# Sustainability Report
2005

P&G

Linking Opportunity with Responsibility

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

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

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

**On the Cover**
Jemima Odo, in the Nyanza Province of western Kenya, thanks P&G for providing PUR Purifier of Water for her village.

[1] Definition from UK 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

# Improving the quality of life for children in need is a powerful and tangible way to bring P&G's Purpose to life

**Touching Lives, Improving Life**
P&G's Purpose is to improve consumers' lives day in and day out. Fulfilling this Purpose sustains our Company's growth year in and year out. One of the most important ways we fulfill our Purpose – beyond our brands and products – is through the work we do, as a Company and as individuals, in communities around the world.

In 2004, P&G donated more than $100 million to support philanthropic efforts. We've asked ourselves whether our efforts and dollars are working as hard as they can. We've concluded that we can make a bigger, more enduring difference by focusing P&G philanthropy more sharply on helping children in need to *Live, Learn and Thrive*.

We want to help children *live* by ensuring a healthy start; to provide them with places, tools, and programs that enhance their ability to *learn*; and to help them develop skills for life so they can *thrive*. Improving the quality of life for children in need is a powerful and tangible way to bring P&G's Purpose to life.

As you will read in this report, we are collaborating with global partners such as UNICEF and the World Health Organization, with national governments, and with NGOs to offer programs around the world that support the development of children in need from birth through age 13.

We have also established safe drinking water for children as P&G's corporate signature program of our *Live, Learn and Thrive* efforts. With the U.S. Centers for Disease Control, we have developed technology that can purify even heavily contaminated drinking water with a single sachet that costs pennies and treats 10 liters of water. This is critical because 5,000 children die every day from diseases caused by unsafe drinking water.

These are among the most visible examples of P&G's commitment to being a leader in global sustainable development. As you'll read in the letter that follows from George Carpenter, P&G Director of Sustainable Development, we are making progress in developed and developing countries alike – and we are even more encouraged by the opportunities we see in the years ahead.

We welcome your interest in our efforts and achievements and remain dedicated to touching lives and improving life in all that we do. It's our Purpose and our business.

A.G. Lafley

Chairman of the Board,
President, and Chief Executive

## Vision

# We continue to be deeply committed to the promise of sustainable development

**Corporate Social Opportunity – Fulfilling P&G's Purpose**
Six years ago, P&G embraced the concept of sustainable development. We challenged conventional wisdom that companies should limit their sustainability efforts to reducing the negative impacts of pollution, waste, child labor, and poor working conditions. We contended that these efforts were necessary but not sufficient – and we stepped up to a bigger opportunity: to help achieve the U.N. Millennium Development Goals of safe drinking water and sanitation, reductions in child and mother mortality and morbidity, and quality of life for slum dwellers and women and girls in the developing world.

While we remain humbled by the scale of poverty and disease and lost human opportunity that the world faces, we feel we are making progress toward our vision of sustainable development.

- Over the past year, P&G's water purification technology and our *Children's Safe Drinking Water* program have delivered the equivalent of 220 million liters of safe drinking water into both disaster relief situations and in new social markets. With partners such as UNICEF, Samaritan's Purse, World Vision, International Rescue Committee, CARE, Red Cross, and AmeriCares, we have helped respond to some of the most critical global emergency situations, including the tsunami in Asia, hurricanes in the Caribbean, floods in the Philippines and Bangladesh, and the refugee crisis in Chad and Sudan. Johns Hopkins University has shown that our technology reduced diarrhea by more than 90 percent in a Liberian refugee camp.

- We're not just making donations of product and technology, and then leaving. We are building market-based partnerships that will sustain the delivery of safe drinking water. We are partnering with Population Services International (PSI), the U.S. and UK governments, and Johns Hopkins University to create social markets in Haiti, Pakistan, and Uganda – countries where the emergencies may be less dramatic, but where the need for safe drinking water is equally severe. In these countries, PSI is using its substantial distribution and marketing capability to reach rural villages and urban slums.

Last year also saw a new developed-world execution of our sustainable development model to provide social and environmental benefits with high-performance products that offer good economic value.

- P&G launched Tide Coldwater in North America, Ariel CoolClean in the UK, and Ariel Actif à froid in France, with cleaning technology to give consumers the performance they want, energy savings, and environmental improvement. This is an important innovation because washing clothes is one of the most energy-intensive activities in the home, and heating water can be as much as 95 percent of that energy. In Europe, washing clothes in cold water could save nearly 3 percent of household electricity use. In the United States, cold-water washing could save 10 percent of the total energy consumed by all domestic appliances – and generate 26-34 million tons of greenhouse gas reductions.

We're encouraged by the progress we are making but even more encouraged by the potential that remains. We continue to be deeply committed to the promise of sustainable development because we know that by improving lives in small but meaningful ways day after day, we fulfill P&G's Purpose and sustain our Company's growth year after year.

George D. Carpenter

Director
Corporate Sustainable Development

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

**P&G People Feel Great about the Power of PUR**
P&G's PUR Purifier of Water presents opportunities to improve lives unlike other P&G brands. PUR can clean even heavily contaminated water: It kills viruses and bacteria that cause typhoid and cholera. It effectively reduces parasites, pesticides such as DDT, heavy metals such as arsenic, and other dangerous contaminants. In short, PUR has the ability to improve and even save lives in the developing world.

P&G's main challenges regarding PUR are providing it where it's needed and ensuring its long-term use. This includes teaching people how to use the product, and collaborating with public health organizations in the poorest parts of the world.

P&G teams with partners such as Population Services International (PSI), which markets health care products in developing countries around the world on a nonprofit basis. These partnerships help P&G make connections in communities, distribute PUR at no cost in emergencies, and sell PUR at cost for everyday use. Together, P&G, PSI, and other partners develop and execute plans to reach people who desperately need PUR. Plans include carefully thought-out steps: building awareness and acceptance for the product, then building support with communities and retailers.

It is difficult to comprehend the enormity of this urgent task. P&G is attacking it with all the tools in its arsenal – not just the PUR product but also our expertise in distribution, marketing, and working with communities. Here is a brief sampling of the past year's exciting work in sub-Saharan Africa, in Haiti, and in areas hit by the devastating 2004 tsunami.

**Children's Safe Drinking Water**

P&G Live, Learn and Thrive Initiative.

The global corporate signature program for P&G's *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.

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

Jemima Odo

**One Woman's Story**
Jemima Odo, in the Nyanza Province of western Kenya, thanks P&G for providing PUR Purifier of Water for her village. Odo has HIV/AIDS. "For people with HIV," she says, "we are prone to stomach problems. Since I've used PUR, the stomach problems have gone."

With her strength returned, Odo raises seven orphans who lost their parents to AIDS and visits churches and youth groups to teach about HIV and safe drinking water. To support the orphans, she buys PUR at low cost from the Society for Women and AIDS and sells it at a profit to her neighbors.

**Uganda**

With our partner PSI, P&G coordinated PUR distribution in Uganda and also worked with local health and social service groups to gain their help in teaching people to use PUR.

A concern among the people is whether PUR will continue to be available. They need assurance they'll be able to get the product over time before they adopt it into their daily lives. To assure availability, PSI has been building relationships with retailers and with institutions that can provide PUR in poor, rural areas on an ongoing basis.

Many small shops are now selling PUR. Many shopkeepers sell from one dozen to several dozen packets a day. An idea was tested with an enthusiastic pharmacist who has been selling about 240 packets a week. He agreed to make every Friday a "PUR day," with product demonstrations and clerks wearing PUR T-shirts.

PUR is sold in Uganda and also in Kenya at an affordable price, and provided free of charge where needed, such as to orphanages. P&G's UK Market Development Organization is funding free supplies of PUR for Ugandan orphanages for the next three years.

All around Africa, the sight of people collecting their drinking water from contaminated sources is common. Even though PSI has sold enough PUR packets to treat nearly 5 million liters of drinking water, it's clear we're only scratching the surface compared to the need.

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"I'm extremely optimistic. We are doing the right thing, and we're learning to do it well."

– Greg Allgood
Public health specialist in P&G's Corporate Sustainable Development organization, with responsibility for the Company's *Children's Safe Drinking Water* program

Using PUR can reduce diarrheal disease by about 50 percent, even more when used to combat epidemics of water-borne disease.

P&G sells PUR at cost in developing countries where it's needed on an everyday basis to clean contaminated water and prevent disease, and for emergency relief situations, such as for natural disasters. Here is how it works:

Local Water | Add PUR and stir | Filter through cloth | Clean, safe water

PUR Purifier of Water

**Tsunami**

When the tsunami hit in December 2004, P&G immediately doubled PUR production at its plant in Pakistan. The result was enough PUR to provide 150 million liters of safe drinking water. But getting PUR to survivors was a huge challenge.

The first hurdle was getting product out of Karachi and to the affected areas urgently. We figured that every day lost to bureaucracy meant more than 100,000 packets weren't getting to tsunami survivors. P&G Pakistan, PSI, and AmeriCares, waiting to transport the product, had to work out alternative export arrangements.

Once paperwork was completed, a plane filled to the gunwales with PUR started making runs from Karachi to our humanitarian aid partners. Teams worked day and night to move nearly 10 million packets. AmeriCares booked a plane to fill up in Karachi with 4.5 million packets to go to Indonesia. The plane came back to Karachi to be crammed with nearly 5 million packets for Sri Lanka. The organization WorldVision took the job of getting the PUR through customs and distributing it to various aid groups to bring to the survivors.

Various groups worked with P&G to distribute instructions on how to use PUR. The organization Samaritan's Purse translated the instructions into both Tamil and Sinhala.

At the start of the tsunami disaster, it seemed inevitable that a second wave of deaths would occur from the lack of safe drinking water. But the World Health Organization is reporting that, due to the enormous relief efforts, a major disease outbreak has been avoided. P&G people who worked on getting PUR to tsunami survivors feel fantastic about that, knowing that our work has played an important role in this humanitarian effort.

P&G provided 200 million liters of safe drinking water to the developing world and in disaster relief during the past year.

**Collaborative Efforts Succeed**

Following the December 2004 tsunami, P&G worked with AmeriCares, Population Services International, UNICEF, WorldVision, CARE, Aquaya, and the International Federation of Red Cross and Red Crescent Societies to get enough PUR to hard-hit areas to make 150 million liters of water drinkable. This effort is credited with saving many lives by preventing post-disaster illness from contaminated water.

In total, P&G and individual P&G employees contributed more than $3 million in product and cash donations to the tsunami relief effort. Many employee contributions memorialized P&G Thailand Country Manager Orapim Milindasuta, who lost her life in the tsunami.

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**Haiti**

P&G launched the Children's Safe Drinking Water program in Haiti in November 2004. Diarrhea is the leading cause of death among Haitian children less than 1 year old and the second-leading killer among children between 1 and 5. Ninety percent of Haitian homes do not have safe drinking water; they commonly collect drinking water from irrigation ditches. Political unrest and a struggling economy make it unlikely that water safety will get the attention it needs.

PSI has been working with PUR in Haiti and has had success in getting people to use it. A key communication tool has been putting the instructions into a local context. For example, PSI tells people that the amount of time to wait for PUR to fully disinfect water is the amount of time it takes to cook a green banana.

Johns Hopkins University is working with us on outreach in Haiti. Through a U.S. government grant, Johns Hopkins is providing 100,000 PUR packets to people with HIV/AIDS, as part of an AIDS care program. People with HIV/AIDS are particularly susceptible to parasites and other pathogens in unsafe water. With their weakened immune systems, there is a greater-than-normal risk of cholera, typhoid, dysentery, and other water-borne diseases. Through emergency relief work, the HIV/AIDS kits, and sales through PSI, Haitians received 700,000 PUR packets over the past year. This is sufficient to treat 7 million liters of drinking water.

Millions of people die every year from preventable illnesses caused by contaminated water and poor sanitary conditions. Of that number, about 2 million are children.

P&G won the 2005 Stockholm Industry Water Award from the Stockholm International Water Institute. The award recognizes PUR's role in providing life-saving clean water in the developing world and in disaster relief.

**International Water Decade**

World Water Day, in March 2005, kicked off the U.N.'s International Water Decade (2005-2015). The goal of International Water Decade is "a greater focus on water-related issues, with emphasis on women as managers of water, to help to achieve internationally agreed water-related goals." This includes halving by 2015 the proportion of people unable to reach or afford safe drinking water and basic sanitation.

on the Web

P&G recognized World Water Day by announcing a grant from the UK government to expand our safe drinking water work in Haiti. See www.pghsi.com for details.

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**Joint Efforts are Effective**

By working in a number of collaborative efforts around the world, P&G is playing a major role in bringing safe drinking water to people who desperately need it. Here are some examples:

- An alliance with UNICEF, focused on providing safe drinking water in schools and for emergency relief school-based purification in seven countries – Mozambique, Ethiopia, Bangladesh, Vietnam, Uganda, Kenya, and Pakistan.
- A project with AmeriCares, to deliver 1 million PUR packets to the Chad desert, where Sudanese refugees are suffering an epidemic of malnutrition and diarrhea.
- Working with the International Council of Nurses to train Ugandan nurses and midwives to use PUR and to teach others in their communities.
- An effort by three P&G Italy detergent brands and the retailer Carrefour in a promotion to donate one packet of PUR to Uganda's orphanages for every purchase of one of the detergents.
- Providing technical expertise and funding to the Safe Drinking Water Alliance – composed of the U.S. Agency for International Development, Johns Hopkins' Bloomberg School of Public Health, CARE, and Population Services International – to provide safe drinking water in Haiti, Ethiopia, and Pakistan.

More than 250 million people each year suffer from diseases caused by dirty water. These diseases lead to malnutrition and loss of performance in schools and workplaces.

**Partners with P&G in the Children's Safe Drinking Water program include:**

- U.S. Centers for Disease Control and Prevention
- International Federation of Red Cross and Red Crescent Societies
- Population Services International (PSI)
- UNICEF
- CARE
- AmeriCares
- Johns Hopkins University
- Samaritan's Purse
- International Council of Nurses

Developing countries welcome PUR because

- It works visibly and reliably, so they can see and trust that water has come clean.
- It's a practical, dependable solution for getting safe drinking water into their homes.

