P&G

2006 Global Sustainability & Philanthropy Report

EXECUTIVE SUMMARY

CEO Statement

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

P&G is 169 years old. I've thought a lot about why P&G has grown and prospered for so long. It comes down to four things: we are driven by P&G's Purpose of improving lives; we have a long record of leading change and innovation; we've created brands built to last; and we have a heritage of developing leaders.

These factors enable P&G to serve consumers and deliver superior, reliable shareholder value. They also enable us to make a difference beyond business and financial growth.

The challenge is to figure out where and how we can make the most meaningful difference. We continually ask ourselves how we can use P&G technologies, human capital and global presence to help ensure a sustainable future for the people who need help and hope the most.

P&G focuses on helping children in need *Live, Learn and Thrive*, our global cause. Our signature cause program is P&G's *Children's Safe Drinking Water* initiative. We are collaborating with NGOs, governments and other companies to provide P&G's unique PUR Purifier of Water in countries where drinking unsafe water kills more than 4,000 babies and children *every day*. We also work with relief partners to provide safe water in emergency situations, such as the South Asia tsunami and the Pakistan earthquake.

The people who need this product most are those who can afford it least, but we created a market-based distribution model that makes it economically feasible to get this product where it's needed. We've provided more than 50 million packets and purified over 500 million liters of water since the program began.

It is this spirit of entrepreneurship and collaboration that guides P&G's sustainability efforts, and we are pleased to provide this year's report of the Company's progress toward sustainability goals.

Improving quality of life, now and for generations to come

Vision

Peter R. White
Director,
Global Sustainability

The past year has been one of combination, transitions and seeing long-term benefits of our commitment to all three pillars of sustainability – *economic development, environmental protection and social responsibility*.

"Combination" occurred at our topmost level: Two great, innovative companies – Gillette and P&G – became one. Both have individual histories of embracing and leading industry change, including leadership in sustainable development. We will continue to make sustainability integral to our success.

"Transition" occurred when our philanthropy and sustainability organizations merged. The new organization oversees the totality of our sustainability commitment, from our responsibility to society to finding business-building value and opportunity in our approach to sustainability.

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

Our commitment to sustainability comes alive on our brands as well. Over two decades, Pampers shows how long-term commitment to sustainable development leads to long-term equity growth. Not as a series of one-time initiatives and innovations, but touching all three pillars of sustainability. Pampers is shrinking its environmental footprint, delivering better quality of life to baby and caregiver, and growing our largest brand.

Finally, I would like to thank one of P&G's sustainability pioneers – George Carpenter, Director of Global Sustainability – who has retired. George has defined environmental quality and sustainability, within P&G and externally. In 1999, he led creation of P&G's sustainability group. George was determined to make sustainability a business driver. Today our business units embrace sustainability more strongly than ever, and we have robust systems to ensure we deliver on our commitments. Much credit for this goes to George. We thank him and wish him the best.

Pampers: An Example of Sustainability in Action

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

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

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

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

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

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

P&G Profile

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

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

To optimize resources to fit a growing global business and to accelerate innovation and growth, the Company operates through Global Business Units (GBUs):

- Beauty and Health
- Household Care
- Gillette GBU

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

As of July 3, 2006, there were approximately 2,086,000 common stock 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 eighth Sustainability Report for P&G's worldwide operations. Data covers July 1, 2005, through June 30, 2006. Financial information is given in U.S. dollars.

22 Billion-Dollar Brands

Global Key Brands

Of more than 300 brands, these are the ones we consider key. Of these, 22 have sales of more than a billion dollars.

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

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

Performance Indicators

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

Key Sustainability Focus Areas

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

- 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.

