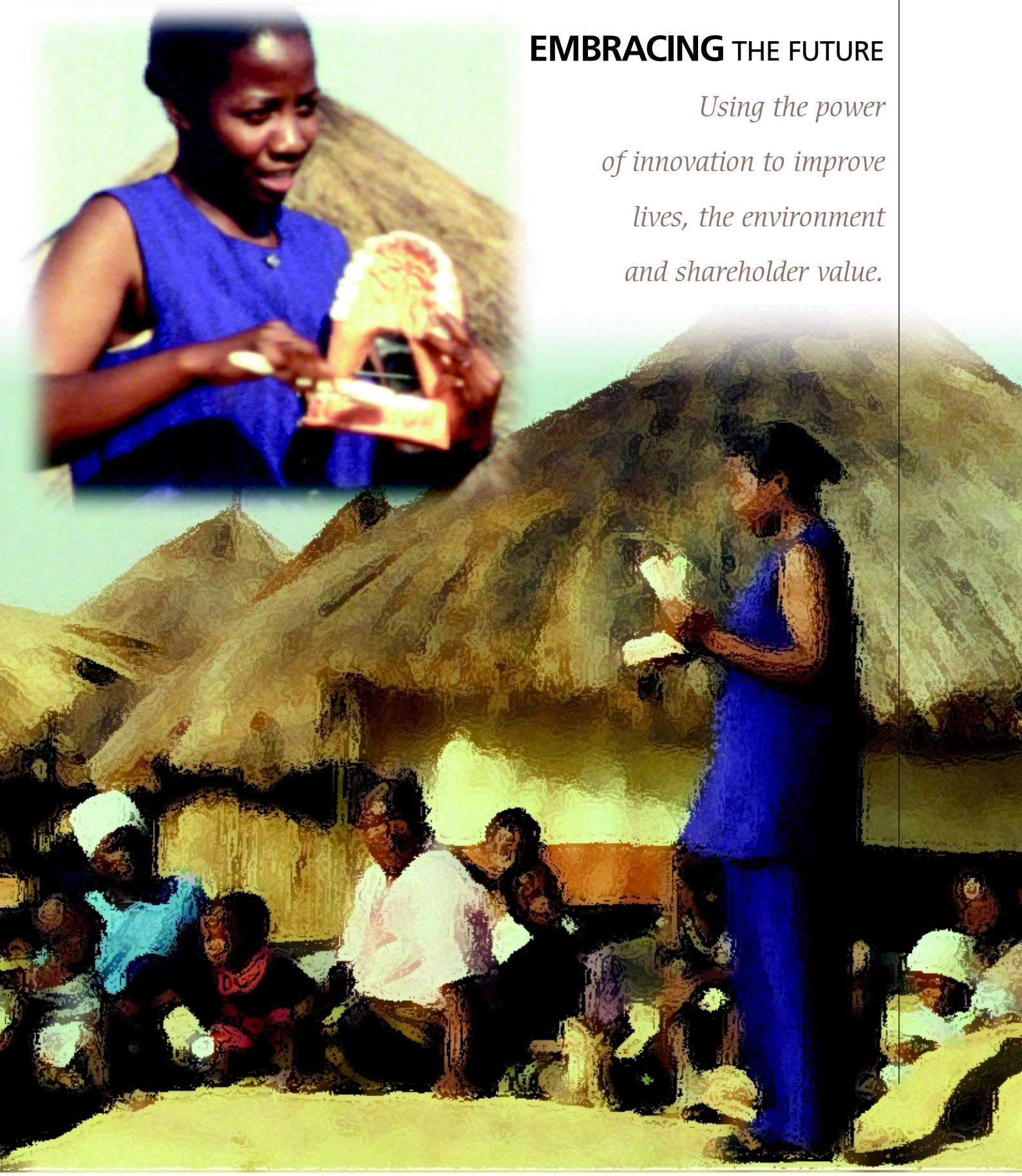
P&G

1999 SUSTAINABILITY REPORT

EMBRACING THE FUTURE

Using the power of innovation to improve lives, the environment and shareholder value.



P&G

Statement of Purpose

We will provide products of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales and profit growth, allowing our people, our shareholders, and the communities in which we live and work to prosper.

This report was prepared in accordance with the Global Reporting Initiative's (GRI)'s Sustainability Reporting Guidelines: Exposure Draft for Public Comment and Testing, March 1999. The mission of the GRI is to promote international harmonization in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making. GRI pursues this mission through a multi-stakeholder process of open dialogue and collaboration in the design and implementation of widely applicable sustainability reporting guidelines. GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. For further information about GRI, please visit: *http://www.globalreporting.org*.

This report is available on P&G's World Wide Web site: *http://www.pg.com/99sr*

Please visit P&G's Corporate Web site: *http://www.pg.com* for the latest P&G news, shareholder, and career information.

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FRONT COVER: *In Zimbabwe, health care workers trained by the Health Volunteers Overseas program use Crest toothpaste educational materials to improve dental hygiene in remote villages.*

Part 1. CEO Statement

This is taken from a letter that Durk I. Jager, P&G President and Chief Executive, sent to the Company's Global Business Leadership Council and to employees on sustainable development on July 1, 1999.

Sustainable development, or sustainability, integrates economic progress, social development and environmental concerns with the objective of ensuring a quality of life for future generations at least as good as today's. It is becoming an increasingly important public policy issue, and also a significant business opportunity.

Durk I. Jager, President and Chief Executive

Consistent with the Company's new business structure, Organization 2005, we are looking to the new Global Business Units (GBUs) for leadership on how sustainability will be reflected in their business plans. Concurrently, we have reorganized the Company's Corporate Environmental Quality group to encompass all aspects of sustainability, and to focus its leadership on activities best done at a corporate level.

George Carpenter has been appointed Director-Corporate Sustainable Development to lead this group. This reorganization is designed to shift accountability for sustainable development to our GBUs, and better align our efforts with the new organization design. These moves will build on, and strengthen, our Company's long-standing commitment to the environment, while taking a more holistic view that also incorporates the social and economic concerns of our consumers, shareholders and communities.

Over the past several years, academics, governments and non-governmental organizations have been evolving their views of environmental quality to the broader, more holistic concept of sustainable development. While some see this as inevitably leading to restraining consumption, I view it as an opportunity and stimulus to innovate, to improve consumers' lives, while also making positive contributions to environmental quality and society, particularly in developing countries.

We already have made progress in this area. For example, the global water supply issue has led Fabric & Home Care to consider new cleaning methods that use less water, cold water, non-potable water and even salt water. These new cleaning methods not only help meet the sustainability needs of developing countries, but also can be leveraged for breakthroughs in developed countries.

In Food & Beverage, the need for better nutrition for the world's growing population, particularly in developing countries, has led to our development of a new nutrient drink that has been clinically proven, in a Tanzanian study, to improve the growth and development of children. These innovations respond to important consumer needs, and bring substantial sustainability benefits.

We need to make further progress. Each GBU must understand how sustainability impacts its business, and identify the implications for innovation and geographic expansion programs. As part of this, I have asked Fabric & Home Care to develop a sustainability plan for its GBU which can also serve as a model for other GBUs. Paul Polman, President-Global Fabric Care, will lead this work and collaborate with George Carpenter to define resources that will be useful to the GBUs as they develop these plans. Sustainability also will be one of the areas we explore in our upcoming strategy reviews.

George Carpenter and the new Corporate Sustainable Development group will focus on defining the Company's overall sustainability policy, identifying emerging sustainability issues, managing corporate reporting and building relations with external stakeholders. George's group also will work closely with other internal resources involved in the sustainability issue.