# P&G Profile

# P&G Profile

For 167 years, P&G has been focused on providing branded products of superior quality and value to improve the lives of the world's consumers. We believe this will result in leadership sales, profits, and value creation, allowing employees, shareholders, and the communities in which we operate to prosper.

P&G's worldwide headquarters is located in Cincinnati, Ohio, U.S.A. The Company markets more than 300 branded products in more than 160 countries. We have on-the-ground operations in 80 countries and employ nearly 110,000 people.

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

As of July 29, 2005, there were approximately 1,608,000 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 seventh Sustainability Report for P&G's worldwide operations. Data in this report covers the period from July 1, 2004, through June 30, 2005. Financial information is given in U.S. dollars.

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

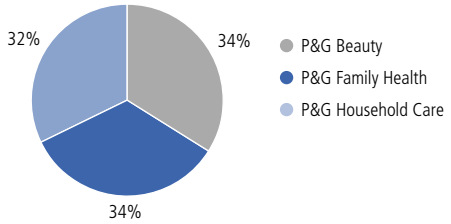
Please visit www.pg.com for the latest news and in-depth information about P&G and its brands.

## Global Key Brands

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

| Global Business Unit | Detail | Key Brands |
|---|---|---|
| P&G Beauty | Cosmetics, Deodorant, Feminine | Pantene, Always, Whisper, Olay, Head & Shoulders, Tampax, Herbal Essences, |
| | Care, Fine Fragrances, Hair | Nice 'n Easy, Natural Instincts, Wella, Koleston, Wellaflex, Shockwaves, |
| | Care, Hair Colorants, Personal | Cover Girl, SK-II, Rejoice, Hugo Boss, Max Factor, Old Spice, Safeguard, |
| | Cleansing, Professional Hair | Secret, Lines Feminine Care, Zest, Lacoste, Vidal Sassoon, Ivory, Aussie, Evax, |
| | Care, Skin Care | Camay, Infusium 23, Naturella, Ausonia, Noxzema, Infasil, Laura Biagiotti, Sure |
| P&G Family Health | Baby Care, Family Care, Oral | Pampers, Charmin, Crest, Bounty, Iams, Eukanuba, Actonel, Vicks, Prilosec OTC, |
| | Care, Personal Health Care, | Luvs, Asacol, Kandoo, Dodot, Puffs, Tempo, Metamucil, Fixodent, PUR, Scope, |
| | Pet Health and Nutrition, | Pepto-Bismol, ThermaCare, Didronel, Kukident, Blend-a-Med |
| | Pharmaceuticals | |
| P&G Household Care | Coffee, Commercial Products | Tide, Ariel, Downy, Lenor, Pringles, Folgers, Dawn, Fairy, Joy, Gain, Ace, Swiffer, |
| | Group, Fabric Care, Home Care, | Mr. Clean, Febreze, Dash, Bold, Cascade, Cheer, Bounce, Millstone, Bonux, |
| | Snacks | Linidor, Daz, Era, Flash, Dreft, Vizir, Salvo, Viakal, Myth, Alomatik |

2005 Net Sales
(by GBU)




## Building for the Future

1837
William Procter and James Gamble, Founders, Candle & Soap Business

1859
$1 Million Net Sales

1863
Regional U.S. Markets

1840 1850 1860 1870

**17**

Billion-Dollar Brands

*In alphabetical order:*

**Actonel**
A prescription medication to treat and prevent post-menopausal osteoporosis.

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

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

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

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

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

**Dawn**
No matter what your dish-washing need, Dawn has a product that's right for you.

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

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

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

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

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

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

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

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

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

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

**Building for the Future**

1882 P&G Brand Advertising

1887 Profit Sharing

1890 Incorporated Company

1891 Beginning of P&G Research & Development

1910 Shortening & Oils Business

1915 P&G Code of Regulations

Canada Market

1880 1890 1900 1910

# Organizational Structure

P&G's unique organizational structure of Global Business Units (GBUs) and Market Development Organizations (MDOs) drives clear focus, accountability and go-to-market capability. This organizational structure leverages our knowledge and scale at the global level with a deep understanding of the consumer and customer at the local level.

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

The MDOs develop go-to-market plans at the local level, leveraging their understanding of the local consumer and customer. The MDO is focused on winning the "first moment of truth" – when a consumer stands in front of the shelf and chooses a product from among many competitive offerings. The GBU is focused on winning the "second moment of truth" – when the consumer uses the product and evaluates how well it meets his or her expectations.

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

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.

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

In July 2005 we changed the names of the GBUs. Beauty Care became P&G Beauty. Health, Baby & Family Care changed to P&G Family Health. Household Care was renamed P&G Household Care. These changes have no impact on the composition or historical results of the GBUs.

**Linking Opportunity with Responsibility in La Moran**

A key challenge when linking business opportunity with corporate responsibility is whether we can create new business models appropriate to low-income developing markets.

To meet this challenge, P&G has been testing a new business model in an impoverished community, La Moran, a neighborhood in Caracas, Venezuela. La Moran is typical in Venezuela, where 60 percent of our consumers live in shanty towns, and 53 percent of the population lives under the poverty line.

The La Moran test had two main components aimed at improving consumers' lives: First, we worked on improving business channels in order to cut costs involved in getting products to our consumers. This resulted in lower prices in the stores. Second, we worked on having a positive social impact in the community, beyond our brands.

The program included many activities, from first aid training with the help of Red Cross volunteers to marketing and microfinance training, cleanup activities, and children's education. The people of La Moran participated actively in our program, and we could see that they gained useful knowledge from it.

**Building for the Future**

1925 Beginning of P&G Market Research

1930 Safety Program Started

1932 Philippines and UK Markets

1935 Synthetic Detergents

1938 Oral Care Business

1946 Tide Introduced

1948 Overseas Division

1953 $1 Billion Net Sales

1955 First Fluoride Toothpaste

1961 Disposable Diapers Business

1920 1930 1940 1950 1960

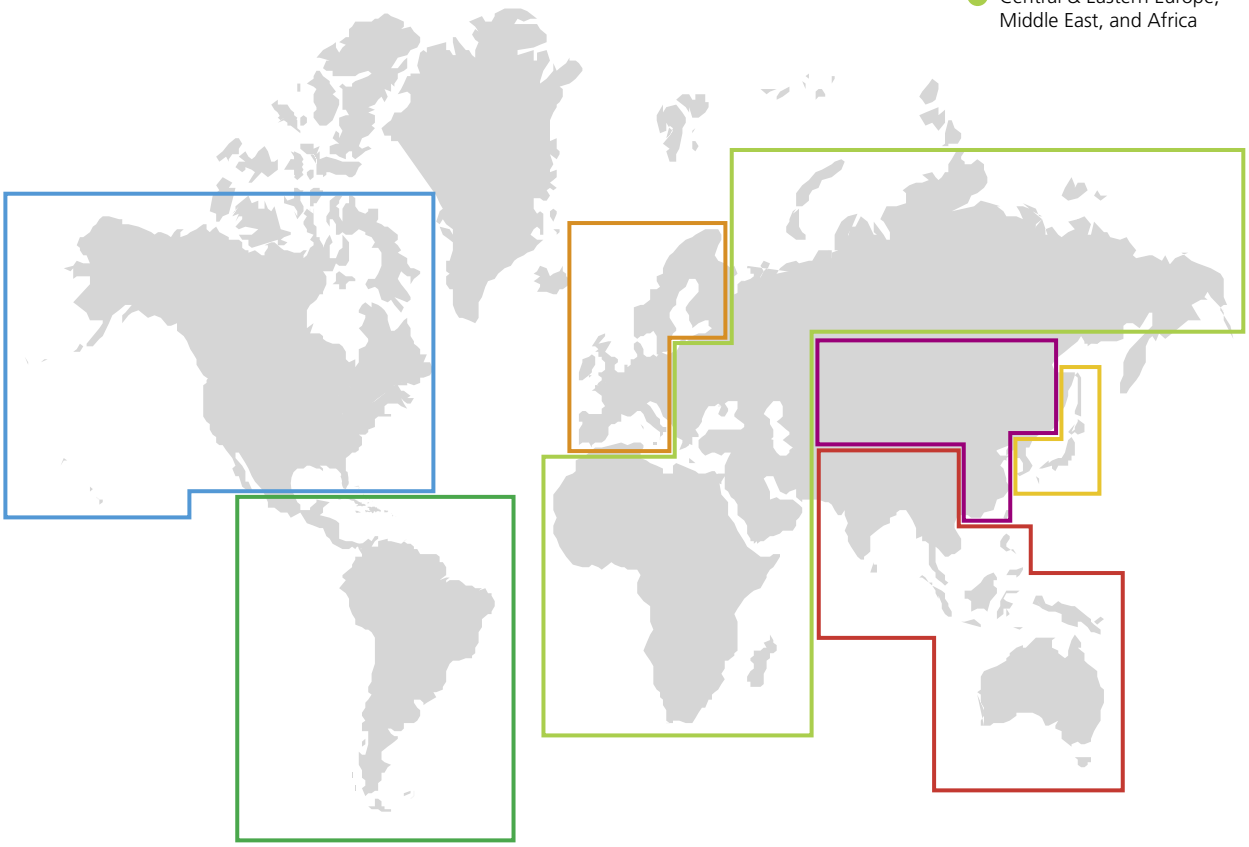
# The Three GBUs Operate in the Seven MDOs

**Global Business Units (GBUs)**
- Business Strategy and Planning
- Brand Innovation and Design
- New Business Development
- Full Profit Responsibility

- P&G Beauty
- P&G Family Health
  - Baby Care and Family Care
  - Health Care
- P&G Household Care
  - Fabric Care and Home Care
  - Snacks and Coffee

**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**

1965 Affirmative Action
1970 Environmental Audit Program
1974 Toll-Free Consumer Hotline
1978 $10 Billion Net Sales
1982 Feminine Protection Business
1987 Statement of Purpose
1992 World Environment Center Award
1993 1st Annual Global Environment Report
1994 Opportunity 2000 Award
1998 Future Shares
2001 Clairol Acquisition
2004 Wella Acquisition