Major Opportunities and Impacts Associated with Products and Services

Economic Development

- Shareholder Value
- Employment
- Taxes, Fees and Contributions

Environmental Protection

- Resource Use
- Water
- Waste Reduction

Social Responsibility

- Health
- Hygiene
- Education

Financial Highlights

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

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

Occupational Health & Safety Data

Past three years' global data on two key metrics for worker health and safety:

TOTAL INCIDENT RATE

Injury and illness per 100 employees	2006	2005	2004
Total	**0.42**	0.46	0.55

TOTAL LOST WORKDAY CASE RATE

Lost and restricted workday cases per 100 employees	2006	2005	2004
Total	**0.16**	0.17	0.21

Diversity Data – Global Enrollment

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

GLOBAL ENROLLMENT % FEMALE

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

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

U.S. ENROLLMENT

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

[1] Administrative, Technical and Plant Technicians

Summary of Fines and Violations

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

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

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

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

All waste units are in thousands of metric tonnes unless otherwise noted.†	Totals			2006 Global Business Unit Detail*		
	2006	2005	2004	BEAUTY AND HEALTH	HOUSEHOLD CARE	GILLETTE GBU
PRODUCTION						
Product Shipped	21,134	19,580	18,471	3,911	16,701	522
Raw Materials from Recycled Sources	65	71	102	0	65	0
WASTE						
Generated Waste	873	831	817	218	622	34
Percent Recycled / Reused Waste	60%	58%	56%	54%	62%	73%
DISPOSED WASTE						
Solid Waste						
Non-Hazardous	289	280	300	89.6	191.2	8.0
Hazardous	19	22	21	4.4	13.8	1.2
Effluents (Excluding Water)	24	22	21	5.6	18.1	0.1
Air Emissions**	16	26	16	0.8	14.6	0.1
OTHER						
Energy Consumption (10^5 gigajoules)	769	745	731	92	627	50
Greenhouse Gas Emissions**	2,889	3,013	2,937	279	2,468	141
Water Consumption (million cubic meters)	80	83	79	7.9	70.8	1.5
SARA Releases (metric tonnes)***	2,146	1,722	1,843	481	1,187	479

† 1 metric tonne = 1,000 kg = 2,205 lbs.

* **Beauty and Health** includes segments: Beauty and Health Care.
Household Care includes segments: Fabric Care and Home Care, Baby Care and Family Care, Pet Health, Snacks and Coffee.
Gillette GBU includes segments: Blades and Razors, Duracell and Braun.

** Air emissions include particulates, SO_2, NOx, CO and VOC, whereas greenhouse gas emissions include CO_2 from fuel combustion sources.

*** Releases defined in the U.S. Superfund Amendments and Reauthorization Act (SARA) by the U.S. Environmental Protection Agency.

2005 energy usage was adjusted down due to a site's overreporting (Gillette data has not been added into 2005 or 2004 data).

Philanthropic Contributions

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

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

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

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

Sustainability In Action

Live:
Children's Safe Drinking Water

More than a billion people in the developing world lack access to clean drinking water. The global corporate signature program for *P&G Live, Learn and Thrive* is *Children's Safe Drinking Water*. It addresses the more than 5,000 children who die every day from diseases caused by drinking unsafe water. P&G has provided 50 million packets of PUR Purifier of Water, enough to make 500 million liters of safe drinking water, in communities that are likely decades away from public water treatment facilities. We are working with a diverse group of partners to distribute the product in not-for-profit social marketing and emergency relief situations.

Learn:
P&G Hope Schools

P&G China furthered its commitment to providing schools for children in need. P&G provided financial and employee volunteer contributions to enhance the learning environment in 100 established *P&G Hope Schools*. In addition, five new *Hope Schools* were constructed this year in a collaborative effort between P&G and its business partners. These efforts benefit more than 60,000 children who would otherwise not have access to an education.

P&G China continues to expand participation in the *P&G Hope Schools* project. More than 40 million Chinese consumers purchase P&G products that trigger contributions. Three key retailers now partner with P&G in that effort as well as supply nearly 50 employee volunteers.

Thrive:
Let's Succeed

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

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

Live, Learn and Thrive™

P&G's Equity

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]

Sustainability and Philanthropy are fundamental components to living the P&G Purpose of improving lives, day in and day out.

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, profits and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper.

Our Principles

- We show respect for all individuals.
- The interests of the Company and the individual are inseparable.
- We are strategically focused on our work.
- Innovation is the cornerstone of our success.
- We are externally focused.
- We value personal mastery.
- We seek to be the best.
- Mutual interdependency is a way of life.

Our Values

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.

Contact
E-mail **sustainrep.im@pg.com**
Visit **www.pg.com/sr** for the full report.

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

Touching lives, improving life. P&G™

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