Durk I. Jager

Part 2. Key Indicators

Key Sustainability Focus Areas

P&G intends to focus its sustainability efforts on **Water and Health & Hygiene.** These two areas are applicable across both the Company's global business units and the interlocking drivers of sustainability; economic development, social equity and environmental protection. The Company's approach is to increase shareholder value by contributing solutions to problems, needs and concerns associated with these two areas.

While P&G intends to focus on Water and Health & Hygiene, the Company will continue its long tradition of:

- doing what is right for consumers, employees, shareholders and communities where it operates.
- building sales and profit growth in a socially and environmentally responsible manner.
- increasing diversity within its workforce.
- contributing to a more educated population.
- maintaining high standards of health, safety and environmental protection for its products and operations throughout the world.

Major Stakeholder Groups

- Consumers
- Employees
- Communities
- Shareholders

Major Impacts Associated with Products

Economic

- Shareholder Value
- Employment
- Taxes, Fees and Contributions

Social

- Health
- Hygiene
- Education

Environmental

- Resource Use (Materials and Energy)
- Water
- Waste and Emissions

Economic Data

Financial Highlights *(Millions of dollars except per share amounts)*

	1998/99	1997/98	1996/97
Net Sales	$38,125	$37,154	$35,764
Net Earnings	$ 3,763	$ 3,780	$ 3,415
Basic Net Earnings Per Common Share	$2.75	$2.74	$2.43
Total Assets	$32,113	$30,966	$27,544
Long-Term Debt	$6,231	$ 5,765	$ 4,143
Shareholders' Equity	$12,058	$12,236	$12,046
Income Taxes	$2,075	$ 1,928	$ 1,834
Marketing, Research & Administrative Expenses	$10,666	$10,035	$ 9,766

Social Data

Diversity – U.S. Enrollment

P&G expects its workforce to become even more diverse in the future. This is a global policy and programs are in place for continuous improvement in all regions. The percentages of minority and women employees in the U.S. are shown in the following table:

	% Minorities			% Women		
	1998/99	1997/98	1996/97	1998/99	1997/98	1996/97
Management	15.0	15.6	15.5	38.4	38.0	37.5
Technicians, Laborers, Service Workers	18.1	18.6	18.6	41.7	41.1	40.8
Total	**16.9**	**17.4**	**17.4**	**40.4**	**39.9**	**39.5**

Worldwide P&G Philanthropic Contributions

	1998/99	1997/98	1996/97
Total	**$73,245,604**	**$66,859,204**	**$60,616,378**

Production, Waste and Energy Data *(Thousands of Metric Tons)*

	Total			1998/99 By Region			
Production	1998/99	1997/98	1996/97	Asia	Europe, Middle East, Africa	Latin America	North America
Packaged Product Shipped	14,644	14,436	14,019	1038	5,040	1,280	7,286
Raw Materials from Recycled Sources	380	400	n/a	84	n/a	296	n/a
Packaging Used	1,375	1,367	1,330	101	440	105	729
Packaging Material from Recycled Sources	490	455	480	24	171	52	243
Waste							
Generated Waste	864	895	730	67	209	146	443
Recycled/Reused Waste	56%	56%	67%	58%	70%	14%	64%
Disposed Waste							
Solid Waste — Non-Hazardous	271	324	175	18	36	115	102
Solid Waste — Hazardous	27	12	7	5	19	2	2
Effluents (Excluding Water)	31	37	34	1	4	3	23
Air Emissions	20	20	21	1	2	1	16
Other							
Energy Use (10^5 GJ)	967	947	853	58	219	57	633
SARA Releases*	1.6	1.9	1.6	n/a	n/a	n/a	1.6

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

Summary of Violations and Interventions

Past three years' data on environmental, transportation, and worker health and safety violations and interventions follow:

	1998/99	1997/98	1996/97
Number	46	54	56
Fines	$33,250	$73,100	$14,900

Occupational Health & Safety Data

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

Total Incident Rate

(injury and illness per 100 employees)

1998/99	1997/98	1996/97
0.7	0.8	0.9

Total Lost Workday Case Rate

(lost & restricted workday cases per 100 employees)

1998/99	1997/98	1996/97
0.3	0.4	0.4

Part 3. Profile of P&G

P&G markets approximately 300 brands of consumer products to nearly 5 billion consumers in over 140 countries. The products include laundry detergents, toothpastes, shampoos, feminine hygiene products, pharmaceuticals, snacks, diapers, cosmetics, and cold remedies. These products are best known by their brand names: Tide, Ariel, Crest, Pantene Pro-V, Always, Whisper, Didronel, Pringles, Pampers, Oil of Olay and Vicks.

P&G's worldwide headquarters is located in Cincinnati, Ohio, USA. The Company has on the ground operations in over 70 countries and employs more than 110,000 people worldwide.

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

As of July 23, 1999, there were 278,245 Common Stock shareholders of record, including participants in the Shareholder Investment Program. Five billion shares of Common Stock have been authorized. About 1.32 billion shares were outstanding as of June 30, 1999.

This is the first Sustainability report for P&G's worldwide operations. Data in this report cover the period from July 1, 1998 through June 30, 1999. Financial information is given in U.S. dollars.

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Changes this Fiscal Year

In September, 1998, P&G announced far-reaching changes to its structure, work processes and culture to accelerate growth. In June, 1999, the Company reported on progress toward this initiative called Organization 2005. The new organization structure, including the move from four geographic business units to seven Global Business Units (GBUs) based on product lines, became effective July 1, 1999. The GBUs are responsible for all strategic, manufacturing and sourcing activities. Each of the

new GBUs is expected to integrate sustainability in its business plans. Accountability for sustainable development resides with the GBUs.

The costs resulting from Organization 2005 include those related to separation and relocation of employees, streamlining manufacturing capabilities, including consolidation and closure of certain manufacturing facilities, and other charges. Total charges related to Organization 2005 are expected to approximate $2.6 billion ($1.9 billion after tax) over six years. The Company recorded charges totaling $481 million ($385 million after tax) for the year ended June 30, 1999.

Acquisitions accounted for as purchases in 1998/99 totaled $137 million.

Financial Information

Core net earnings, which exclude Organization 2005 costs, were $4.15 billion or $3.04 basic net earnings per share – an 11% increase over the prior year. Fiscal year 1998/99 net earnings totaled $3.76 billion. Basic net earnings per common share of stock were $2.75.

Common share dividends were $1.14 per share in 1999. For the coming year, the annual dividend rate will increase to $1.28 per common share, marking the forty-fourth consecutive year of increased common share dividend payments.

More information on P&G's financial performance is available on-line at http://www.pg.com/investor.

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Regions

For reporting purposes in 1998/99, P&G divided the world into four geographic regions. The North America region includes the United States and Canada. The Europe, Middle East and Africa region stretches from the United Kingdom to South Africa, Pakistan to Russia. The Asia region includes China, India, Japan, Korea, the Philippines, the countries of South Asia, Australia, and New Zealand. The Latin America region includes Mexico as well as Central and South America. A small portion of sales cannot be accounted for regionally and is reported as Corporate sales.

Net Sales by Region *(Millions of dollars)*

Fiscal Year	North America	Europe, Middle East, Africa	Asia	Latin America	Corporate	Total Worldwide
1998/99	$18,977	$11,878	$3,648	$2,825	$797	$38,125
1997/98	$18,456	$11,835	$3,453	$2,640	$770	$37,154
1996/97	$17,625	$11,587	$3,573	$2,306	$673	$35,764

Business Sectors

Throughout fiscal year 1998/99, P&G also reported sales according to its business sectors: Laundry & Cleaning, Paper, Beauty Care, Food & Beverage, and Health Care.

As part of P&G's Organization 2005 initiative to optimize resources to fit a growing global business and to accelerate innovation and growth, the Company began operating its business along seven product-based Global Business Units, effective July 1, 1999.