1970 1980 1990 2000

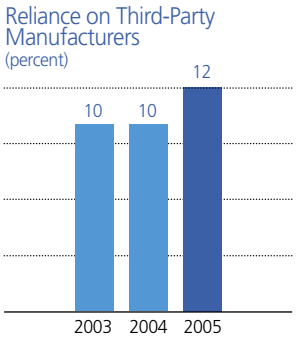
# Plant Locations

| Plant Name | City | Country | GBU Owner |
|---|---|---|---|
| Akashi | Akashi | Japan | Baby Care and Family Care |
| Albany | Albany | United States | Family Care |
| Alexandria | Pineville | United States | Fabric Care and Home Care |
| Amiens | Amiens | France | Fabric Care and Home Care |
| Anchieta | Anchieta | Brazil | Fabric Care and Home Care |
| Apizaco | Apizaco | Mexico | Family Care |
| Auburn | Auburn | United States | P&G Beauty |
| Augusta | Augusta | United States | Fabric Care and Home Care |
| Aurora | Aurora | United States | Health Care |
| Avenel | Avenel | United States | Fabric Care and Home Care |
| Bangkok | Bangkok | Thailand | P&G Beauty |
| Bangkok (Wella) | Samut Prakan | Thailand | P&G Beauty |
| Barquisimeto | Barquisimeto | Venezuela | Fabric Care and Home Care |
| Beijing | Beijing | China | Fabric Care and Home Care |
| Belleville | Belleville | Canada | P&G Beauty |
| Binh Duong | Binh Duong | Vietnam | Fabric Care and Home Care |
| Blois | Blois | France | P&G Beauty |
| Borispol | Borispol | Ukraine | P&G Beauty |
| Brockville | Brockville | Canada | Fabric Care and Home Care |
| Budapest | Csomor | Hungary | P&G Beauty |
| Cabuyao | Cabuyao | Philippines | Fabric Care and Home Care |
| Cairo | Cairo | Egypt | Fabric Care and Home Care |
| Campochiaro | Campochiaro | Italy | Fabric Care and Home Care |
| Cape Girardeau | Cape Girardeau | United States | Baby Care and Family Care |
| Casablanca | Casablanca | Morocco | Fabric Care and Home Care |
| Cayey | Cayey | Puerto Rico | P&G Beauty |
| Chengdu | Chengdu | China | Fabric Care and Home Care |
| Chochiwon | Chochiwon | Korea | Family Care |
| Chonan | Chonan | Korea | P&G Beauty |
| Cincinnati | Cincinnati | United States | Fabric Care and Home Care |
| Coevorden | Coevorden | Netherlands | Health Care |
| Cologne (Wella) | Cologne | Germany | P&G Beauty |
| Crailsheim | Crailsheim | Germany | P&G Beauty |
| Dammam | Dammam | Saudi Arabia | Fabric Care and Home Care |
| Dover | Dover | United States | Baby Care and Family Care |
| Dzerzhinsk (Wella) | Dzerzhinsk | Russia | P&G Beauty |
| Epping (Wella) | Epping | South Africa | P&G Beauty |
| Escuintla | Escuintla | Guatemala | Fabric Care and Home Care |
| Euskirchen | Euskirchen | Germany | Baby Care and Family Care |
| Gattatico | Gattatico | Italy | Fabric Care and Home Care |
| Gebze | Gebze | Turkey | P&G Beauty |
| 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 and Family Care |
| Henderson | Henderson | United States | Health Care |
| Huangpu | Guangzhou | China | P&G Beauty |
| Hub | Hub | Pakistan | P&G Beauty |
| Huenfeld (Wella) | Hünfeld | Germany | P&G Beauty |
| Hunt Valley | Cockeysville | United States | P&G Beauty |
| Ibadan | Ibadan | Nigeria | P&G Beauty |
| Ibaraki (Wella) | Ibaraki | Japan | P&G Beauty |
| Iowa City | Iowa City | United States | P&G Beauty |
| Jackson | Jackson | United States | Snacks and Coffee |
| Jeddah | Jeddah | Saudi Arabia | Baby Care and Family Care |
| Jijona | Alicante | Spain | Baby Care and Family Care |
| Kansas City Coffee | Kansas City | United States | Snacks and Coffee |
| Kansas City F&HC | Kansas City | United States | Fabric Care and Home Care |
| Kuantan | Kuantan | Malaysia | Fabric Care and Home Care |
| Leipsic | Leipsic | United States | Health Care |
| Lewisburg | Lewisburg | United States | Health Care |
| Lima | Lima | United States | Fabric Care and Home Care |
| London | London | United Kingdom | Fabric Care and Home Care |
| Longjumeau | Longjumeau | France | Health Care |
| Louveira | Louveira | Brazil | P&G Beauty |
| Lucca | Lucca | Italy | Family Care |
| Manati | Manati | Puerto Rico | Health Care |
| Manchester | Manchester | United Kingdom | Family Care |
| Mandideep | Bhopal | India | Fabric Care and Home Care |
| Mariscala | Apaseo El Grande | Mexico | P&G Beauty |
| Mataro | Mataro | Spain | Fabric Care and Home Care |
| Materiales | Lima | Peru | Fabric Care and Home Care |
| Mechelen | Mechelen | Belgium | Fabric Care and Home Care |
| Medellin | Medellin | Colombia | Fabric Care and Home Care |
| Mehoopany | Mehoopany | United States | Family Care |
| Mequinenza | Mequinenza | Spain | Baby Care and Family Care |
| Mohammedia | Mohammedia | Morocco | Fabric Care and Home Care |
| Montornes | Salida | Spain | P&G Beauty |
| Naucalpan | Mexico City | Mexico | Health Care |
| Nenagh | Nenagh | Ireland | P&G Beauty |
| Neuss | Neuss | Germany | Family Care |
| New Orleans | New Orleans | United States | Snacks and Coffee |
| Novomoskovsk | Novomoskovsk | Russia | Fabric Care and Home Care |
| Orleans | Saint Cry En Val | France | Family Care |
| Oxnard | Oxnard | United States | Family Care |
| Pescara | Pescara | Italy | P&G Beauty |
| Phoenix | Phoenix | United States | Health Care |
| Pilar | Pilar | Argentina | Fabric Care and Home Care |
| Poissy (Wella) | Poissy | France | P&G Beauty |
| Pomezia | Pomezia | Italy | Fabric Care and Home Care |
| Porto | Custoias | Portugal | Fabric Care and Home Care |
| Rakona | Rakovnik | Czech Republic | Fabric Care and Home Care |
| Rothenkirchen | Rothenkirchen | Germany | P&G Beauty (Wella) |
| Russellville (Wella) | Russellville | United States | Health Care |
| Rydalmere (Clairol) | Sydney | Australia | P&G Beauty |
| Sacramento | Sacramento | United States | Fabric Care and Home Care |
| Santiago | Santiago | Chile | Baby Care and Family Care |
| Sarreguemines | Sarreguemines | France | P&G Beauty (Wella) |
| Seaton Delaval | Whitley Bay | United Kingdom | P&G Beauty |
| Sherman | Sherman | United States | Snacks and Coffee |
| Shiga | Shiga | Japan | P&G Beauty |
| Somersby (Wella) | Somersby | Australia | P&G Beauty |
| St. Louis | St. Louis | United States | Fabric Care and Home Care |
| Stamford (Clairol) | Stamford | United States | P&G Beauty |
| Takasaki | Takasaki | Japan | Fabric Care and Home Care |
| Talisman | Mexico City | Mexico | P&G Beauty |
| Targowek | Warsaw | Poland | Baby Care and Family Care |
| Tepeji | Tepeji | Mexico | Baby Care and Family Care |
| Tianjin | Tianjin | China | P&G Beauty |
| Tianjin (Wella) | Tianjin | China | P&G Beauty |
| Timisoara | Timisoara | Romania | Fabric Care and Home Care |
| Vallejo | Mexico City | Mexico | Fabric Care and Home Care |
| Villa Mercedes | Villa Mercedes | Argentina | Baby Care and Family Care |
| Weiterstadt | Weiterstadt | Germany | Health Care |
| Witzenhausen | Witzenhausen | Germany | Family Care |
| Worms | Worms | Germany | Fabric Care and Home Care |
| Xiqing | Tianjin | China | P&G Beauty |

Note: Data as of June 30, 2005

## Manufacturing Outsourcing

Most of our products are produced or assembled in P&G-owned facilities. However, we rely on third-party manufacturers for about 12 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 $7.26 billion for the fiscal year ended June 30, 2005, an increase of 12 percent compared to $6.48 billion in 2004.

Diluted net earnings per share were $2.66 in 2005, compared to $2.32 in 2004.

Net sales were $56.74 billion in 2005, up 10 percent from last year.

One of our first discretionary uses of cash is dividend payments. Common share dividends grew 11 percent to $1.03 per share in 2005, representing the 49th consecutive fiscal year of increased common share dividends. Total dividend payments, to both common and preferred shareholders, were $2.73 billion, $2.54 billion, and $2.25 billion in 2005, 2004, and 2003, respectively.

### Financial Highlights

| Amounts in millions except per-share amounts | **2005** | 2004 | 2003 |
|---|---|---|---|
| Net Sales | **$56,741** | $51,407 | $43,377 |
| Selling, General, and Administrative Expenses | **18,010** | 16,504 | 13,383 |
| Income Taxes | **3,182** | 2,869 | 2,344 |
| Net Earnings | **7,257** | 6,481 | 5,186 |
| Basic Net Earnings Per Common Share | **2.83** | 2.46* | 1.95 |
| Total Assets | **61,527** | 57,048 | 43,706 |
| Long-Term Debt | **12,887** | 12,554 | 11,475 |
| Shareholders' Equity | **17,477** | 17,278 | 16,186 |

* 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 earlier.

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

| Amounts in millions | **2005** | 2004 | 2003 |
|---|---|---|---|
| Total P&G Beauty | **$19,483** | $17,122 | 12,221 |
| Total P&G Family Health | **19,676** | 17,709 | 15,729 |
| Total P&G Household Care | **18,402** | 16,776 | 15,231 |

For more financial details, please see P&G's 2005 Annual Report:

www.pg.com/investors/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 the current year totaled $572 million. This includes acquisitions of a pharmaceuticals business in Spain and fabric care businesses in Europe.

P&G and Gillette
On January 27, 2005, P&G entered into an agreement to acquire The Gillette Company. The acquisition, which has been approved by the boards of directors and the shareholders of both companies, is subject to approval by all global regulatory authorities and is expected to close in fall 2005.

The acquisition of Gillette will add five billion-dollar brands to P&G's stable of 17 billion-dollar brands. Gillette had $10.5 billion in sales in fiscal 2004. It has more than 70 percent global market share of razors and blades, 40 percent global market share in alkaline batteries, and 36 percent share of the global toothbrush market.

The Gillette acquisition will accelerate P&G's goal to increase its presence in the beauty and health care markets. Gillette will help P&G achieve better balance – in brands, geographic presence, and retail customers. Balance helps the Company reach its goals despite external pressures. P&G and Gillette have similar corporate cultures, and operating as one company is projected to bring more than $1 billion in cost synergies.

**Major Divestitures**
Proceeds from asset sales, $517 million, increased primarily due to the divestiture of the Juice business in August of 2004.

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**Restructuring Program**
In 1999, concurrent with a reorganization of our operations into product-based GBUs, we initiated a multi-year Organization 2005 Restructuring Program. Total restructuring program charges were $538 million after tax in 2003. 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 work force rationalization, as part of its normal operations. We expect to recognize between $150 million and $200 million after tax per year in charges for these types of projects. Spending in both 2005 and 2004 was consistent and within the range described above.

**Awards and Recognitions**

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

P&G is the only company to appear on seven Fortune magazine company lists in 2004, 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), Working Mothers (*Working Mother* magazine), and Best Corporate Citizens (*Business Ethics* magazine).

**P&G Tops Dow Jones Sustainability Index**

For the sixth straight year, P&G has been named the top company in the Nondurable Household Products category of the Dow Jones Sustainability Index.

According to Dow Jones, "The company views sustainability as an opportunity for product innovation, especially in the areas of water, health and hygiene, where it considers having the biggest potential for a positive difference. As such, P&G's attention is increasingly focused on serving basic needs of consumers in developing countries. Innovative products providing safe drinking water or improved nutrition for children are examples for this development. The company strongly cooperates with communities and local organizations for development, production and distribution of such products.

"Building up a presence in emerging markets will enable P&G to benefit from the growing consumer power in such regions for all its brands. Moreover, P&G is committed to continually improve the environmental quality of its products. The corporate Environmental Science Department therefore focuses on the evaluation of the environmental safety of consumer products, taking into account their entire life cycle. In the social dimension, the company shows best practice in stakeholder engagement and also leads its industry in terms of talent attraction & retention."

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

on the Web

To view the P&G DJSI 2005 Sustainability Leader report, please visit www.sustainability-indexes.com/djsi_pdf/Bios06/CBR_ProcterGamble_06.pdf

06 Member of Dow Jones Sustainability Indexes DJSI

## Corporate Awards

- P&G Belgium ranked #1 as Best Company/Springboard to work for by *BIZZ* – a Belgian magazine where recruitment specialists said P&G is most prestigious and considered to be the best boost for their experience and resumé.
- P&G Chile, for the first time ever, made the Top 10 Most Admired Companies in Chile and came in #2 – while placing #1 in Health & Beauty care!
- P&G tied with FedEx in the #1 spot in the innovation study by Hay Group, a global organizational and HR consulting firm, in partnership with *Fortune*, in its Most Admired Companies list for the magazine's March 7 issue.
- P&G Japan earned the Tele-work Award from the Tele-work Association for the Company's adoption of flexible work arrangements, including tele-work to help employees better manage their work-life balance.
- Korea Management Consulting Association awarded P&G Korea as the country's Most Admired Company for consumer goods products.
- P&G Korea also takes the "Fun Management Award" by *Hankook Daily Newspaper* sponsored by Ministry of Culture & Tourism for "Sam's Café."
- P&G China receives "Most Influential Multinationals" award for corporate reputation among external stakeholders and corporate governance.
- P&G Latin America ranked 8th in *Latin Trade Magazine's* 2004 readers' poll of Most Respected Employers.
- P&G tops *Fortune's* 2004 Blue Ribbon Companies.
- P&G earns Best Place To Work in IT by *Computer Weekly*, recognizing P&G's commitment to ensuring a flexible work-life balance for its IT staff and its advanced career development and training programs.
- For the second time, P&G UK remains top of our section and overall ranked 7th in the *Financial Times's* Best Places to Work. Also received Special Award for Best Practice in the field of Health & Wellbeing, recognizing P&G's commitment to safety and an active approach to health of individuals and care of dependants.
- P&G Latin America ranked 2nd as the best place to work in Latin America by The Great Place to Work Institute.
- P&G Singapore named the Best Employer in Asia and also ranked 2nd in the Best Employer in Singapore Survey 2005.

## Brand Awards

- Germany's Innovation Foundation (Stiftung Innovation) awarded ThermaCare the Egg of Columbus 2005 Innovation Award (Ei des Columbus) on the occasion of Germany's Schmertztag (National Congress on Pain).This prize honors brands that provide an "exemplary model for an especially successful, vivid innovation" that improves consumers' lives.
- Biomat ad wins Cannes' Lions Grand Prix for Advertising Laundry detergent campaign directed at hard to reach orthodox Jews in Israel
- Cutie (diaper brand for Korea) selected #1 (for 2 consecutive years) for "Best Kids Award" by *Hankook Daily Newspaper*, one of Korea's national newspaper

## Environment Awards

- P&G Guatemala's Escuintla plant was honored with the Community Contributions Award-Environmental Category, presented by the American Chamber of Commerce.

## Executive Awards

- A.G. Lafley, CEO, wins Overall Executive Leadership Award in the inaugural Executive Leadership Awards by *The Wall Street Journal* and NBC.
- A.G. Lafley also received the Global Leadership Award by the American Institute for German Contemporary Studies.
- Dick Antoine, Global Human Resources Officer, was inducted into the 13th class of Fellows, the most prestigious honor awarded to human resources professionals by the National Academy of Human Resources.
- Gil Cloyd, Chief Technology Officer, received a significant recognition by Industry Week magazine, naming him the 2004 Technology Leader of the Year.
- Philippe Charrier, General Manager, P&G France, recently received the prestigious Légion d'Honneur in recognition of P&G's long-term involvement with improving the environment.
- Charlotte Otto, Global External Relations Officer, received one of eight 2005 Matrix Awards given by New York Women in Communications, Inc.

# 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 stakeholders, including employees, shareholders, communities in which we operate, and more widely, to regional, national, and international development. In summary, P&G contributes to sustainable development through both what we do and how we do it.

"What we do" is provide 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, act as guidance for the development of our entire organizational structure, all over the world. They are the basis for an integrated set of management systems and policies applied across the whole Company.

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

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

## 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.

**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.

**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.**

**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.

### P&G-Customer Cooperation Helps Contribute to China's Economic and Social Development

Customer relationship is an important linchpin, not only for P&G China's business development, but also for the Company's corporate philanthropy goals. Since P&G's China entry in 1988, P&G has attached great importance to working cooperatively with customers and will further efforts in this key area in the future.

Since 1996, through the P&G Hope Schools project, P&G has been a generous supporter of China's Project Hope, whose mission is to put economically challenged children back into school. P&G Hope Schools builds and maintains schools in areas with high poverty levels. The project depends on retailer support because P&G donates 1.2 cents for each P&G product bought at participating stores. As the number of participating stores goes up, so do donations.

For the 2004-2005 fiscal year, P&G Hope Schools raised $481,000. This year's donation will be used mainly to improve existing Hope Schools and also to build five new ones. It brings P&G China's total donation to Project Hope to 20 million yuan RMB ($2.41 million).

P&G has been a positive contributor to China's economic development, having invested more than $1 billion since entering the country. With operations in Guangzhou, Beijing, Chengdu, and Tianjin, P&G has brought such well-known brands as Crest, Rejoice, Head & Shoulders, Pantene, Clairol, Vidal Sassoon, Safeguard, Oil of Olay, Whisper, Pampers, Ariel, and Tide into the Chinese marketplace, touching and improving the lives of millions of Chinese consumers.

**Executive Compensation**

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

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

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

A substantial portion of compensation is composed of variable, at-risk incentives, the majority based on the Company's long-term success. We 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.

