age but is in accordance with International Labor Organization (ILO) Convention 138, the lower age will apply.

FORCED LABOR is any work or service extracted from any person under the menace of any penalty and for which said person has not offered himself voluntarily.

SUPPLIER or CONTRACTOR is someone who has a "direct" business or contractual relationship with P&G. We will urge our suppliers and contractors to promote the application of these principles by those with whom they do business.

### Advertising Policy and Sustainable Development

We believe advertising contributes to sustainable development through a variety of general and specific ways in the marketplace. To achieve sustainability through the market, we need effective competition to drive innovation and increased efficiency. Competition thrives on advertising, and advertising thrives on competition. Competition promotes innovation, which leads to better products and services, and more variety and choice for consumers.

There are also many specific business-building opportunities in which advertising can contribute to sustainable development by improving lives around the world:
- In developing countries, advertising often also involves health education and awareness raising, such as addressed by P&G's
- Healthy Smiles dental health campaign in China.
- Providing 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.
- Promoting innovative products that have environmental or social benefits.
- Promoting more sustainable use of existing products to maximize environmental or social benefits. For example, the WashRight campaign, run by P&G and other members of the European Detergents Association in Europe, promotes correct usage of laundry products and efficient use of water and energy.
- Communicating the sustainability attributes and performance of companies and other organizations as the public increasingly wants to know more about the companies behind products and services.

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-consumption is also misplaced as advertising 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," which has been written by the advertising industry in collaboration with UNEP – the United Nations Environment Program. P&G helped the World Federation of Advertisers (WFA) and the European Association of Communication Agencies (EACA) write this report, which was

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presented at the World Summit on Sustainable Development in Johannesburg, South Africa, in August 2002. P&G is an active member of WFA and is on the Advisory Committee of UNEP's Advertising and Communication Forum on Sustainability.

## Environmental Quality Policy

We will provide products of superior quality and value that best fill the needs of the world's consumers. As a part of this, P&G continually strives to improve the environmental quality of its products, packaging and operations around the world. To carry out this commitment, it is P&G's policy to:

- Ensure our products, packaging and operations are safe for our employees, consumers and the environment.
- Reduce or prevent 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.
- Meet or exceed 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 assess our environmental technology and programs and monitor 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.
- Provide 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.
- Ensure 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.
- Have operating policies, programs and resources in place to implement our environmental quality policy.

## Forest Resources Policy

P&G's Position on Sourcing Wood Fiber and Cellulose-Derived Materials:

It is P&G's position that forest resources worldwide must be responsibly managed to sustain them for both current and future generations in order to meet a wide range of societal needs, including economic, environmental, recreational value and preservation of natural beauty. P&G does not own or manage forests, but as a major purchaser of wood-derived fibers and cellulose materials, we have a responsibility and economic interest in the long-term viability of the world's forest resources.

It is our position that sustainability of global forest resources is best achieved by a balance of three forestry approaches:

- Preservation of sufficient temperate, boreal, and tropical forests to ensure that biological diversity, recreation, and natural beauty are maintained.
- Mixed-use plans for maintaining forests through a combination of sustainable timber harvest and management for environmental and recreational goals.
- Plantation forest management to maximize fiber yield. This helps lessen the pressure to harvest trees from forests that could be preserved or are managed under mixed-use plans.

Arriving at the right balance of forest uses requires the involvement and cooperation of a wide variety of stakeholders, including experts in academia, government, public organizations, industry, and local landowners and indigenous peoples. The principles of sustainability include economically and environmentally responsible harvesting and reforestation management to minimize impacts on wildlife habitat, soil, and water quality, with protection of special sites of unique geological, biological, or historical significance.

Consistent with this position:

- P&G purchases cellulose fiber only from suppliers who comply with legal requirements and demonstrate forestry practices and sourcing commitments consistent with the principles of sustainable forestry. This holds for plantation-grown and natural forests.
- P&G does not purchase cellulose fiber derived from sites designated for preservation or judged to have unique environmental or cultural value.
- P&G qualifies suppliers and monitors forestry practices through site visits and comprehensive surveys, working with suppliers to address opportunities for continual improvement. We encourage our suppliers to participate in regional land management decision-making processes that involve industry, academic, government, and special-interest groups.
- P&G encourages third-party verification or certification of compliance with sustainable forestry practices when it contributes to improvement in practices but does not require or support requirement of certification by any single organization. P&G encourages development of standards, performance measures, and continual improvement in best practices for forest ecosystems. These advances are judged more important than implementing complex audit and recordkeeping systems that can be required by certification programs.