Net Sales by Business Sector *(Millions of dollars)*

Fiscal year	Laundry & Cleaning	Paper	Beauty Care	Food & Beverage	Health Care	Corporate & Other	Total
1998/99	$11,517	$11,451	$7,115	$4,381	$2,836	$825	$38,125
1997/98	$11,099	$10,862	$7,160	$4,376	$2,849	$808	$37,154
1996/97	$10,892	$10,101	$7,101	$4,107	$2,895	$668	$35,764

KEY BRANDS

Fabric & Home Care
ACE BLEACH
ARIEL
BOUNCE
CASCADE
CHEER
DAWN
DOWNY
FAIRY
JOY
LENOR
MR. CLEAN
TIDE

Feminine Protection
ALWAYS
ALWAYS ALLDAYS
LINES FEM PRO
TAMPAX
WHISPER

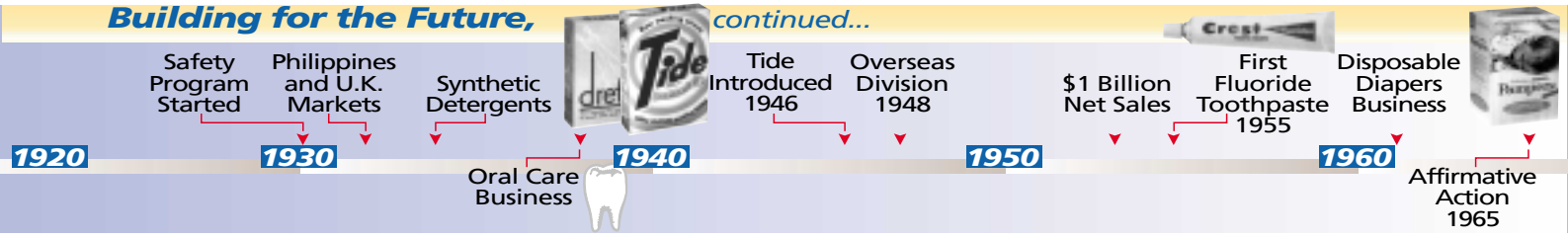
Health Care
ACTONEL
ASACOL
BLEND-A-MED
CREST
DIDRONEL
MACROBID
METAMUCIL
NYQUIL/DAYQUIL
PEPTO-BISMOL
SCOPE
VICKS FORMULA 44
VICKS VAPORUB

Food & Beverage
CRISCO
FOLGERS
JIF
MILLSTONE
OLEAN
PRINGLES
PUNICA
SUNNY DELIGHT

Beauty Care
CLEARASIL
COVER GIRL
HEAD & SHOULDERS
IVORY
MAX FACTOR
OIL OF OLAY
OLD SPICE
PANTENE PRO-V
PERT PLUS
REJOICE
SAFEGUARD
SECRET
SK-II
VIDAL SASSOON
ZEST

Tissue/Towel
BOUNTY
CHARMIN
PUFFS
TEMPO

Baby Care
BABYSAN
LUVS
PAMPERS
PAMPERS WIPES



Industry Associations

P&G is a member of many industry associations whose activities are directly related to the Company's business. These associations include the following:

North America
American Forest & Paper Association
American Industrial Health Council
American Legislative Exchange Council
Association of National Advertisers
Business Roundtable
Chemical Producers/Manufacturers Associations
Consumer Healthcare Products Association
Corporations Supporting Recycling
Cosmetic Toiletries and Fragrances Associations
Food Industry/Processors Association
Global Environmental Management Initiative
Grocery Manufacturers Associations
National Association of Manufacturers
Research Based Pharmaceutical Companies Associations
U.S. Council for International Business

Europe, Middle East and Africa
American European Community Association
Centre for European Policy Studies
Chemical Manufacturer Associations
Cosmetic Toiletry and Perfumer Associations
Efficient Consumer Response Association
Environmental Risk Assessment Steering & Management Committee
European American Industrial Council
European Association of Industries of Branded Products
European Centre for Ecotoxicity and Toxicology of Chemicals
European Chemical Industry Council
European Disposables and Non-Woven Association
European Industry of Hygiene Paper Products
European Recovery & Recycling Association
Food Business Forum
Food Industry/Processors Associations
Paper Industry Associations
Pharmacy Industry Association
Union of Industrial & Employer's Federations
World Federation of Advertising

Asia
Confederation of Indian Industries
Cosmetic Toiletries and Fragrance/Perfume Associations
Industry Councils
Paper Industry Associations

Latin America
Business Councils for Sustainable Development
Cosmetic Toiletry and Fragrance Manufacturers Associations
Industry Councils
National Societies of Industry

Worldwide
Business Industry Advisory Committee
Conference Board
International Chamber of Commerce
Local & National Chambers of Commerce
Nonprescription Drug Manufacturers Associations
Soap & Detergent Associations
Solid Waste Associations
World Business Council for Sustainable Development

Contact Information

This sustainability report is available on P&G's web site: http://www.pg.com/99sr

Other available reports include the 1999 Annual Report to Shareholders, 1999 Global Contributions Report, and the 1998 Environmental Progress Update.

For questions or comments about this report or to request an Executive Summary of this report, write, fax, or e-mail:

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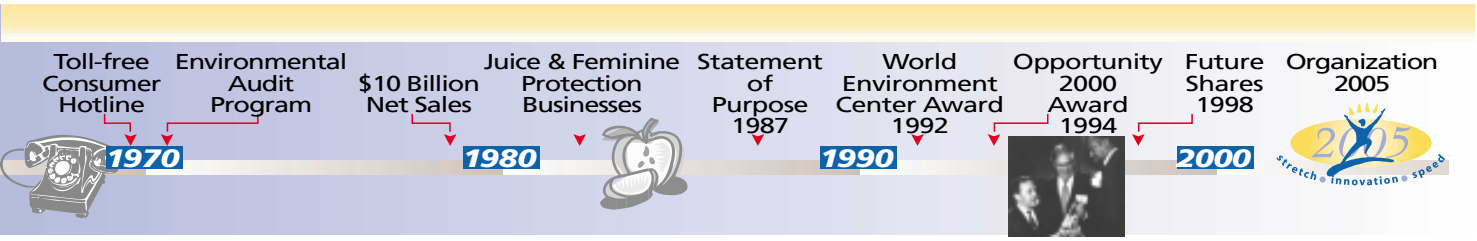
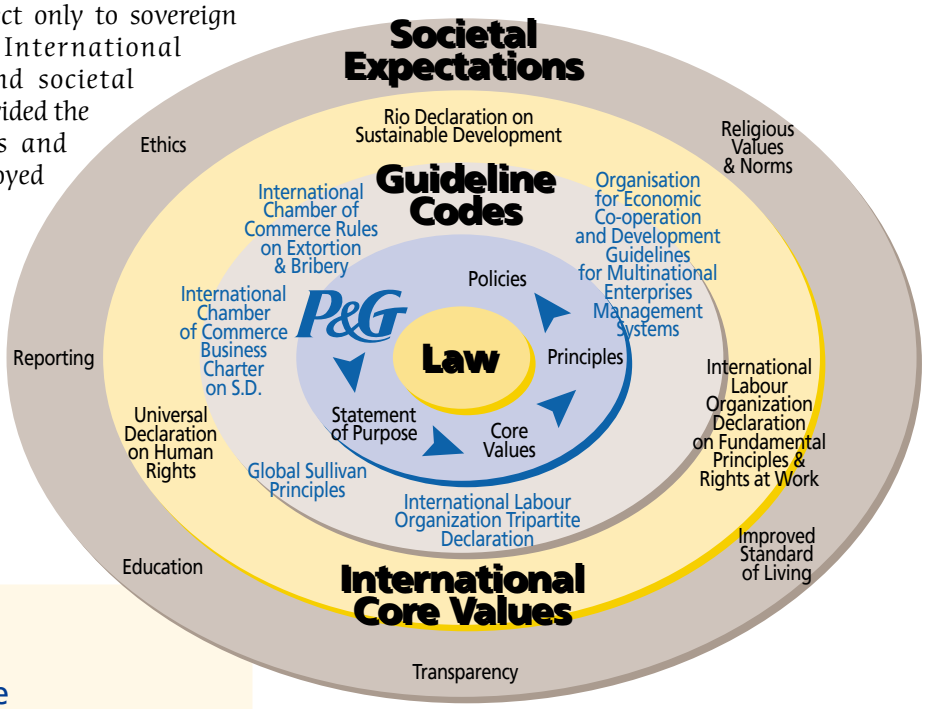


Part 4. Policies, Organization and Management Systems

P&G is guided first and foremost by its Purpose, Values and Principles, subject only to sovereign and international laws. International guidelines, codes, laws and societal expectations have always provided the foundation for the policies and management systems employed by the Company.