**Governance Structure**

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

Governance starts with the Board of Directors, which has general oversight responsibility for the Company's affairs, pursuant to Ohio's General Corporation Law and the Company's Code of Regulations and Bylaws. In exercising its fiduciary duties, the Board of Directors represents and acts on behalf of the shareholders. Although the Board of Directors does not have responsibility for the day-to-day management of the Company, it stays informed about the business and provides guidance to management through periodic meetings, site visits, and other interactions.

The Board is deeply involved in the Company's strategic planning process, leadership development, and succession planning. The Board has several committees to facilitate its oversight of the Company. These include Audit, Compensation & Leadership Development, and Governance & Public Responsibility. The responsibilities of the Governance & Public Responsibility Committee include oversight of organization diversity, sustainable development, community and government relations, product quality assurance, and corporate reputation. The Board of Directors and its committees operate under our Corporate Governance Guidelines and Charters. Additionally, the Board has adopted guidelines for determining the independence of its members. As of June 2005, approximately 73 percent of our directors qualified as being independent.

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

on the Web

To read P&G's 2005 Annual Report, please click here:
www.pg.com/investors/annualreports.jhtml

**Corporate Governance and Management's Responsibility**

At Procter & Gamble, we take great pride in our long history of doing what's right. If you analyze what's made our Company successful over the years, you may focus on our brands, our marketing strategies, our organization design, and our ability to innovate. But if you really want to get at what drives our Company's success, the place to look is our people. Our people are deeply committed to our Purpose, Values, and Principles. It is this commitment to doing what's right that unites us.

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

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

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

Communicating expectations to employees. Every employee – from senior management on down – is trained on the Company's Worldwide Business Conduct Manual, which sets forth the Company's commitment to conduct its business affairs with high ethical standards. Every employee is held personally accountable for compliance and is provided several means of reporting any concerns about violations. The Worldwide Business Conduct Manual is available on our website at www.pg.com/company.

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

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

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

Engaging our Disclosure Committee. We maintain disclosure controls and procedures designed to 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. Our Audit Committee comprises independent directors with significant financial knowledge and experience. We review significant accounting policies, financial reporting, and internal control matters with them and encourage their independent discussions with external auditors. Our corporate governance guidelines, as well as the charter of the Audit Committee and certain other committees of our Board, are available on our website at www.pg.com/company/our_commitment/corp_gov.

on the Web

To read P&G's 2005 Annual Report, please click here: www.pg.com/investors/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 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 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.

### Diversity Data – Global Enrollment

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

| Global Enrollment % Female | **2005** | 2004 | 2003 |
|---|---|---|---|
| Management | **38.0** | 36.7 | 35.5 |
| All Other Employees[1] | **38.4** | 36.9 | 37.1 |

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

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

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| % Minorities | | | |
| Management | **19.6** | 18.8 | 18.0 |
| All Other Employees[2] | **18.7** | 19.5 | 19.8 |
| % Female | | | |
| Management | **36.3** | 35.4 | 34.8 |
| All Other Employees[2] | **39.6** | 38.9 | 38.7 |

[2] Administrative, Technical, and Plant Technicians

### P&G Japan Diversity Forum

In May, P&G Japan employees had the opportunity to discuss openly how to leverage diversity to improve business results and the lives of P&G employees.

Employees from various functions and job levels attended the day-long forum. Also participating, to learn about diversity, were guests from outside the Company, such as local government officials responsible for gender diversity empowerment, experts from academia, and media.

P&G Japan President Ravi Chaturvedi opened the forum with remarks about diversity and business strategies: "Peak performance comes from fulfilled people. Every one of us is unique, and we all feel special when our uniqueness is valued and nurtured, when we know we can uniquely make a difference. That will be the key to successfully sustainable diversity efforts – creating an environment where all our people are fulfilled."

The forum offered four workshops that included interactive discussion – Boss & Employee Relationship Building, Practical Ideas to Leverage Diversity at Work, What's in It for Men?, and Work/Life Balance for All of Us.

### 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 work force 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 preschool through college, through financial contributions and mentoring/tutoring programs. The volunteer leadership of P&G employees, who can be counted on to help with virtually every significant community project, greatly enhances the effectiveness of our contributions. Through volunteerism, P&G provides ongoing support, sponsorship, and leadership for many civic, cultural, and nonprofit organizations across all geographies in which we operate. This year alone, P&G and The P&G Fund contributed more than $100 million to support our communities.

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.

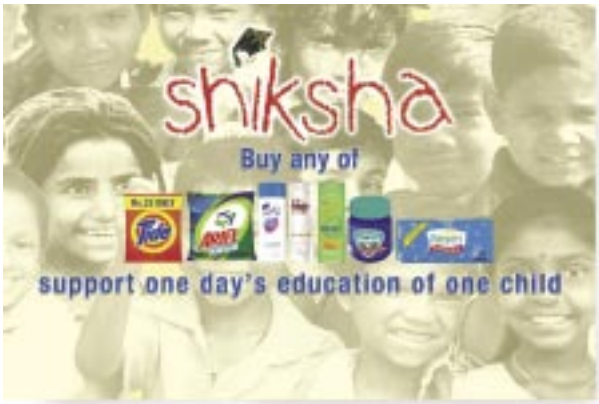
**Child Labor and Worker Exploitation Policy**
P&G does not use child or forced labor in any of our global operations or facilities, and we expect suppliers and contractors with whom we do business to uphold the same standards. More specifically, we will not conduct business with suppliers employing 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.

For more information:

on the Web

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




**India's Shiksha Program Reaches Children Needing Education**
P&G India has shown that education can take place one day at a time, even in the country with the world's largest number of uneducated children. Some 60 million Indian children receive no education, and millions more study in sub-standard schools, some outdoors. Village parents usually pull their girls out of school by age 12.

Through the Shiksha (education) campaign, consumers who bought a P&G product between April and June helped support one day's education for an underprivileged child.

The organization Child Relief and You (CRY) and four TV channels were P&G's partners in this campaign. More than 20 celebrities – actors, dancers, models, singers, sports figures – gave their endorsements, to build awareness of the campaign.

The money raised through Shiksha helped more than 11,000 children through 10 CRY projects in seven states.

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

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

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

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

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

on the Web

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

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

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

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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.

**P&G Updates Animal Welfare Policy**
P&G products are used in homes around the world 2 billion times a day, and we are committed to safeguarding the health of our many consumers.

Sometimes, to ensure materials are safe and effective, we must conduct research involving animals. This is a last resort; we consider such research only after every other reasonable option has been exhausted. The vast majority of our tests do not use animals. Wherever possible, we use computer models, synthetic materials, published scientific studies, and comments from consumers about products they use.

P&G is well-known for leadership in developing alternatives to animal testing, investing more than $190 million and helping to develop more than 50 proven alternative methods.

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

on the Web

For details of our updated policy and practices please go to:
www.pg.com/science/ria_policy.jhtml

You can read about ongoing work to advance our animal welfare and animal alternatives programs in our quarterly newsletter *Forward Focus*:
www.pg.com/science/PGForwardFocus.pdf

For more technical articles regarding animal welfare, please go to:
www.pgperspectives.com

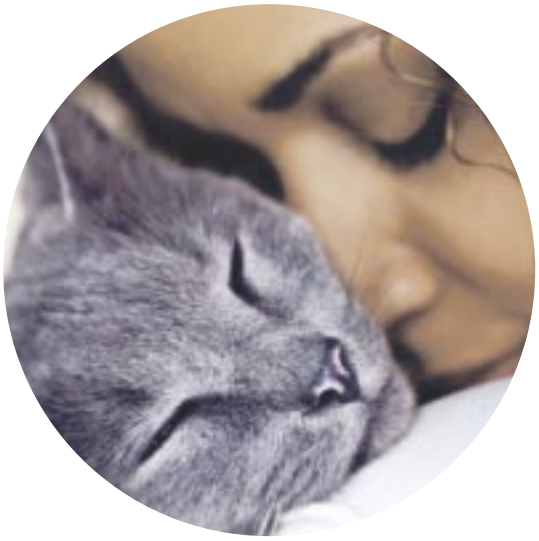
### Iams Brings Pet Food Studies Into Homes

With assistance from its International Animal Care Advisory Board, Iams is changing the way pet food feeding studies are being done. More and more dogs and cats participating in feeding studies have been "working from home." This past year, more than 90 percent of dogs and cats in feeding studies lived with their families.

After October, 2006, most dogs and cats in feeding studies will be pets living in their homes, with others living at the Iams Pet Health & Nutrition Center. Iams will no longer have any dogs or cats in university or contract facilities.

The new Iams Pet Health & Nutrition Center opened in December 2004. Dogs have roommates and share large windows. They have full-time access to the outdoors, where they have play yards with toys and places to climb and hide. There are no cages. When the dogs and cats complete their work at the Center, the socialization and play skills developed there make them good candidates for adoption.

Iams is also actively seeking alternatives to feeding studies requiring dogs and cats. In addition to developing 17 alternatives, Iams has made a substantial donation to the University of Missouri to support its Comparative Orthopaedic Laboratory. This laboratory uses breakthrough in vitro models to study osteoarthritis, avoiding use of research animals while still offering useful, relevant, and timely data. These methods are at the forefront of medical science, with potential for developing pet foods that might alleviate the pain of arthritis, without animal testing.



### Iams Helps Orphan Pets Find Homes

P&G's Iams Company works with local shelters to find homes for orphan pets.

During the 2004 season, the annual Iams Home 4 the Holidays adoption drive set a program record by securing homes for more than 313,000 pets through a worldwide partnership with more than 1,800 shelters.

Iams also helped shelters through its Friends for Life campaign. Working closely with the American Society for the Prevention of Cruelty to Animals, Iams exposed more than 400 U.S. shelter organizations to a new process for making better matches between potential adopters and dogs needing homes. Called the Meet Your Match Canine-ality Adoption Program, the new process assesses and then color-codes both the pets and the adopters according to traits. During a pilot program at the Kansas Humane Society of Wichita, implementing Meet Your Match reduced pet returns by more than 50 percent.

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

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

**Forest Resources Policy**
Though P&G does not own or manage forests, we are a major purchaser of wood-derived fiber. Because of this, we believe we have a responsibility to ensure the sustainability of the world's forest resources.

The principles of sustainable forest management include economically and environmentally responsible harvesting and reforestation to minimize impacts on wildlife habitat, soil, and water quality and protection of special sites of unique geological, biological, or historical significance.

Consistent with this view, P&G has three policies which apply to how we manage our purchasing and utilization of fiber.

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.

**Our Commitment to Combating the HIV/AIDS Pandemic**
At the 2004 Shareholders Meeting, CEO A.G. Lafley shared the Company's commitment to play our part in combating the HIV/AIDS pandemic. He also described P&G's policy regarding employees who are HIV-infected or who have AIDS. The policy reads as follows:

**HIV/AIDS Policy**
All employees, including those who are HIV-infected or with AIDS, are treated consistently with the Company's Purpose, Values, and Principles by the Company, their managers, and 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.
- is provided management support to remain productive.

more info

For more information see the Sustainability in Action section of this report.

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

### Harassment Policy

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

### Weybridge Festival Raises Funds for Charities

Employees at P&G UK in Weybridge have been raising money for charities via a fun annual event for nine years. They and their families get together each summer for P&G Charity Festival Day, with family entertainment and items for sale. Each year the site chooses charities to receive the proceeds.

In addition, P&G invites local charities to do their own fundraising at the festival.

The 2005 Charity Festival Day raised more than $100,000. The money went to The Rainbow Trust Children's Charity, which helps families with a child who has a life-threatening condition or terminal illness; Asthma UK, which sends children with severe asthma on specially supervised outdoor activities that include learning how to manage their asthma; and the Stephanie Marks Appeal, which provides resources and services for people with diabetes. Weybridge has raised more than $600,000 for local charities in its nine Charity Festival Days.

### Community Meets Japan HQ Employees at Festival

P&G Japan headquarters employees and their families volunteered at the Rokko Island Welcome Festival in April. P&G Japan headquarters had four booths at the annual community event. Some 10,000 people came to the festival to get acquainted with Rokko Island's businesses, schools, and shops.

P&G had a second reason to be at the festival – to convey appreciation to people who helped Kobe City after the big Kobe earthquake of 1995. P&G volunteers and their families wore T-shirts saying "Kobe Earthquake 10-Year Anniversary" and "Many Thanks from Kobe."

The P&G crew gave out Crest Spin Brushes and Whisper samples and held a Pringles lottery with prizes of Pringles chips and souvenirs featuring Mr. Pringles. Employees who formed a Flamenco Club went on stage for a dance performance, showing another side of P&G people.

**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.

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

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 regularly, 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 919 full-time equivalents.

more info

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

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

To that end, P&G works with many multinational as well as European companies to understand their performance in areas such as injury/illness, workers compensation, property loss and regulatory fines, and HS&E personnel productivity. In addition, we are routinely involved in studies led by GEMI (Global Environmental Management Initiative, with a membership of more than 42 multinational companies) that survey several key HS&E topics. As a result of this work, we have concluded that compared to other leading companies, P&G has:

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

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

### 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 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.

### Employee Health Is a Top Priority in Germany/Austria/Switzerland

Recognizing that its most important resource is its employees, P&G Germany/Austria/Switzerland has launched the Health System Key Elements program. All P&G sites in the three countries are required to implement this program for their employees.

Health Systems Key Elements provides standards and strategies for first aid, occupational health screening, the Employee Assistance Program, disability management, vaccinations, and qualification of the medical staff. Every year, priorities and measures related to employee health and well-being are defined, based on a Site Health Needs Analysis.

To influence and enhance the health of its employees, sites in the three countries offer ongoing health activities as well as special health campaigns. Here are some examples:

Ongoing activities:

- General health advisory service
- Health risk appraisal
- Travel health advisory service
- Vaccination advisory service
- Ergonomic assessment and training

Special campaigns:

- Nutrition guidance, in cooperation with the cafeteria
- Fitness and exercise
- Heart Week
- Stress
- Alcohol
- Support to quit smoking

# 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.

**Asia**

more info For a complete list, please click here.

**Europe, Middle East, and Africa**

more info For a complete list, please click here.

**Latin America**

more info For a complete list, please click here.