P&G is also committed to strategies that reduce demand on the world's forest resources, including use of recovered fiber and development of additional non-forest derived sources of fiber.

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## Management Systems

### Human Resources

Human Resources ensures that P&G has the employees, organizational design and work culture to deliver increasing 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.

### Insurance Systems

The goal of the Corporate Insurance Program is to optimize the financing of insurable risks to minimize costs while providing protection from the effect of potential major loss.

The Program is guided by the following basic principles:

- The Company's primary defense against loss is effective loss prevention programs.
- Insurance is no substitute for effective loss prevention.

The Corporate Insurance Program covers areas of loss and potential loss such as property damage; business interruption resulting from property damage; legal liability resulting from property damage or personal injury; the legal liability of Directors, Officers, Trustees and employees arising from the performance of their duties; and theft.

### Human and Environmental Safety of our Products

Product Safety & Regulatory Affairs (PS&RA) addresses issues related to products and packages. PS&RA is responsible for ensuring that products 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 questions or issues about products and packages, such as their compatibility with waste management systems, natural resource use or issues of "perceived safety."

PS&RA 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 assess the safety of its products and ingredients. In this process, chemical hazard and exposure information are related in a way that describes the likelihood for a chemical to 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 the direct responsibility to "ensure that our products are safe for consumers and safe for the environment." This involves conducting basic studies in toxicology, biodegradation, together with an understanding of exposures, to ultimately complete human and environmental safety assessments. In addition, this organization has responsibility for the basic and applied research used to develop state-of-the-art risk assessments as well as to make business decisions. As a Company resource, its primary role is to advance science for understanding and evaluating the human and environmental safety and impact of our products.

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

Health, Safety and Environment (HS&E) is a global community of resources responsible for ensuring that the approximately 130 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 all waste from sites is reduced as much as possible. Several thousand employees spend all or a portion of their time on HS&E management, which totals more than 1,350 full-time equivalents.

There are 3 major components to an HS&E organization at a site: the base HS&E component (includes Environmental, Technical Safety and Industrial Hygiene & Safety disciplines), Fire Protection (FP) Systems and Medical Systems.

During the past fiscal year, P&G has further integrated its technical HS&E programs and at the same time provided a stronger interface platform for the three above-mentioned HS&E organization components, which ensures an increased efficiency in the functioning of these programs. In addition, an improved alignment has been achieved with changed work systems at the manufacturing operations.

A phased, detailed Risk Assessment is the process the Company uses to assess the safety of its processes and new initiatives that are being introduced at its own manufacturing operations as well as at contractor manufacturing operations. The whole Risk Assessment process is designed to enable "high-speed" innovation.

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**Principal Industry and Business Associations**

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 Manufactures 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
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 Researches and Manufacturers of America
Soap & Detergent Association
Soap & Detergent Association of Canada
The Council of State Governments
US 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

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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
China – GZ Education Fund Association
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 Hyginene Association
India – Indian Soap & Toiletries Markers' 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 Assoc.
Korea – Korea Food Industry Association
Korea – Korea Food Traders Association
Korea – Korea Hygiene Paper Product Association
Korea – Korea Paper Manufactures' Association
Korea – Korea Pharmaceutical Trade Assoc.
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

**Stakeholder Interaction**

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

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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.

### Scientific Community

P&G works a great deal with external scientists in various disciplines (e.g. human and/or environmental toxicology, new technologies, etc.). This happens during many phases of a product's life: at the initial development of new technologies, during the early marketing phases, and on an "as needed" basis while the products are on the market.

As a technology-based company, P&G has long established relationships with many leading scientists at various universities all over the world. P&G often asks for their advice in panels which take place before a product is placed on the market. On key developments, the Company organizes Scientific Advisory Groups (SAGs) consisting of leading external scientists. They review the data P&G scientists have collected so they can assess aspects such as safety. Then they recommend additional work or modifications to the program to ensure the Company has adequately addressed all safety issues.