P&G Statement of Purpose

We will provide products of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales and profit growth, allowing our people, our shareholders, and the communities in which we live and work to prosper.

Core Values

P&G is its people and the Core Values by which they live.

- **P&G People** 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.
- **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.

Principles

These are the Principles and supporting behaviors which flow from our Purpose and Core 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's 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 functions, sectors, 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.

Business Conduct Policies

P&G has been built through the character of its people. The character is reflected in the Company Statement of Purpose, Core Values and Principles. The following is a brief extract from the P&G Worldwide Business Conduct Manual.

1. Compliance with Laws and P&G Business Conduct Policies

P&G is committed to complying with all laws and meeting or exceeding regulations wherever we conduct our business activities.

P&G employees worldwide are expected and directed to comply with all laws and all P&G business conduct policies relating to their P&G business activities.

Every P&G employee is expected to fully cooperate in the investigation of any alleged violation. Concealing a violation or altering or destroying evidence to hinder an investigation is not tolerated.

Employees who violate the law may expose themselves as well as the Company to substantial criminal fines, prison terms and civil damages.

If an employee believes another P&G employee, consultant or contract worker, is violating the law or P&G policies, the employee is expected to bring this information to the attention of his/her management. If he/she does not want to discuss this with his/her management, he/she can talk to (a) Corporate Security, (b) any Human Resources manger or (c) P&G legal counsel.

The "P&G Hot-line" can be used to report illegal behavior and enables employees to remain anonymous, if they wish. The Hot-line has been installed in most countries where P&G does business and is operational 24 hours a day.

If employees choose to identify themselves, the Company has a strong policy prohibiting intimidation or any retaliation by any manager or co-worker.

2. Ethical Business Conduct Guidelines

P&G sets high standards for itself regarding its behavior and the behavior of its employees when conducting business activities. Integrity and doing the right thing have long been core P&G values.

Employees should ask themselves the following questions when considering any business situation:

Is my action the "right thing to do?"
Would my actions withstand public scrutiny?
Would my actions protect P&G's reputation as an ethical company?

If any of the answers are not an unqualified "yes", then an employee should not do it.

3. Conflict of Interest Policies

The Company policy regarding possible conflict of interest is based on the principle that an employee's decisions in the business must be made solely in the best interest of P&G.

As a general rule, an employee or his/her immediate family should not have an ownership or profit interest in a competing firm or with any firm, supplier, or customer with whom they deal in their employment.

No employee should have any outside business interest which diverts a significant amount of time or attention from duties and responsibilities owed to P&G.

A P&G employee should not participate in decisions with respect to P&G's relationship with any customers, suppliers or competitors if he/she has a spouse or close relative who is an employee and/or owner of that firm.

A conflict of interest would exist if a P&G employee or a relative provides goods or services to P&G as an independent supplier.

Employees should never accept entertainment, gifts, trips, sporting event tickets, vacations, personal gratuities, etc. in connection with their work at P&G. This would not include very minor items like pens and calendars. Event tickets may be occasionally accepted when the P&G employee personally pays their value. Business meals may be accepted if the P&G employee offers to bear the expense on some of the occasions.

4. Confidential/Proprietary Information

Protecting confidential information and materials is vital to the Company's future success and, therefore, could be important to the job security of all employees.

By accepting employment with P&G, an employee has accepted a moral and legal obligation not to disclose confidential or trade secret information to third parties, even if he/she should decide to leave the Company.

Employees should not discuss confidential information at any time in any public place.

5. Personal Behavior in the Workplace

P&G's fundamental policy is that we will treat all of our P&G colleagues with respect.

Actions constituting harassment of any P&G employee by another employee, customer or supplier are strictly prohibited, no matter where they occur. Avoidance of acts of harassment is a continuing condition of employment for every P&G employee.

Every employee is expected to perform his/her work in a safe manner, free of the influence of alcohol or drugs.

Any person who threatens to commit or actually engages in a violent act on P&G property will be removed from the premises and remain off, pending the outcome of an investigation into the incident.

6. Commercial Bribery

Any personal payments, bribes or kickbacks to P&G customers or suppliers or the receipt of kickbacks, bribes or personal payments by P&G employees are absolutely prohibited.

7. Safety, Health and Environmental Policies

It is the responsibility of employees to be aware of the laws and regulations that govern their activities and to comply with those laws, using all appropriate corporate resources.

All employees associated with the safety assessment of our products have a responsibility to see that the design, execution and interpretation of research meet the highest professional and scientific standards so that the Company and the consumer are assured of the best possible safety judgments.

With respect to P&G's Environmental Quality Policy, which states that we will continually strive to improve the environmental quality of our operations, compliance with the law is a core value and it is the single highest priority for the Company's environmental programs.

Every employee must understand and be responsible for incorporating safe behavior and environmental quality into their daily business activities.

8. Fairness in Dealing with Customers and Suppliers

P&G's success depends on building productive relationships with our customers and suppliers based on integrity, ethical behavior and mutual trust.

All customers are treated fairly and without discrimination.

All P&G consumer products, including value packs, are available for purchase by all competing customers within a given market.

Purchases of materials and services from suppliers are based on the merits of the purchase opportunities available from competing offers.

All discussions with an existing or potential supplier should be restricted solely to the Company's needs. There should be no reference to the Company's present or potential activities with other suppliers.

The Company does not practice or approve of reciprocity with suppliers in any part of the business.

9. Internal Controls Policy

Internal Controls refers to systems and processes which combine policies, authorizations and procedures with proper authority and management tracking and reporting to ensure the business operations are properly managed. Strong internal controls assist management to deliver required business results. Inadequate controls can lead to actual losses and lost business opportunities.

All managers must ensure that there are appropriate control policies and procedures in their areas of operation, and that these policies are understood and followed.

Every P&G employee must cooperate fully with and provide full and complete information to P&G Internal Control personnel and P&G's independent external auditors.

10. Financial and Accounting Records Policy

The Company's business records are relied upon to produce reliable and accurate reports to management, shareholders, creditors, governmental entities and others. Therefore, it is essential that each employee comply strictly with the Company financial control procedures and internal accounting systems.

All official records of the conduct of the Company's business must be accurate, honest and complete without any restriction or qualifications of any kind.

All P&G operations worldwide must comply with all local and national laws relating to accurate and complete maintenance of Company financial books and records.

11. Securities Trading Policy

Employees must not engage in "insider trading" in securities based on confidential P&G information, or give "tips" to outsiders who might trade on the basis of such information.

12. Advertising/Promotion Policies

The principle of honesty is a basic operating principle of the Company. Neither deceptive advertising nor questionable promotional activity can ever be justified. These are essential tenets of our dedication to consumers and essential to gaining and keeping their continued loyalty to our brands.

Claims about P&G and competitive products must be substantiated through objective product testing based on sound statistical and scientific principles.

13. Antitrust Policy and Compliance Guidelines

It is Company policy that all employees strictly comply with antitrust laws and the competition and anti-monopoly laws of all countries, states and localities in which they conduct P&G business.