**North America**

more info For a complete list, please click here.

**Worldwide**

more info For a complete list, please click here.

## Infasil per Te Reaches Italian Women

Italy's Infasil brand, with extra-mild cleansers for feminine hygiene and for infants, is reaching more and more women through its Infasil per te (Infasil for you) program.

Infasil per te circulates information, developed with the Italian Association of Obstetrics and Gynecologists, about intimate hygiene and also prevention of diseases linked to poor hygiene. Key to the program is its ability to reach women "where you are" – in places they frequent in their daily lives.

In its first year, Infasil per te targeted new mothers. Last year, it targeted all young women. In 2005-2006, it will expand to reach all women.

Infasil per te reaches pregnant women in hospital pregnancy classes. The information also appears on the www.infasil.it website for pregnant women who are homebound or don't live near a hospital offering the class. The first year, this portion of Infasil per te reached 1,000 pregnant women in hospitals, and 2,000 per week clicked onto the website.

This past year, Infasil per te brought information to active young women at universities. At the Infasil Active Booth, they could take informational leaflets and also have a free consultation with a gynecologist. Women going to www.infasil.it can also get a free electronic consultation with a gynecologist. The Active Booths reached more than 10,000 young women, with 400 of them consulting with the gynecologists. Ten thousand of the women volunteered to fill out questionnaires that will help Infasil plan future projects.

## Oily Birds Come Clean With Dawn and Joy

Long known for cleaning birds caught in oil spills, P&G's dishwashing liquids have come to the rescue again during the past year.

Birds coated with oil cannot maintain their body temperature and can lose buoyancy. If left in this condition, they die in a few days.

It was Dawn that rescued birds at the PEMEX oil spill in Veracruz, Mexico, in December 2004. P&G donated Dawn to the Environmental Ministry and the International Fund for Animal Welfare (IFAW). IFAW cleaned the oil off 250 pelicans, 30 sea gulls, and more than a dozen other birds, saving their lives and sending them back to their natural habitat. Mexico's environmental minister recognized Dawn publicly, calling it an environmentally friendly product.

It's Joy that does the job in Japan. More than 300 times a year, Japan experiences oil spills, such as from tanker accidents.

But Joy dishwashing liquid and the good work of volunteers can save the birds' lives. Veterinarians in a nonprofit organization called the Wildlife Rescue Veterinary Association, working with local community organizations, wash the birds with Joy and return them to their natural habitats. With its oil-dissolving strength, combined with its gentleness, Joy works perfectly on bird feathers.

P&G Japan also makes financial contributions to the Wildlife Rescue Veterinary Association to help its bird rescue work.

# 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.

Pampers
mamás del corazón
www.mamasdelcorazon.com.ar

**Mamás del Corazón Helps Children in Argentina**

P&G Argentina is working in alliance with UNICEF on a campaign to raise funds and awareness for a child welfare project of the UNICEF-sponsored NGO Redinfa. P&G Argentina developed a campaign for its Pampers brand called Mamás del Corazón (Moms of the Heart) that donates money to UNICEF for each Pampers product purchased during the campaign.

Redinfa's goal is to strengthen the ability of low-income families to improve their own children's education, health, and development from birth to age 6. Redinfa works with families who live in rural areas, where more than 85 percent of children under 2 live below the poverty line and 25 percent of them do not receive sufficient nutrition. The program in Argentina replicates a successful Redinfa initiative in Brazil that has reached 1.8 million children over the years and reduced child mortality 60 percent.

Through Mamás del Corazón, Redinfa is building networks of community leaders in Argentina who get trained in areas such as nutrition, early childhood development, and health. Each leader advises 10 mothers from his or her community. In the past year, Mamás del Corazón reached more than a million mothers and almost 2,000 babies in six provinces. In time, Mamás del Corazón is expected to reach at least 10,000 babies in 15 provinces.

**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 $100 million to support our communities.

Our commitment has evolved to now focus on a corporate cause we call *P&G Live, Learn and Thrive*. *P&G Live, Learn and Thrive* focuses on the development of children in need ages 0-13. It does 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***; and 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 through our global corporate signature program, *Children's Safe Drinking Water*.

See *Children's Safe Drinking Water* on page 4 for more on *P&G Live, Learn and Thrive*.

**Physically Challenged Children Gain Access to Daily Life**
P&G is helping physically challenged children in developing countries gain access to education and making their daily lives much easier.

In Costa Rica, in cooperation with the Ministry of Education, P&G has developed the Eliminating Barriers Program. This program is expected to improve the lives of more than 8,000 children. Eliminating Barriers focuses on two elements that prevent physically disabled children from enjoying equal access to education:

- architectural barriers, which restrict access to schools
- attitudinal barriers, which prevent the students from getting the attention they need

Through Eliminating Barriers, access to seven schools in the San José metropolitan area has been made easier. These schools have been refurbished with ramps, handrails, and accessible bathrooms and classrooms. For the 49 physically challenged children attending these schools, this means they no longer have to worry about entering school, the cafeteria, or a bathroom.

To eliminate attitudinal barriers, the Ministry of Education provided training to nearly 600 teachers and administrative personnel from 15 schools, giving them tools and knowledge to ensure fair and equal treatment for all students.

In Malaysia, P&G is focusing its Open Minds program on raising funds to benefit children with disabilities. They usually attend class in facilities not built as schools and not accommodating physically challenged students.

Working with the Yayasan Nur foundation, which raises money for physically challenged children, P&G Malaysia aims to raise $500,000. Funds raised will benefit children with Down syndrome, autism, cerebral palsy, and other physical and mental challenges. Funds will provide physiotherapy equipment, learning tools, computers, specialized music therapy facilities, new school buildings, swimming pools, school buses and vans, and conversions of existing buildings to make them accessible.

The fundraising campaign includes various activities. P&G Malaysia employees have jump-started it with a pledge to raise $100,000 in 12 months under the banner Charity Begins at Home. They are spending their personal time to create fundraising activities such as charity bazaars, dinners and auctions, and a tennis carnival.

Using the universal and unifying language of music, the campaign is partnering with the international music recording company EMI to make an Open Minds theme song and charity album featuring local artists, who also will perform at a charity concert. Open Minds albums and concert tickets will be sold at a discount in stores, with purchases of P&G products. This portion of the fundraising campaign will culminate in a gala dinner with the king and queen of Malaysia.

**Operation Smile in Morocco**
P&G Morocco recently launched its first employee volunteer program in partnership with Operation Smile, a nongovernmental agency that provides free surgical treatment for children with facial deformities.

When the children have surgery, P&G employees act as interpreters for the doctors and nurses, most of whom don't speak Arabic. The employees also assist the families of children undergoing surgery.

This new effort builds on the support P&G Morocco already was providing Operation Smile. This includes financial donations, donations of products such as Pampers, and games for the children to play while they're recuperating.

**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 website, P&G managers responsible for product development, marketing, and manufacturing listen to consumers describing their delights and disappointments with our brands. The website is a library of selected and edited consumer calls, letters, and e-mails. (Privacy guidelines are strictly adhered to.) A new Consumer Relations system will provide even faster access to worldwide consumers' comments. This has already been launched in Asia and will continue to roll out to all Consumer Relations teams worldwide.

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

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

The Science in-the-box website started in 2002 by P&G Fabric and Home Care in Western Europe has been a tremendous success and is being replicated elsewhere in the Company.

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

Over the past year, Science in-the-box has served as a model for two new websites: P&G Beauty started a website that helps consumers understand the science behind the beauty brands; it's called www.pgbeautyscience.com. And the Company created www.pgperspectives.com to present our views on public policy issues.

As for the original Fabric and Home Care Science in-the-box site, it has been getting improved in response to consumer feedback. It now covers a larger geography, with attention to local relevance. The site is now available in six languages, and information on compliance with European detergent regulations is coming soon.

**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 were approximately 1,608,000 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 29, 2005.

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.

In the United States, call for financial information at 1-800-764-7483.

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:
www.pg.com/investors/sectionmain.jhtml

**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 (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 (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 (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), on formulation improvements, as well as providing consumer guidance on how to use detergents properly (www.washright.com). We launched and then expanded a P&G Internet site (www.scienceinthebox.com) to help inform consumers and stakeholders about the science and safety behind our European cleaning products. Very high public interest in this site led to a similar site covering the science and safety of skin and hair care products (www.pgbeautyscience.com) and another site covering P&G's approaches to product safety and views on a variety of chemical management and science policy issues (www.pgperspectives.com). For more on this work see Science in-the-box, page 39.

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

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

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

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

# Goals

**Our History, Our Future**

P&G published its first global environmental report in 1993 and has published a report each year since then. That first report set forth a series of worldwide goals, to be met by the end of fiscal year 1995/96:

- Reducing total packaging usage by 20 percent below 1989/90 levels
- 37 percent use of post-consumer recycled materials
- Achieving $100 million in savings through waste reduction, resulting in a 35 percent reduction in manufacturing wastes per unit of production versus 1991/92 levels

By the end of 1994 we had met or surpassed each of these goals, resulting in a set of new goals:

- Further reducing packaging use per unit of production by 6 percent by 1997/98.
- Further reducing manufacturing waste, achieving a cumulative savings of $300 million by 2000.

We achieved the packaging goal in 1998 and the manufacturing waste, or eco-efficiency goal in 1999.

But 1999 represents an even greater milestone in P&G's history. It was the year we evolved from a focus on just environment, becoming the first U.S.-based multinational company to embrace the more holistic concept of sustainable development, publishing our first annual sustainable development report, with a vastly expanded set of metrics covering all three pillars of environment, social, and economic. Integral to P&G's embracing of sustainable development was a vision that we could move beyond the "bottom line" savings of eco-efficiency, as summarized above, to a future where we would also grow "top line" business growth in terms of sales, new markets, new consumers, and new businesses. As P&G's Director of Corporate Sustainable Development, George Carpenter, wrote in our 1999 sustainability report, "For P&G, sustainable development will come to life, and bring value where it intersects with our ability to bring innovation to bear on issues of health, hygiene, environment, nutrition, education, and the overall quality of life of both today's and future consumers." This was a bold new vision of sustainability, not only for P&G, but for business in general.

The traditional 1990s measures of waste and packaging reduction no longer suffice, as they are measures of the elimination of negative byproducts associated with business, byproducts that had little or no value to the end consumer in and of themselves. Great companies, like P&G that has been in existence for 167 years, have not been built on the elimination of non-value, but on the creation of new value for consumers and for society. Clearly our sustainability vision based on new value creation needs new metrics. We see a future where our contribution to sustainable development in such areas as safe water, improved hygiene, and the quality of children and women's lives will be measured by such metrics as disease avoided, lives saved, the number of children who reach their full development potential, and ways women's lives are better because of the innovation brought to them through the products and services of Procter & Gamble.

We cannot set goals until we have the proper metrics. Our dilemma is how to measure this new value creation in a credible and transparent way. Our metrics task is complicated in that we are newcomers to this public health and development arena, which has long been occupied by NGOs, governments, and research and health organizations. Just as our business models are built on partnerships with these long-standing members of the public health community, our metrics and goals must be aligned with these same groups. For example, in our safe water work, we can accurately measure the consumption and repeat usage of our PUR safe water technology. Because of the PUR clinical studies in Guatemala, Kenya, and Pakistan, we have scientific support for the efficacy of this product. But the idea of measuring and reporting on disease avoided and lives saved by an innovation, at a company level, is relatively new. Some of our NGO and public health partners are making strides in this area. For example, Population Services International, PSI, our PUR distributor and partner in Haiti, Pakistan, and Uganda, in their annual report has attempted to report on their results in these terms (www.psi.org/resources/annual-report.html). As they get feedback on their use of these metrics, we will attempt to build on their leadership in this area. As we gain experience in the potential of our market-based approaches to deal with such issues as water and sanitation, we will then develop goals to guide our sustainability actions.

But with or without goals, P&G remains committed to a future where you will measure our sustainable development contribution in terms such as disease elimination, lives saved, child development, and the way a woman's life is better because of the products and services of Procter and Gamble.

**Turkish Students Learn Facts of Life From Orkid**

P&G's Orkid feminine care brand is helping Turkish students learn about what happens to their bodies as they grow up. This topic has almost been a taboo in Turkey and is not included in school curricula. Orkid works with the national Ministry of Education and local city education directorates to bring this puberty education program into schools.

Orkid began this educational program 13 years ago for girls in the sixth and seventh grades and then included boys as well. This year, Orkid invited mothers to attend. The students learn from nurses about the physical and psychological changes they will undergo during puberty. At the end of the program, they all receive an informational booklet, and the girls receive Orkid samples. The Orkid program has reached 3.5 million students all around Turkey.

# 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.

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

**Acquisitions and Divestitures**
All plants that operated during the fiscal year either reported data, or it was estimated based on past performance. The Wella acquisition has been included in the table and graphs.