Supervisors and managers are responsible for ensuring that employees under their supervision are aware of and comply with this policy. It is very important for employees to understand this policy so that P&G, and its employees, may avoid even the appearance of an antitrust violation.

The Company's general rule is "NO CONTACT WITH COMPETITORS."

14. Political Contributions and Related Policies

The Company's basic policy is that P&G funds or resources may not be used to make a political contribution to any political candidate or political party anywhere in the world.

Exceptions to the Company's basic policy are allowed only where such contributions are permitted by law and express permission has been given in advance by the Chief Executive of The Procter & Gamble Company.

P&G policy does not permit the use of any P&G facilities or resources by employees for political campaigning, political fund raising or partisan political purposes.

A decision by an employee to contribute any personal time, money or other resources to a political campaign or political activity must be totally voluntary.

Laws covering political contributions by corporations are very complex. Any questions should be discussed with P&G Legal Counsel.

15. Policy Governing Contacts with Government Officials

While honesty is part of the ethical behavior expected in conducting any P&G business, the need for accuracy and honesty applies with special vigor when providing reports or information to governmental agencies.

It is P&G policy to comply with all applicable laws, rules and regulations related to lobbying or attempting to influence government officials. Such information provided to governments must be accurate and government officers must be dealt with honestly and ethically.

16. Transacting International Business

Managers and employees of P&G affiliates doing business around the world are required to conduct their business activities in compliance with the applicable laws of these countries.

The Foreign Corrupt Practices Act makes it a crime to make payment (other than small gifts intended only to expedite performance of routine actions) directly or indirectly to a government official or political party.

United States laws prohibit participation in certain international boycotts. As a result, any employee who receives a request which relates in any way to an international boycott should promptly consult with P&G legal counsel before responding to that request.

It is Company policy to comply with all customs laws and regulations as well as U.S. and foreign Export Control laws. Consultation with P&G legal counsel early on is encouraged to avoid problems.

Other Policies

In addition to the policies described in the Worldwide Business Conduct Manual, P&G has adopted the following policies which are applicable globally.

Animal Testing

Effective July 1, 1999, P&G ended the use of animal testing for current non-food, non-drug products, except where required by law. In the future, animal testing will only be done when required by law or to evaluate the safety of new ingredients and new to the world products for which no validated non-animal tests are currently available. This decision applies to all countries where the Company operates. This policy covers a broad range of packaged goods that represents roughly 80 percent of P&G's total product portfolio, including color cosmetics, shampoos and hair styling products, skin-care products, deodorants, laundry and dishwashing detergents and household cleaners.

Diversity

All leaders within the Company hold themselves and their employees accountable for creating and managing a diverse organization so each individual can contribute to his or her fullest potential. This includes ensuring we comply with the laws of the countries where we operate. In those countries where some personal attributes and characteristics (like race and gender) require affirmative action in terms of hiring and representation, we will continue to meet these requirements.

Individuals will help create and maintain a discrimination-free and harassment-free environment that encourages people to be themselves by eliminating racism, sexism, classism or any other artificial distinction.

All stakeholders associated with P&G (suppliers, contractors, organizations and other individuals) will value diversity so they are better equipped to contribute to the Company's success.

External Initiatives

Listed below are some of the external initiatives that P&G recognizes as consistent and synergistic with its internal policies.

- Alternatives to Animal Testing, http://www.jhsph.edu/~altweb/
- Association Internationale de la Savonnerie de la detergence et des produits d'Entretien (AISE) Code of Good Environmental Practice – as it applies to our laundry products in 15 countries of the European Union plus Iceland, Norway and Switzerland, http://www.euronet.be/washright/uk/who.html
- Global Environmental Management Initiative, http://www.gemi.org
- The Global Sullivan Principles
- International Chamber of Commerce Business Charter for Sustainable Development
- Responsible Care™ – as it applies to our chemicals business at a limited number of facilities.
- Sustainable Forestry Initiative, http://www.afandpa.org/Forestry/
- World Business Council for Sustainable Development, http://www.wbcsd.ch

Organizational Structure & Responsibilities

In September, 1998, P&G announced far-reaching changes to its structure, work processes and culture to accelerate growth. In June, 1999, the Company reported on progress toward this initiative called Organization 2005. The new organization structure, including the move from four geographic business units to seven Global Business Units (GBUs) based on product lines, became effective July 1, 1999. The GBUs are responsible for all strategic, manufacturing and sourcing activities. Each of the new GBUs is expected to integrate sustainability in its business plans.

Each of the new GBUs is expected to integrate sustainability in its business plans. Accountability for sustainable development resides with the GBUs.

A Corporate Sustainable Development department has been formed which focuses on leadership activities best done at a corporate level. This department will focus on:

- Defining the Company's overall sustainability policy
- Identifying emerging sustainability issues
- Managing corporate reporting
- Building relationships with external stakeholders.

This structure builds on, and strengthens, the Company's long-standing commitment to the environment, while taking a more holistic view that incorporates the social and economic concerns of the Company's stakeholders.

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.

Human and Environmental Safety

Professional & Regulatory Services (P&RS) – addresses issues related to products and packages. P&RS 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. They also address other environmental questions or issues as they arise about products and packages, such as their compatibility with waste management systems, natural resource use or issues of "perceived safety." P&RS is also responsible for ensuring 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 P&RS 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.

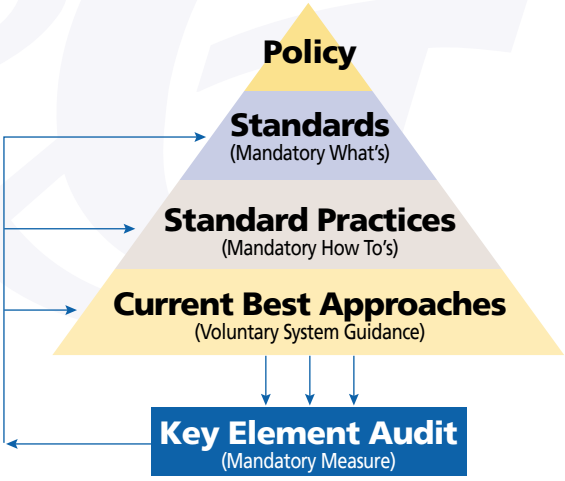
Part of P&RS is the Environmental Science Department (ESD). The ESD is a resource center for basic science which develops procedures, data and understanding that are used to make business decisions and develop environmental risk assessments. As a Company resource, its role is to advance science, and develop protocol for understanding and evaluating the environmental safety and impact of products and packages. It also conducts basic studies in toxicology, microbiology and biodegradation.

Worldwide Health, Safety & Environment Systems

Health, Safety and Environment (HS&E) is a global community of resources responsible for ensuring that the nearly 150 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. More than 1,700 employees spend all or a portion of their time on HS&E management.

The HS&E organization is made up of three disciplines: Industrial Hygiene & Safety (IH&S), Technical Safety and Environmental. The IH&S group focuses on protecting the health and safety of employees. Technical Safety focuses on maintaining the safety of capital assets. Environmental focuses on protecting the environment through legal compliance and reducing emissions to air, water and land.

HS&E's policy is derived from principles, values, legal requirements and regulatory requirements. The policy is translated into action by standards of performance (Mandatory What's), standard operating procedures (Mandatory How To's), and current best approaches (Voluntary System Guidance), and reinforced by mandatory annual audits. A regular reassessment of the standards structure promotes continuous evaluation of the system to improve performance.



P&G applies a single performance standard to each of its worldwide manufacturing facilities. This is reinforced by training and mandatory annual audits. Facilities have flexibility in how they achieve the standard so that local circumstances can be considered and costs can be controlled.