Nine sites were either shut down or divested during the fiscal year. The emissions for 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

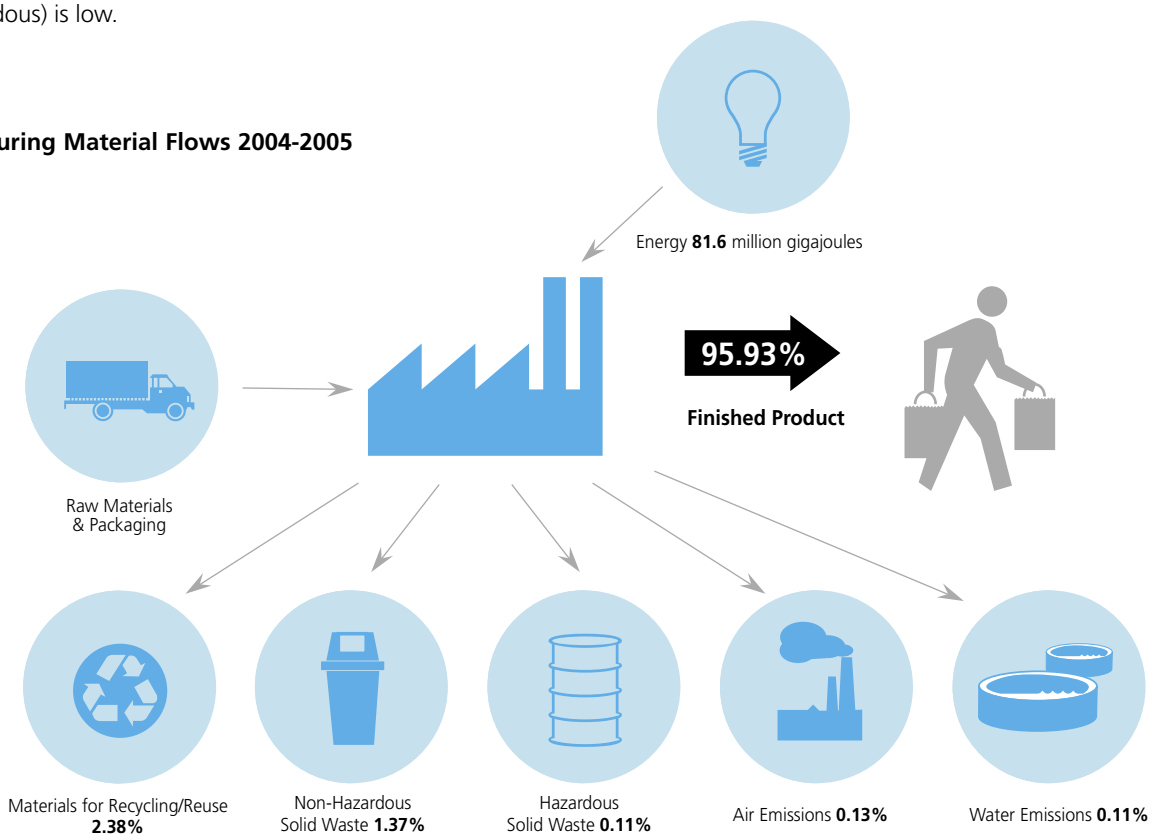
The very nature of producing and using products causes P&G and consumers to use resources and to generate wastes and emissions. P&G is committed, through its Environmental Quality Policy, to reducing or preventing this whenever possible.

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

## Manufacturing Material Flows 2004-2005




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

| All waste units are in thousands of metric tonnes unless otherwise noted.† | Totals | | | 2005 Global Business Unit Detail* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **P&G B** | **P&G FH** | | | **P&G HC** | | |
| | | | | | | BCFC | HC | | FCHC | SC |
| Production | | | | | | | | | | |
| Product Shipped | **19,580** | 18,471 | 17,055 | **2,547** | **5,265** | 3,841 | 1,424 | **11,768** | 11,192 | 576 |
| Raw Materials from Recycled Sources | **71** | 102 | 119 | **0** | **71** | 71 | 0 | **0** | 0 | 0 |
| Waste | | | | | | | | | | |
| Generated Waste | **831** | 817 | 793 | **159** | **480** | 427 | 53 | **192** | 158 | 33 |
| Percent Recycled / Reused Waste | **58%** | 56% | 52% | **58%** | **61%** | 64% | 38% | **49%** | 48% | 54% |
| Disposed Waste | | | | | | | | | | |
| Solid Waste | | | | | | | | | | |
| Non-Hazardous | **280** | 300 | 317 | **56.0** | **165.0** | 139.0 | 26.0 | **59.0** | 47.0 | 12.0 |
| Hazardous | **22** | 21 | 9 | **3.3** | **3.2** | 1.0 | 2.2 | **15.2** | 15.2 | 0.0 |
| Effluents (Excluding Water) | **22** | 21 | 35 | **6.7** | **7.4** | 4.1 | 3.3 | **8.2** | 6.9 | 1.3 |
| Air Emissions** | **26** | 16 | 24 | **1.1** | **9.8** | 8.4 | 1.4 | **15.5** | 13.6 | 1.9 |
| Other | | | | | | | | | | |
| Energy Consumption ($10^5$ gigajoules) | **816** | 731 | 758 | **100** | **524** | 491 | 33 | **192** | 159 | 33 |
| Greenhouse Gas Emissions** | **3,282** | 2,937 | 3,122 | **456** | **2,188** | 2,086 | 102 | **638** | 508 | 130 |
| Water Consumption (million cubic meters) | **83** | 79 | 86 | **6.0** | **55.8** | 54.0 | 1.8 | **21.6** | 19.2 | 2.4 |
| SARA Releases (metric tonnes)*** | **1,722** | 1,843 | 1,567 | **40** | **349** | 0 | 349 | **1,333** | 1,333 | 0 |

† 1 metric tonne = 1,000 kg = 2,205 lbs.
* **P&G B = P&G Beauty**.
**P&G FH = P&G Family Health**: BCFC = Baby Care and Family Care, HC = Health Care.
**P&G HC = P&G Household Care**: FCHC = Fabric Care and Home Care, SC = Snacks and Coffee.
** 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

Energy eco-efficiency*, as measured by production units per gigajoule (GJ), decreased 11 index points. The difference was from adding the Wella sites while not modifying the baseline. There was insufficient data to modify the 1990 baseline.

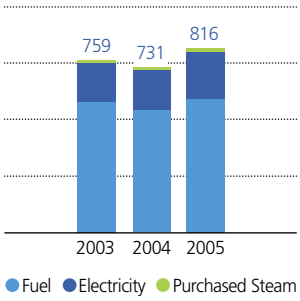
Results are shown in absolute value by business unit and also presented in eco-efficiency format. Our eco-efficiency is more than 60 percent greater than in 1990, meaning there is 60 percent more product being made per unit of energy.

The actual energy usage increased from 73.1 to 81.6 million gigajoules. The increase is mainly from the acquisition of Wella sites.

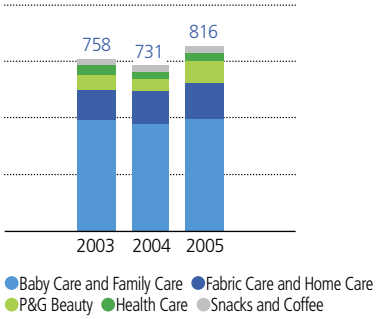
As part of our ongoing efforts to minimize losses, the Company does a loss analysis at the plant level. Losses are defined as anything not shipped out the door as product, including energy used. When energy is identified as a major loss at a plant, it receives intense focus for loss reduction.

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

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




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



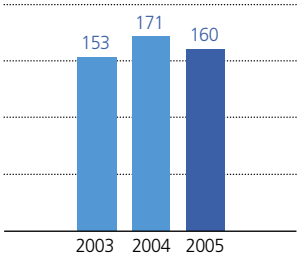

### Condensate – The Key to Energy Savings

The Household Care plant in Worms, Germany, is saving energy by using and re-using condensate in the mixing part of the production process.

Previously, the condensate discharged via a cooling tower into the plant sewer system. Now the site uses the condensate instead of steam for a heat exchanger, and the site uses condensate instead of hot water to produce a liquid dye solution.

At the end of the production process, the site uses the "cold" condensate to cool the compressors. The switch to condensate from demineralized water generated onsite is saving more than 20,000 euros ($26,000) a year.

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



### 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.

### Energy Savings Through Increased Drying Efficiency

At the Timisoara, Romania, plant, one of the major focuses this past year was on the Capacity Increase Project within the operation making laundry powders. The existing insulation was severely damaged and could not prevent dissipation of heat into the environment. As a result, more gas was needed to create more heat in order to obtain the right moisture for the blowing powder. This in turn created extremely uncomfortable working conditions on the second floor due to high temperatures. With these problems, it was determined that there was a need to improve the drying efficiency of the atomization tower.

The old insulation (100 mm-150 mm thick and damaged) was entirely replaced by two new layers of mineral wool, 100 mm each, separated by a 0.1 mm layer of aluminum film. The plate coating of the tower was replaced as well, by 0.8 mm aluminum sheets.

Since replacement of the insulation, the working environment on the second floor has improved due to decreased temperature, while tower emissions have not increased. Another benefit of the improvement was that average specific gas consumption decreased by 6 percent, the result being a $30,500 savings per year.

### Tampax Plant Reduces Fuel Use and Emissions

The Tampax plant in Auburn, Maine, has upgraded its raw materials processing and its production lines to double fiber production while decreasing fuel consumption. New equipment includes bale breakers, blending machines, fiber-opening equipment, carding lines, and dust control and HVAC equipment.

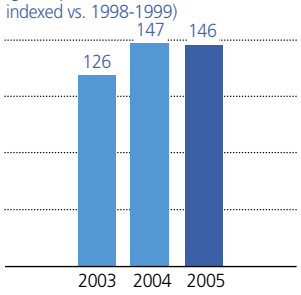
This upgrade has resulted in reductions in carbon emissions and other pollutants. Sulfur dioxide emissions have been cut by almost 50 percent. Emissions of particulate matter PM2.5 and PM10 have been eliminated.

Previously, the production lines exhausted into the atmosphere through baghouses, but now the plant recycles air from the production area. This decreases the fuel needed to heat and cool the plant. The upgrade also allows the plant to capture fiber particulate and recycle it into useful material for sale to other manufacturers.

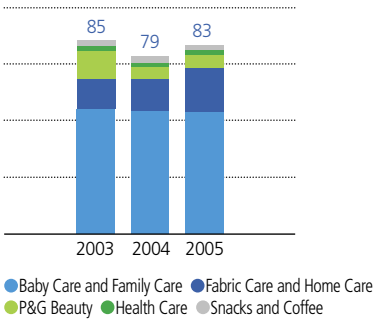
## Water

Water use has increased by similar percent as production, resulting in the eco-efficiency's staying mainly the same. Actual water use increased slightly, from 79 million cubic meters to 83 million.

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




Water Consumption
(by GBU, thousand / cubic meters)



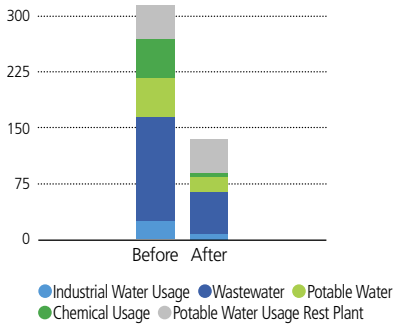

### Euskirchen Plant Improves Water Usage

Evaluating its water usage, the Euskirchen plant discovered it could save significant amounts of both water and money by installing a second water treatment unit. It's a reverse osmosis system with a storage vessel. It enabled the plant to reduce the amount of drinking-quality water used in industrial processes and in plant heating and cooling systems.

This reduced overall water usage as well as the need for water-cleaning chemicals and regeneration salt for the water softener. In money terms, the savings included 33,000 euros ($43,000) spent on potable water previously used because the industrial water was too dirty, 22,500 euros ($28,000) spent on exchanging water in the cooling towers, 45,000 euros ($58,000) spent on extra chemicals needed to prepare water for the cooling towers, plus 79,000 euros ($103,000) spent on wastewater disposal.

The new system also reduced the amount of manual labor needed in the water treatment unit. Efficiency of the new unit resulted in a 192,000-euro ($250,000) reduction in the total cost of getting products to consumers. Rate of return on the investment is 50 percent, with the investment expected to pay out in 1 1/2 years.

Euskirchen Plant Water Usage
(by type, thousand metric tonnes)



## Emissions, Effluents, and Wastes

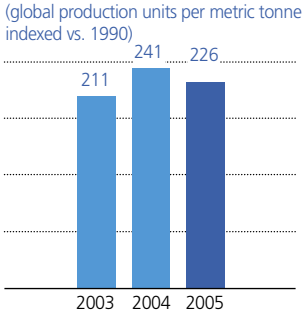
### Greenhouse Gas

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.

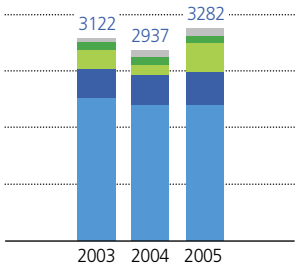
P&G's eco-efficiency of greenhouse gas has decreased by 15 index points. Each point represents the amount of product leaving our plants per metric tonne of $CO_2$ emissions. The main reason for this year's decline was the need to add Wella sites while not modifying the base line from 1990.

In addition, absolute $CO_2$ emissions are slightly higher, but the emissions are still more than 226 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)




Baby Care and Family Care · Fabric Care and Home Care · P&G Beauty · Health Care · Snacks and Coffee

### War on Waste

The London plant has declared a "war on waste." Results for the past year include identifying ways to reduce energy consumption by 40 gigawatt hours per year, representing an 11,000-ton reduction of $C0_2$ emissions and an 18-percent savings. From the identified possibilities to reduce energy, 5 percent of the project was implemented this year. The rest will follow next year.

The plant also conducted a wind turbine feasibility study and is investigating renewable energy sources, new technologies, and energy management techniques.

### Winton Hill Technical Center Succeeds in Recycling Freon

When Freeze-it, the material once used to remove adhesive from baby diapers, was replaced by a more environmentally friendly substance, the Winton Hill Technical Center in Cincinnati found itself with 13 pallets of Freeze-it aerosol cans left over. Freeze-it is a form of Freon 22 and contains chlorodifluoromethane. The disposal cost for incinerating this large quantity of aerosol cans was going to run close to $20,000.

To avoid this cost and to avoid wasting the freon, Winton Hill worked with Clean Harbors Environmental Services to find a vendor, approved by the U.S. Environmental Protection Agency, who could reclaim the freon. The company, Lenz Distributing, was able to extract the freon from the aerosol cans, transfer it to much larger cylinders, and sell it to a company licensed to reuse it. All of this was done with no cost to P&G.

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.

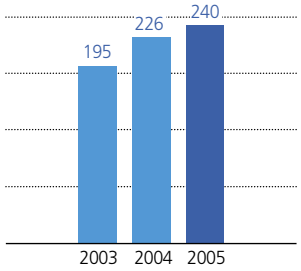
Over the past year, greenhouse gas emissions have been reduced by 16 percent on an intensity basis since 2001. Even though the actual emissions increased from 2.9 million tonnes to 3.2 million tonnes over the past year due in part to the recent Wella acquisition, production has increased 29 percent since 2001, contributing to the overall 16-percent reduction. Also, the reduction would be higher if the base were adjusted for Wella, but due to lack of data the base wasn't changed.

## Total Waste for Disposal

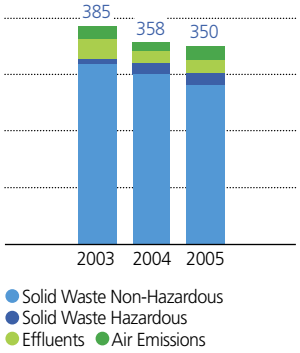
Total waste for disposal is our key management measure to keep waste under control. Total waste disposed comprises the sum of non-hazardous and hazardous solid waste, plus effluent measured as COD (chemical oxygen demand) and air emissions. It excludes recycling or reused waste. This measurement has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

Our disposed waste had a 14-point increase in eco-efficiency. This reduction was broad-based across all our GBUs. Actual waste disposed decreased from 358,000 tonnes to 350,000 tonnes.

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



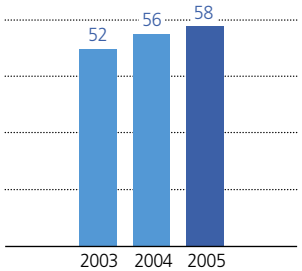

Waste Disposed
(by type of waste, thousands of metric tonnes)




## Waste Returned to Process or Market

The percentage of waste recycled increased slightly to 58 percent, and revenue received increased to $23 million.

Waste Recycled or Reused
(percent of waste)




### P&G Shares Expertise with Communities

Often, P&G people have knowledge and skills they can share with their communities. One example is firefighting.

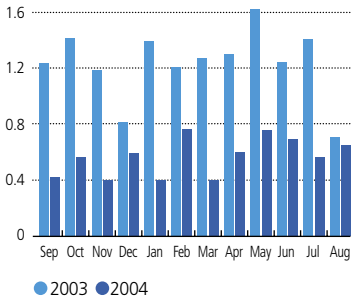
New students at the Catalan Firemen School come to the P&G site in Mataro, Spain, to train with the site's fire brigade. The Catalan Firemen School requested this assistance due to the Mataro site's high standards in both safety and training.

### The Pressure's On at Miami Valley Innovation Center

The Miami Valley Innovation Center near Cincinnati found a useful solution in a simple pressure gauge.

The pressure gauge was installed on the solid waste compactor used for routine trash disposal at the site. The pressure gauge indicates when the compactor is full, which indicates when pickups should be ordered. Previously, the compactor got hauled to the local sanitary landfill on a fixed schedule, twice a week, whether or not it was full. Using the pressure gauge reduced the number of pickups significantly, which led to overall solid waste disposal cost reductions.

Cost Savings Generated by Pressure Gauge Method
(amounts in millions of dollars)




### Sharon Woods Technical Center Waste Gets New Life

Cincinnati's Sharon Woods Technical Center sends as much waste material as possible to Clean Harbors Environmental Services, which in turn sends collected waste to New Life Chemical, to be made into new materials. A nonprofit organization, New Life Chemical accepts a wide range of raw materials, finished products, and perfumery products. These materials are either reprocessed to make potpourri, surfactants, or other materials, or are sold as raw material ingredients.

Since 2004, Sharon Woods has provided New Life Chemical with more than 45,000 pounds of non-hazardous raw materials and surfactants, as well as more than14,000 pounds of hazardous raw materials and perfumery products. This not only has helped Sharon Woods reduce waste but also saves more than $22,000 in disposal costs.

### Manufacturing Products with Recycled Materials

Argentina's Pilar plant has been working for more than eight years with the recycling company Rezagos Industriales, which specializes in the integrated handling of non-hazardous residues from plant operations. A number of varied products come from this recycled material.

The high-efficiency materials from the Pilar plant are used to manufacture a corrugated plate with characteristics similar to Durlock. The manufacturing process consists of grinding carton and plastic film materials, such as tetra brick packages and plastic bags. The mixture is heated to a temperature that ensures bonding and compaction. The resulting plates are used for building materials, such as roofing and interior walls, and for prefabricated housing.

### Continuous Improvement in Recycling

The Mataro plant's detergent-making operation in Spain has started up a wastewater treatment unit designed to reduce surfactant emission to below 4 ppm (the legal limit is below 6 ppm), to comply with new legislation. Design improvements enable the plant to avoid releasing surfactants into the wastewater effluent and to use internal recycling. The plant aims to complete further improvements that will enable it to become a "zero effluent site," reusing its wastewater as industrial water for the manufacturing process.

Previous efforts at Mataro improved materials recycling by separating waste into paper, metal, etc., and also completely separating the waste streams from the detergent plant and the beverage plant.

### Unique Recycling Effort Produces Fuel

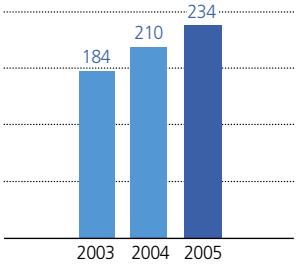
At several of P&G's Cincinnati technical centers, Clean Harbors Environmental Services collects flammable solvents from the labs and bulks them into 55-gallon drums. These solvents contain a wide variety of hazardous wastes such as acetone, toluene, and methanol. The drums of solvent are blended with other flammable liquids and oils to achieve the right BTU value for fuel. Cement kilns use this "waste derived fuel" to replace coal, oil, and other fossil fuels.

This practice provides an alternative to incineration for P&G's organic waste streams that contain more than 5,000 BTUs. Since the beginning of 2004, the Health Care Research Center alone has sent more than 7,000 gallons of flammable solvents and oil for fuels blending, for a total cost savings of more than $27,000 versus the cost of incineration.

## Non-Hazardous Solid Waste Disposed

Overall, the non-hazardous solid waste disposed to landfill has decreased this year, resulting in a 24-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)

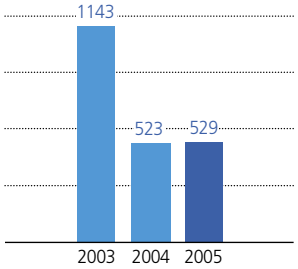



## Hazardous Solid Waste Disposed

Hazardous waste has remained flat (shown as a slightly higher eco-efficiency). This was due to an ongoing reduction effort.

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)

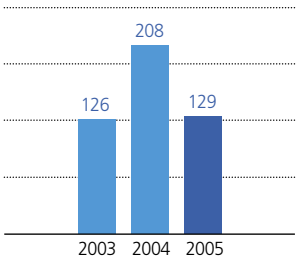



## Air Emissions

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 increased, resulting in lower eco-efficiency.

This is due to new capacity coming on-line in the coffee business, and also the inclusion of emissions from the Wella sites.

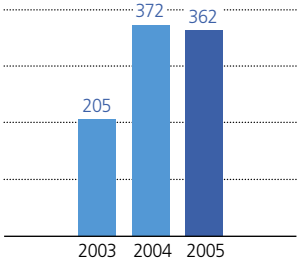
Air Emissions Eco-Efficiency
(global production units per metric tonne, indexed vs. 1990)




## Effluents to Water

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

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

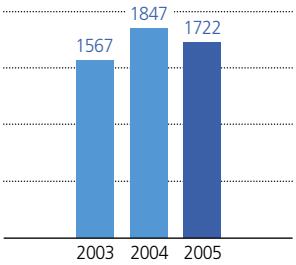


SARA 313 Releases (United States only)

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

The amount of SARA 313 releases has decreased slightly.

SARA 313 Releases
(global total metric tonnes released or transferred)




**Amiens Improves Chemicals Handling**

Last year, the Amiens plant in France improved its chemicals management, following the best environmental practices via:

- The installation of an evaporator, which has already avoided the need to incinerate 2,700 tonnes of liquid waste.
- The installation of a roof above the area used for unloading and storing chemicals dangerous to the environment. This will prevent rain dilution and eliminate the risk of spillage into the environment.

## Audit Programs

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

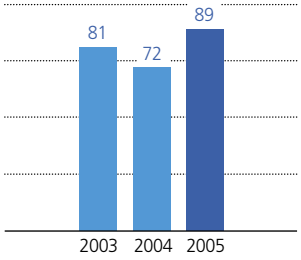
P&G HS&E audit programs are designed to ensure compliance with national, state, and local regulatory requirements as well as corporate environmental standards and procedures. Audit findings are reported promptly to the business management teams, who must address and correct all issues in a timely manner.

The Company reviews its sites on a frequent basis. The graph shows percent of sites receiving an audit this year. The percent of sites audited increased 17 percentage points to 89 percent this year.

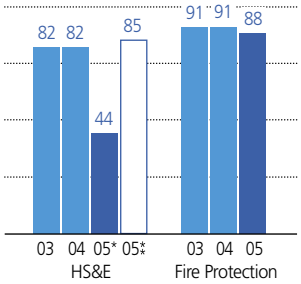
Audits measure performance against a mandatory set of standards and standard operating procedures. The target performance is 8 or better on a 10-point scale.

During the last year we implemented a new standard which caused the number of audit scores above 8 to fall to 44 percent, taking into account new electrical safety standards. The extra bar not taking into account the new standards shows a slight increase of audits with scores above 8. Plans are in place to work on improving the scores with the new standard.

Percent of Plants Conducting Annual Audits




Percent of Plants with Audit Scores > 8.0




*with Electrical Systems ‡without Electrical Systems

### 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.

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Number | **80** | 64 | 67 |
| Fines | **$147,400** | $28,320 | $154,756 |

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

A breakdown of 2005 Notices of Violation (NOVs) and Occupational Safety & Health Act (OSHA) interventions follows:

| | Number | Fines |
|---|---|---|
| Water-Based | 32 | $12,860 |
| Air-Based | 29 | 93,000 |
| Solid Waste-Based | 8 | 20,580 |
| Paperwork | 3 | 0 |
| Transportation-Based | 3 | 17,750 |
| Other | 3 | 1,000 |
| Worker Safety (for U.S. OSHA, the number is 0) | 2 | 2,210 |
| Total | 80 | $147,400 |

### Environmental Liabilities

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

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

### P&G Sites Come to Aid of Communities

P&G has had the opportunity to help a community by sharing its firefighting resources.

In the past year, there have been two major fires near the industrial park where P&G's Pilar, Argentina, plant is located. The plant's fire brigade collaborated with community firefighting efforts by supplying water from the plant's firefighting system. In addition, the Pilar plant supplied 84 firefighting pumps with a storage capacity of 4,000 liters, plus other resources. Pilar has contributed a shipping container in the industrial park for the community firefighters to use for their equipment. This will cut response time by half if there are future fires in the area.

### How "Zero Loss" Mentality Led to Savings in HS&E

Over the past two years, HS&E (Health, Safety & Environment) at Belgium's Mechelen site, with help from purchasing staff in Global Business Services, has increased the site's efficiency and effectiveness. This has saved more than 500,000 euros ($660,000).

Not only is the HS&E work now done with fewer people, but also the site saved:

- 300,000 euros ($390,000) by reducing waste through recycling, sorting, using new companies for waste treatment, and negotiating new contracts at better prices.
- 80,000 euros ($104,000) on personal protective equipment usage and prices by negotiating prices and looking for alternative or longer-lasting materials and materials better fit for the purpose.
- 17,000 euros ($22,000) on legal inspections by making an overview of required inspections to eliminate unnecessary ones.
- 18,000 euros ($23,400) in dust sampling by using risk analysis and historical data to identify where sampling reduction was possible.

**Business Continuity Drills Practice Coordination of Emergency Services**

P&G sites around the world regularly conduct Business Continuity Planning and Crisis drills, involving key local emergency agencies. In the United States, drills sometimes involve local, county, state, and federal agencies, depending on site location and testing requirements.

Business Continuity Planning drills help P&G learn how best to protect its people and assets and how to recover critical business operations if a disaster occurs. Most sites are required to conduct a drill of varying scope once a year.

These photos show a Business Continuity Planning drill at P&G's world headquarters in Cincinnati in May 2005. The drill involved five engine companies from the Cincinnati Fire Department, Cincinnati and Hamilton County bomb squad and canine units, the Cincinnati Police, and the American Red Cross. These local agencies were very pleased with P&G's preparedness and will conduct joint exercises with P&G in the future.

# Economic

Additional economic data can be found in our financial report at:
www.pg.com/investors/annualreports.jhtml

## Economic Development

Innovation is a P&G cornerstone. More than $1.8 billion is invested annually in research and development – the largest amount among consumer product companies worldwide. We have more than 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 universities through out-licensing and/or start-ups. As part of the donation, P&G receives a tax benefit for our shareholders.

### Technology Donations, Fiscal Year 2004-2005

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.

### Global Purchases

P&G is a global company. We produce brands in 118 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 to make our products.

## Financial Highlights

| Amounts in millions except per-share amounts | **2005** | 2004 | 2003 |
|---|---|---|---|
| Net Sales | **$56,741** | $51,407 | $43,377 |
| Net Earnings | **7,257** | 6,481 | 5,186 |
| Before-Tax Earnings | **10,439** | 9,350 | 7,530 |
| Total Assets | **61,527** | 57,048 | 43,706 |
| Basic Net Earnings Per Common Share[1] | **2.83** | 2.46 | 1.95 |
| Dividends Per Common Share[1] | **1.03** | 0.93 | 0.82 |

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

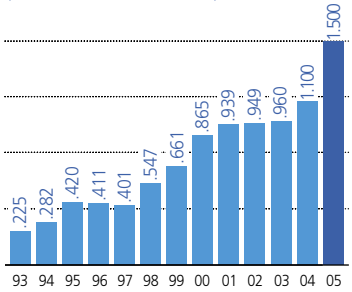
### Supplier Diversity Program

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

In 2004/2005, spending with minority- and women-owned suppliers exceeded $1.5 billion. This spending accounted for about 10 percent of P&G's total U.S. spending. This is the second year in a row P&G has exceeded $1 billion in spending. In May 2005, P&G achievements were recognized with our induction into the Billion Dollar Roundtable, a forum of 14 top corporations that spend more than $1 billion annually with diverse suppliers.

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

### 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.*

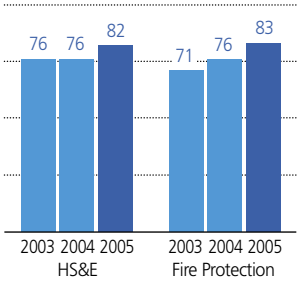
# Social

**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 (Health, Safety & Environment) system capability is the percentage of plants with trained and qualified leaders. Leadership candidates train on-site for an extended period after attending a week-long "distance learning" event where their knowledge and ability to handle specific situations are assessed. For full qualifications the candidates must complete a qualification project at their own plant. Currently, more than 80 percent of plants worldwide have leaders qualified by Corporate/GBU staffs.