The Company uses audit scores and performance against a set of critical measures to assess how effectively sites are implementing the global standard. These measurements are endorsed by Company management and are conducted semi-annually. Overall results are reported to senior management and to the Public Policy Committee of the Board of Directors.

At each of P&G's manufacturing facilities, training is provided at three levels: awareness training for all employees, subject-specific training for employ-

ees on the manufacturing floor and formal certification process training for site HS&E leaders.

Computer based safety training is being used at 90% of P&G's sites covering over 50% of the plant personnel. The program is currently available in English, Spanish, German, Chinese and Portuguese. Expansion into other languages is anticipated.

Contractor Safety Expectations

The P&G Environmental Quality Policy makes a Company commitment to safe operations. Safe, incident free operation at P&G's sites is a fundamental expectation.

The Health & Safety policy expectations for contractors include:

- Compliance with site HS&E expectations and all applicable laws and regulations.
- Training of contract employees on safety issues as they apply to the job or project.
- Periodic review to assure compliance with site expectations.
- Documentation of reviews, performance and compliance.

Manufacturing Site System Assessments

As a global company, it is important for P&G to evaluate its performance versus recognized international norms. In 1997, P&G commissioned Environmental Resources Management, Inc. (ERM), a highly respected international environmental consulting firm, to perform an independent assessment of its HS&E management system. The purpose was to determine whether the system meets the intent of ISO 14001, a global environmental management standard, as well as the European "Eco-Management and Audit Scheme" (EMAS), a similar regional standard.

The study involved a detailed review of P&G's corporate policies, organizations and work systems, followed by in-depth, on-site evaluations of five typical P&G sites in North America, Europe, Latin America and the Far East. Two additional European sites were also evaluated specifically against the EMAS standard.

During the reviews, ERM identified three areas for further development. These were management and training of external contractors, document control, and reporting on internal audit findings. After P&G addressed these areas, ERM concluded: "In our professional opinion, the design and implementation of P&G's environmental management system meet the intent of ISO 14001." They also issued a similar statement that "P&G's facilities in Europe, Middle East and Africa meet the intent of EMAS." A more detailed review of the project is available on request.

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 those 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.

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 the 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 within each Key Element. Annual assessments are conducted to verify compliance with the profile requirements.

Human Resources

Human Resources ensures that P&G has the employees 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.
- Open job listings to identify potential growth opportunities.

Global Medical Systems

The well being, productivity, and innovativeness of employees are critical elements to P&G's competitive advantage. The Global Medical network advises and assists management and employees in assuring a safe, healthy work environment through the delivery of preventive health and clinical services which optimize business contributions.

The Global Medical network manages health issues and allegations which may impact employees, technologies, and brands. The work priorities of the Global Medical network are to:

1. Save lives (protect employees)
2. Obey the law (protect Company reputation)
3. Protect key technologies (protect brands)
4. Enhance speed to market (protect emerging technologies)
5. Optimize employee productivity.

Information Sharing

P&G's presence on the Internet began in March, 1996, when the corporate site went live with the U.S. Career Center. Since then, P&G's presence on the Internet has expanded considerably. Today, the Corporate Web Site, http://www.pg.com/, provides information about the Company as well as provides links to the Career Center, Investor Information, and information on P&G products.

P&G also has developed an internal computer network for employee communications. The Intranet gives employees access to policies, data, publications, news releases, stock information, training opportunities, technical information and the ability to communicate with colleagues around the world.

Community Contributions

P&G makes financial and in-kind contributions to organizations thoughout the world. Company managment has long believed it has an obligation to use its resources for the long term benefit of society as well as the Company.

To carry out this obligation, P&G makes gifts to organizations which improve educational quality and access, and supports activities which enhance the quality of life for all residents in communities with P&G operations. The effectiveness of these contributions is enhanced by P&G employee and retiree volunteer activities.

Recipients include the colleges which train P&G employees, United Way organizations, cultural institutions, social service and disaster relief agencies and conservation groups.

Management Systems for Suppliers and the Supply Chain

Worldwide, P&G has over 50,000 suppliers and contractors including small, entrepreneurial firms and large multinational conglomerates. The Company bases its worldwide supplier relationships on fundamental concepts of honesty, fairness, mutual respect and nondiscrimination. P&G encourages continued supplier support of all kinds which enhances prosperity and builds sound, long-term relationships.

The Company respects and values healthy competition, believing it is essential to a sound business system. At the same time, additional efforts are made to encourage minority and woman-owned suppliers to do business with P&G.

In addition to developing new technologies that make product innovations possible, suppliers are a source of cost saving ideas and efficiency improvements that help improve the overall value of P&G products to consumers.

P&G's purchasing organizations use an overall supplier management approach known as Supplier Business Development (SBD). The SBD approach facilitates effective relationship management and helps both parties achieve the appropriate business results. Key, strategic suppliers are identified and multi-functional teams are established to better manage the interdependency in these key relationships.

Sourcing decisions are made on the basis of best total value to the Company. Supplier relationships are leveraged across business units and regions. Suppliers are always treated honestly, ethically and fairly. Stable sources of supply are highly desirable. Supplier research and development efforts are also of major value to P&G and are recognized and factored into business allocation decisions.

P&G views purchasing as an integrated part of its overall business strategy and seeks to integrate the safety and environmental aspects of raw material purchases into its everyday relationships with suppliers. The Company has also established programs with suppliers to improve one or more aspects of a raw material's environmental profile, or to help address new environmental concerns. The following are several examples of such programs:

- Plastic bottles which contain recycled resin
- Surfactants and other product ingredients with improved biodegradability
- Elemental chlorine free and totally chlorine free bleaching processes for paper pulp
- Sustainable forestry practices.

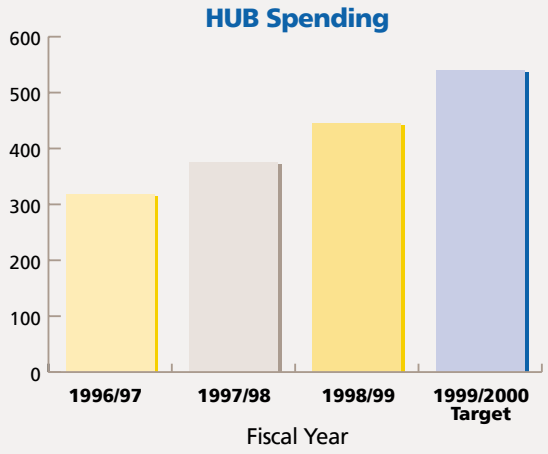
As the Company explores the economic and social aspects of sustainability as they relate to its performance, they will be integrated, as appropriate, into purchasing practices and specifications. ■

Historically Underutilized Business Program

In 1972, P&G established a minority supplier program in the U.S. to identify and work with minority-owned businesses. At that time, P&G spent $44,000 with six minority suppliers. In 1981, the Company assigned its first full-time manager to lead and develop this effort. Today, the Historically Underutilized Business (HUB) Program is staffed by six full-time employees who provide minority suppliers with the following assistance:

- An equal opportunity to do business with P&G
- Coaching and feedback
- Financial support, where it is needed
- Matches between P&G buyers and qualified suppliers
- Timely payment
- Realistic and understandable specifications
- Development of additional opportunities with other P&G vendors, including both supplier and strategic-alliance opportunities.

P&G's purchases from minority businesses in the U.S. have grown from $76 million in fiscal year 1988/89 to $445 million in fiscal year 1998/99. The target for 1999/2000 is $540 million. By fiscal year 2001/2002, P&G will spend about 6 percent of its U.S. business spending with HUB firms.



Part 5. Stakeholder Relationships

The P&G Statement of Purpose identifies the Company's key stakeholders – **Consumers, Communities, Employees and Shareholders.** Others include suppliers, trade customers, retailers, public interest groups, regulators, insurers, academia, investment groups, governments and industry groups.

Key Stakeholders Groups and Our Interactions With Them

Consumers

Consumers are the people who buy P&G products. Understanding their needs and concerns has been a priority of the Company for many years.

P&G was one of the first companies in the world to hire full-time professionals to study consumer needs. In fact, the Company has been gathering consumer feedback for more than 70 years.

Many of the research techniques now widely used across industry – focus groups, attitude surveys, product tests – were pioneered by P&G. Today, the Company interacts with more than seven million consumers a year throughout the world to learn what people need to make their lives better.

From this process P&G has learned that consumers expect great performance and value in the products they buy. Consumers want products that are safe to use, safe for the environment and safe to manufacture. They expect the Company to behave responsibly and operate within the requirements of the law.

Many want products made efficiently – avoiding waste, and using resources wisely. Moreover, consumers expect that the Company will answer any concern they have about products or the performance of products.

To understand the needs of consumers, P&G interacts with consumers in the following ways:

- Attitude surveys
- Focus groups
- Habits surveys
- Products tests
- Test markets

- National market shares
- Product web sites
- Toll free telephone numbers

Understanding consumer needs helps P&G design and deliver products that better meet these needs. Products that have been developed through interaction with consumers are the ones most likely to survive competition in the marketplace.

Communities

Communities that host P&G facilities have a stake in the local operations and performance of the Company. With on the ground operations in over 70 countries, P&G is intimately involved in the life of communities around the world. Clearly, the Company has a stake in these communities as well.

It is in these communities where Company employees live, raise their families, educate their children and spend their leisure time.

P&G interacts with communities in the following ways:

- Company employees play active roles in their communities by volunteering for local non-profit or-

ganizations and schools, providing business advice and perspective for community projects, conducting business training for teachers and developing conservation projects.

- The Company provides financial assistance to selected community projects. This includes funding for education, cultural activities, health and social services and disaster relief.
- P&G sponsors lectures, exhibitions, educational projects and site open houses that provide opportunities to reach out to communities.
- The Company assists communities in planning for and conducting emergency response drills.
- P&G conducts and sponsors research projects based on community concerns.
- P&G has a formal Volunteer Support Program to help employee and retiree volunteers throughout the U.S.

Public Perception Measurement System

P&G's Mehoopany, Pennsylvania, USA, paper plant has developed a process to identify community concerns and perceptions about the plant. Plant leaders conduct periodic surveys of residents and routinely talk to community leaders. This process helps the plant identify and prioritize community concerns, measure progress towards addressing these concerns, and builds trust and credibility with the community. Recent issues worked with the community include plant odor improvements, local traffic concerns, and community education and information about plant efforts to protect the Susquehanna River.

For example, P&G is working with communities to address solid waste management. P&G has adapted the emerging techniques of lifecycle inventory (LCI) to the waste management field, and has shared the findings with community officials as a way to estimate the environmental and cost implications of handling solid wastes.

Based on a P&G scientist's instruction, students from the University of the Philippines collect water samples.

All ages participate in Ökopannon's waste recovery pilot project in Hungary.

Understanding and Sharing Information on Waste

- SUSTENTA, a Mexican solid waste association promoted by P&G, coordinated an international seminar on Integrated Solid Waste Management in October, 1998.
- P&G scientists are assessing waste water systems around the world to ensure that products designed to be flushed after use are compatible with household and municipal wastewater treatment systems in the Company's growing markets.
- P&G collaborated with the University of the Philippines, Peking University and the Chinese Academy of Science to better understand the fate of products and product ingredients in municipal waste water systems in the Philippines and in China.
- P&G and 13 other companies in Hungary, have established Ökopannon, a packaging waste recovery organization, to support the development of integrated solid waste management systems for local communities.
- Through Corporations Supporting Recycling, a Canadian industry association, P&G helped guide the development of a lifecycle inventory tool for use by communities to guide decisions on waste treatment options.

Employees

P&G's 110,000 employees are a key stakeholder group. Employees are the driving force behind everything the Company does. As declared by the Company's Core Values Statement, "The men and women of P&G will always be our most important asset."

P&G asks its employees for feedback regarding their career goals, their thoughts on organizational structure of the Company, and their experiences with other stakeholder groups.

P&G interacts with employees in the following ways:

- Career feedback and development are managed using Work & Development Plans.
- Employee surveys are conducted periodically.
- "Connections" - an informal discussion forum on the Company's Intranet, enables all employees to interact with the CEO and senior management.

Periodic questionnaires on the Company's Intranet allow employees to provide feedback on the usefulness of selected P&G publications.

Shareholders

Shareholders have a financial stake in the performance of the Company. As of July 23, 1999, there were 278,245 shareholders of P&G stock. Shareholders are owners of the Company.

P&G reaches out to shareholders in the following ways:

- An annual meeting for all shareholders is held in Cincinnati each year.
- The investor relations web site offers information to shareholders and invites their comments, questions, and feedback, http://www.pg.com/investor.
- An automated, toll-free telephone number (1-800-764-7483) is available for shareholder information 24 hours a day. (1-513-945-9990 outside the U.S.)

In addition to the activities listed above, the Company is experimenting with a number of programs to interact with and better serve its corporate stakeholders.

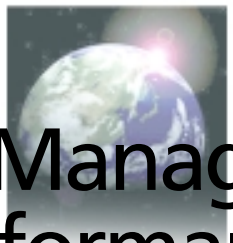
Other Stakeholder Groups

In addition to the four key groups, the Company recognizes that there are other stakeholders. These include suppliers, trade customers, retailers, public interest groups, regulators, insurers, academia, investment groups, governments and industry groups.

The Company reaches out to these groups in the following ways:

- Company publications are available on subjects ranging from Community Contributions to Environmental Management Systems.
- Educational programs covering a variety of issues including; dental care, women's health, solid waste and parenting.
- Participation in industry groups, like the World Business Council for Sustainable Development.
- Working with third party organizations to address stakeholder concerns, like the European Partners for the Environment.

P&G is continuously seeking ways to reach out to stakeholders. Through these programs, P&G is learning more about the needs of a wide variety of stakeholders around the world. ■



Part 6. Management Performance

P&G regularly measures its management performance against mandatory standards and its internal policies. These measurements provide a snapshot of the Company.

Compliance with Laws and Regulations

There are numerous health, safety and environmental requirements worldwide. Facilities 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 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.

Past three years' data on environmental, transportation, and worker health and safety violations and interventions follow:

	1998/99	1997/98	1996/97
Number	46	54	56
Fines	$33,250	$73,100	$14,900

A breakdown of 1998/99 Notice of Violations (NOVs) and Occupational Safety & Health Act (OSHA) interventions follow:

	Number	Fines
U.S. Clean Water Act	20	$2,600
U.S. Clean Air Act	2	0
U.S. Department of Transportation	5	$25,000
U.S. RCRA (hazardous waste) Paperwork	4	0
U.S. OSHA Interventions	12	$150
Nuisance Ordinance (non-U.S.)	1	$4,000
Wastewater (non-U.S.)	2	$1,500
	46	$33,250

Most NOVs associated with the US Clean Water Act were wastewater related (i.e. pH and oil or grease) involving 9 separate sites – all of which discharged to municipal treatment systems.

Whenever a facility receives a NOV, management determines the cause of the noncompliance and develops an action plan to prevent its recurrence. An internal audit group then works with business management to ensure that the corrective action has been implemented. In each case above, the NOV has been resolved.

U.S. OSHA interventions included any employee or contractor complaint or incident that required OSHA follow-up. Last year's interventions also included three routine visits or scheduled inspections. It has been three years since the last serious OSHA citation.

HS&E Program Costs

There are two aspects of Health, Safety & Environment (HS&E) program costs;
1) capital costs for new site HS&E equipment
2) people and operating costs for existing facilities.