Percent of Plants
with Qualified Leaders




**HS&E Program Costs**
There are two aspects of HS&E program costs:
1. Capital costs for new HS&E equipment.
2. People and operating costs for existing facilities.

HS&E capital costs for 2004/2005 were $11.9 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 2004/2005 increased to $185 million. (This does not include the $23 million in revenue gained from recycling activities.)

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

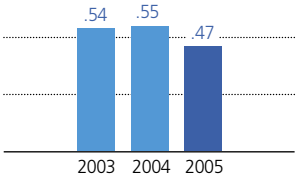
*Nothing we do is worth getting hurt.*
*Safety can be managed.*
*Every illness and injury could and should have been prevented.*
*Safety and health are everyone's responsibility.*

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

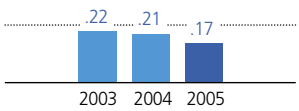
The TIR target for sites is below 1.5 cases per 100 employees worldwide. To achieve such rates, programs to address employee safety, such as safe behaviors, ergonomics, and confined space entry, have been implemented. No target has been set for LWDC because of our belief that one has to manage incidents 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 .46 versus .55 incidents per 100 employees, while the lost workday case rate also stayed the same, at .17 versus .21 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)



## European Safety Achievement Demonstrates P&G's High Standards

P&G safety standards worldwide are at the highest level, as illustrated by the Company's experience in Europe.

In the European Union, all of P&G's big Household Care sites are registered under the Control of Major Industrial Accident Hazards (Seveso II) directive, one of the most demanding pieces of legislation in the field of industrial safety today. The sites obtained registration because their corporate safety management systems meet key requirements of the directive. P&G's safety management system is implemented uniformly, with the same level of rigor, at all P&G production sites in every region of the world.

## Lima Plant Sets Safety Record

The Fabric & Household Care plant in Lima, Ohio, has reached a safety milestone – 4 million work hours without a lost-time injury. This means that none of the more than 400 employees at Lima have lost any work time because of injury for more than four-and-a-half years.

Only a few P&G plants have celebrated 4 million safe hours, and this is the first time for Lima, which opened more than 30 years ago.

More than 40 P&G sites have more than a million safe hours. More than 20 have between 1 and 2 million. Fifteen have between 2 and 4 million, and three are at greater than 4 million. The best P&G safety record is Thailand's Bangkok plant, with more than 7 million safe hours.

# 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.

**Tsunami Relief**

P&G was the first multinational company in Malaysia to contribute to relief efforts after the December 2004 tsunami. Only four days after the tragedy, P&G Malaysia had set up a relief fund. Employees donated generously, and their donations were matched by the Company. The funds were earmarked for bicycles and other transportation for displaced survivors.

The Malaysian organization also provided gift boxes of P&G products to about 800 families in the worst-hit area, Kota Kuala Muda. Residents were especially grateful to receive shampoo, Pampers, and Whisper.

# Water: **Cool-Water Washing Makes New Energy Savings Possible**

There's an energy-saving laundry revolution going on. With Tide Coldwater in the United States and Canada and Ariel Actif à froid (Ariel Cold Active) in France, both launched in early 2005, plus Ariel CoolClean, launched mid-2004 in the UK – P&G is making it possible for consumers to turn down the temperature dial of their washing machines, as they no longer need hot water to get the laundry clean.

Lowering wash temperatures can save significant amounts of energy and cost. Estimates are that a North American household can save up to 20 percent of the energy it uses to heat water. A French household can reduce its electricity usage by up to 3 percent.

Washing machines are one of a home's highest energy users, taking most of the energy to heat water. In North America, the proportion of energy used to heat wash water may be as high as 95 percent of the total energy used by the washing machine.

The numbers show that washing in cold water makes a lot of sense for both consumers and the environment. So why do many households in Europe and North America still use hot water to wash? The key reason is that lower temperatures have not given them the cleaning performance they want.

With the introduction of Tide Coldwater and Ariel Actif à froid, all that has changed. These detergents are specifically designed for improved cold-water washing performance. The scientific explanation is that they use smarter chemical energy to clean, thus requiring less help from heat. All consumers need to know is that they can save energy and money and still achieve excellent cleaning performance.

Government agencies and nongovernmental organizations are so enthusiastic about the energy savings now available from laundering in cool water that they are teaming up with P&G in valuable alliances:

In France, Ariel has entered into a three-year alliance with Consodurable, a nonprofit association whose mission is to promote sustainable consumption among French consumers. Consodurable (www.consodurable.org) is endorsed by the French Ministers of Environment and Consumption and has been chosen by the Prime Minister as one of the very few "national causes" for 2005. A TV advertising campaign to promote cleaning at lower temperatures is an illustration of the alliance between Ariel and Consodurable.

P&G France has formed an alliance with Alain Chauveau's La Famille Durable (The Sustainable Family, www.familledurable.com) to promote washing in cool water. Chauveau is an author specializing in sustainability issues. The alliance developed an illustrated booklet on how a family can adopt more sustainable habits and practices on a daily basis. The booklet was distributed to a million consumers in Carrefour hypermarkets during France's National Sustainability Week in June 2005.

continued on next page

## What if an average household converts to cold-water washing?

A North American household could save up to 730 kilowatt hours of electricity per year, for a savings of up to $63. These savings amount to 10 percent of the total energy consumed by all domestic appliances, or 20 percent of energy used for water heating.

A French household turning its temperature dial one step down could save 68 kilowatt hours of electricity per year. This represents nearly 3 percent of household electricity use.*

* as publicly validated by ADEME (the French national agency in charge of energy savings)

## Cool-Water Washing Makes New Energy Savings Possible continued

In the United States, P&G formed a cooperative effort with the Alliance to Save Energy to promote the benefits of cold-water washing. A ColdWater Challenge (www.coldwaterchallenge.com) was issued with the goal of getting a million consumers to wash their laundry in cold water to save money and energy. The Alliance to Save Energy also provided numerous money- and energy-saving tips to help consumers further reduce their energy bills. A million people did accept the ColdWater Challenge, across all 50 states and more than 33,000 ZIP postal codes. Following the success of the Challenge, Tide donated $100,000 to the National Fuel Funds Network, which assists state and local groups that help low-income families pay their energy bills. Tide also has developed an online energy calculator, which allows consumers to calculate personalized energy savings from switching to lower temperatures in their own households.

The benefits of washing in cool water apply to commercial settings as well as homes. Even establishments that require hygienic laundering to remove dirt and debris, such as hospitals and the food industry, can use P&G's low-temperature detergents.

In Europe, P&G and an outside partner have developed the Ariel Sterisan system. Ariel Sterisan provides hygienic cleaning at 40°C versus the traditional 70°C or 90°C. If washing in cool water with Ariel Sterisan replaced current commercial and institutional washing at higher temperatures, some 748,000 gigajoules of energy could be saved. That's roughly equivalent to the energy consumption of 23,500 people.*

* As validated by a Life Cycle Assessment carried out by P&G with the German Institute for Applied Ecology, Öko-Institut.

### P&G Philippines Promotes Water Economy

P&G Philippines initiated a two-pronged water savings campaign in a rural area in the southern part of the country. The campaign was run in conjunction with a test market of Tide 1-Banlaw (Tide 1-Rinse, in English) in Davao, starting early 2004. The campaign involved working with the Davao City Water District (the water provider for the city of Davao) to promote water saving tips and also the "adoption" of two hectares of watershed land.

The Tipid Tubig Tips (Water Saving Tips) campaign encouraged residents who rinse laundry manually to adopt water savings practices such as rinsing only once instead of several times, recycling rain water and rinse water, and using rinse aids. These three tips reached 150,000 households via catchy radio jingles and flyers sent with water bills.

Water in the Philippines is often expensive and available only in limited quantities. Using Tide 1-Banlaw makes it possible to get clean laundry with only one rinse.

P&G also supported the Davao water district's Adopt-A-Site program by adopting two hectares in the Mt. Talomo-Lipadas Watershed. The watershed is home to several indigenous and endemic tree species such as narra, molave, and mahogany. Reforestation in these two hectares, which involves planting, maintaining, and rehabilitating seedlings, should yield 5,000 new trees over the next five years.

## Potential energy savings if U.S households wash in cold water

Up to 70-90 billion kilowatt hours/year, which represents:

- up to 3 percent of total national energy consumption
- up to 10 percent of output from the nation's nuclear power plants
- reduction of 26-34 million tons of $CO_2$
- reduction of 1 percent of total $CO_2$ emissions
- an energy cost savings of $3.4-$4.4 billion

## Potential energy savings if French households wash in cool water**

1.6 billion kilowatt hours/year, which represents:

- the domestic electricity consumption of 1.75 million people
- a 125,000 ton reduction in $CO_2$ emissions

**As publicly validated by ADEME, the French national agency in charge of energy savings

# Health and Hygiene: **HIV/AIDS**

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

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

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

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

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

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

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

### Awareness Training

Awareness training was launched in October 2004, using a Web-based portal, weekly e-mailed curricula, and special campaigns. The campaigns focused on special events (e.g., World AIDS Day, the Christmas season, Valentine's Day, and World TB Day). Almost 90 percent of employees enrolled in the program and have access to more than 1,300 pages of HIV/AIDS information.

### Knowledge, Attitude, and Practices Survey

During November 2004, we conducted a survey to:

- Assess our employees' HIV vulnerability by exploring their knowledge, attitude, and practices.
- Collect information to guide development of a comprehensive HIV/AIDS strategy.
- Obtain baseline information against which to measure and monitor efficacy and impact of the program over time.

Almost three-quarters of our employees participated. The majority acknowledged the existence of HIV/AIDS and had accurate perceptions of their personal risks. The majority knew of our workplace policy and were interested in our Voluntary Counseling & Testing program.

### Prevalence Survey

In January 2005, we conducted a survey to determine the number of employees who are HIV-positive. With this information we can provide adequate resources (e.g., benefits, recruitment, training) and focus them effectively. Overall, 70 percent of employees participated, including 97 percent of the high-risk (i.e., younger employees), among whom the infection rate is far lower than national averages.

Using the survey report, we have completed an impact assessment on the business. The impact assessment confirmed that we have the right program in place to reduce/mitigate the effect of HIV/AIDS on the business.

on the Web

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

**P&G participates in HIV/AIDS programs in other parts of the world as well. For example:**

- P&G Mexico joined with other large corporations to form a business coalition called Consejo Nacional Empresarial sobre SIDA (National Business Council on AIDS). This coalition was launched on World AIDS Day 2004, with members committed to "eradicate HIV/AIDS discrimination in their workplaces."

- P&G China's medical staff is working with the Global Business Coalition's China Business and AIDS Working Group. This group brings together more than 60 Chinese businesses to help facilitate business involvement in eradicating HIV/AIDS.

continued on next page

## **HIV/AIDS** continued

### PUR and HIV/AIDS

In Haiti and Kenya, we are seeing that safe drinking water is helping people live better with HIV/AIDS. CNN's Global Health Watch featured Jemima Odo, telling how she used PUR to help regain her strength after contracting HIV and how selling PUR helps her support her grandchildren and also community orphans whose parents have died from AIDS. See more on Jemima Odo's story on page 4.

It's clear that the global response to HIV/AIDS needs to include provision of safe drinking water. People who have HIV/AIDS are more susceptible to water-borne diseases, including parasites, viruses, and pathogenic bacteria. P&G's PUR Purifier of Water effectively removes all of these from contaminated water and has become one of the most critical health tools for people with HIV/AIDS.

For more information on PUR go to page 5.

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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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| EN6 | Location and size of land owned, leased, or managed in biodiversity-rich habitats | P&G does not track biodiversity land use as in general we do not operate in these areas. |
| EN7 | Major impacts on biodiversity | P&G does not track biodiversity land use as in general we do not operate in these areas. |

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**In Memory**

A few days before this report went to press, a dear colleague and friend, Tom Feijtel, died in a tragic bicycle accident. He was only 46.

Tom joined P&G in 1989 and has left his mark in the field of environmental science both inside and outside P&G, having contributed to more than 80 scientific publications. Tom championed the value of stakeholder relations and partnerships and was always available to coach and mentor young people.

We will miss him.

## 2005 Sustainability Report

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# Addendum

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## 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 overplays the importance of advertising, since it cannot 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 was 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

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Agencies (EACA) write this report, which was presented at the World Summit on Sustainable Development in Johannesburg, South Africa, in August 2002

## 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 three policies for purchasing and utilization of fiber:

*1. Fiber Procurement*

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

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

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

*2. Sustainable Forest Management Certification*

A majority of our fiber supply is currently purchased from companies that have independently certified their forestry operations within a credible forest certification system. P&G is requiring all its fiber suppliers to independently certify their forestry operations by December 31, 2006. In addition, P&G will require suppliers to provide an auditable assurance that fiber sources not directly owned and managed by them are obtained via legal means and that harvest is conducted via sustainable practices.

P&G believes that independent certification can be an effective means for a fiber supplier to verify its sustainable forest management practices. As a global company sourcing fiber worldwide, we also recognize the importance of flexibility in forest certification systems and the need for these systems to be responsive to specific local requirements. To this end, the certification systems that our suppliers select must be consistent with the following generally accepted criteria for sustainable forestry management:

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

We also support the World Business Council for Sustainable Development and the International Forest Industry Roundtable in their efforts to develop a Legitimacy Threshold Model (LTM) for credible forest certification systems.

*3. Efficient Use of Forest Resources*

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

- Focus on source reduction or use of less fiber through development of innovative technologies that provide maximum product performance using minimal fiber.

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- Evaluate the use of non-forest derived sources of fiber, recognizing that alternatives must also meet principles of sustainable management.

Use recovered fiber in our products when it can be done without having a negative impact on product performance, manufacturing efficiency, resource and energy usage and waste generation.

## 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) 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 126 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.

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.

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

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China – Daily Use Groceries Association
China – Detergent Products Industry Association
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.

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

### 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.