Capital costs for 1998/99 were $44 million to ensure compliance in new facilities. This included the purchase and construction of pollution control equipment such as wastewater pretreatment systems and air emission controls.

HS&E costs for operating existing sites in 1998/99 were $193 million of which $14 million was offset by revenue from recycling activities.

Environmental Liabilities

P&G is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Accrued environmental liabilities for remediation and closure costs at June 30, 1999, were $58 million, and in management's opinion, such accruals are appropriate based on existing facts and circumstances. Current year expenditures were not material.

Typical P&G Superfund Site Interaction

P&G has had limited Superfund liability due to its strong waste management practices which have been in place since 1970. As a result, P&G's typical involvement in Superfund sites has been as a minor Potentially Responsible Party (PRP). The Casmalia situation described below is representative of this involvement.

The Casmalia Superfund Site is an inactive, commercial hazardous waste treatment, storage and recovery facility located in Santa Barbara County, California, USA. In 1993, the U.S. Environmental Protection Agency (EPA) notified a number of waste generators of their potential liability for environmental problems at the site. Fifty-four of these parties, including P&G, subsequently formed the Casmalia Steering Committee ("CSC") and in 1996 negotiated and executed a consent decree ("Decree") with EPA to clean up the site. The Decree provides for certain remedial work including the collection and treatment of liquids, the design and construction of landfill caps, and the development of other response actions. The CSC members are to fund and perform Phase I work. During the next 3 phases, the roles of the CSC and others have not been defined at this time and will depend in part on EPA's current efforts to reach cash-out settlements with numerous PRPs. P&G's share of the CSC cost is 0.3%.

The Nenagh Plant

P&G was recently fined for an incident at its Nenagh plant in the Irish Midlands that occurred in August 1996. The findings concluded that process waste, to a small degree originating from the plant, together with waste from others leaked into a local well. The Company is disappointed at the fine. It continues to maintain that the incident was a result of significant deficiencies in the local drainage system, not under its control, to which it legally discharged its treated effluent. The Company regrets its indirect involvement in this incident and the inconvenience caused to Nenagh residents.

The Sacramento Plant

In May 1999, approximately 31,800 liters of product raw material overflowed from a tank in P&G's plant in Sacramento, California, USA. As a precaution, the Sacramento Fire Department was contacted. The fire department's Hazardous Materials Team reported there was no threat to public health. The spill was mostly contained in a concrete holding area surrounding the tank. The material was a mid-cut ester which is not hazardous, even though the local paper reported otherwise. The plant has reinforced its procedures to prevent such occurrences in the future.

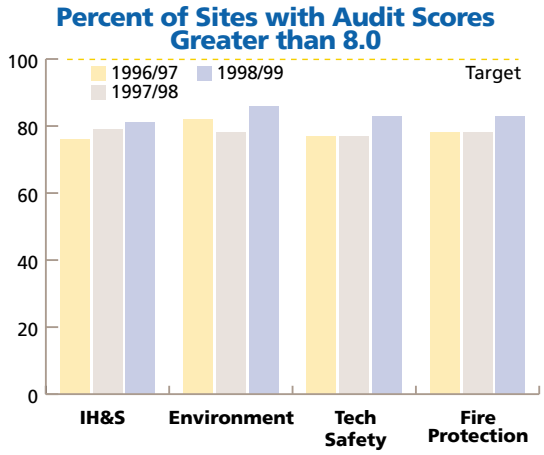
Performance Against Internal Standards

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

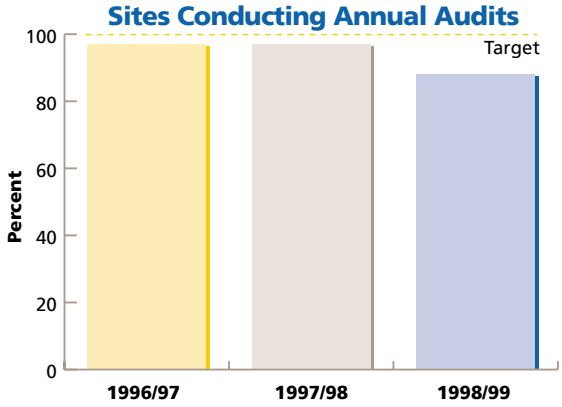
HS&E Audits

The P&G HS&E Audit Programs are designed to ensure compliance with federal, 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.

Audits measure performance against a mandatory set of standards and standard operating procedures. The target performance is eight or better on a ten point scale. Currently over 80% of sites worldwide are at the expected performance for Industrial Health & Safety (IH&S), Environmental Safety, Technical Safety and Fire Protection. Most, if not all, of the remaining sites not at target are acquisitions and joint ventures that have been with P&G for less than six years.

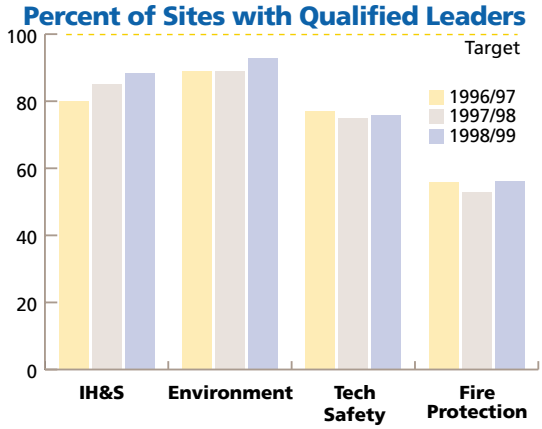


Currently, 88% of the sites are receiving annual environmental audits. For the third year in a row, Europe has completed 100% of its audits.



Site Leadership Training

Another key indicator of system capability is the percentage of sites with trained and qualified environmental leaders. Leadership candidates train for an extensive period of time on site prior to attending a week long school where their knowledge and ability to handle special situations are assessed. Only then are candidates considered qualified. Currently, over 50% of sites worldwide have leaders qualified by the Corporate staff.



This is the last year Environmental, Technical Safety, and Industrial Hygiene & Safety will be reported separately since the Company has moved to an integrated HS&E Management System. Fire Protection will continue to be managed separately.

Understanding and balancing economic, environmental and social issues are an important part of leadership in sustainable development. The HS&E management system has undergone a tremendous change with the integration of the three systems at all sites. While P&G has reached important levels of success in its health, safety and environmental efforts, the Company is committed to continue to pursue technology and systems that make it a benchmark.

Health, Safety & Environmental Management System Improvements

One of the recent improvements is the complete redesign of the Company's HS&E Management Systems. Environmental, Technical Safety and Industrial Hygiene & Safety have merged into one system. Early results have shown that the systems have been significantly simplified while critical technical requirements have been maintained.

The highlights of the HS&E management system redesign are:

Work Process Simplification – The new system consolidates three programs into a single program with one set of standards and standard operating procedures, one integrated audit, and one set of HS&E priorities for each site.

Improvements to Increase Productivity – Management systems and audit requirements have been reduced.

Increased Focus on High Risk & Technology Systems – Sites are focusing on "high risk" and critical systems.

External Recognition

Below is a list of key awards and recognition received by the Company over the past year.

Company Awards

- No. 1, America's Most Admired Companies, Soap and Cosmetics Industry, *Fortune Magazine,* 1999.
- Interactive Marketer of the Year, *Advertising Age,* 1999.
- Hispanic Corporate 100, *Hispanic Magazine,* 1999.
- Annual Worldwide CIO 100 for use of information technology in business, *CIO Magazine,* 1998.
- Enterprise Value Award for achieving dramatic business value through innovative application of information technology, *CIO Magazine,* 1998.
- Worldwide Best in Class Data Wide-Area Communications Network, Gartner Group Benchmarking, 1998.
- 2nd Most Admired Company in Venezuela, *Inversiones Magazine,* 1999
- ProGro and Power Ranking Awards for non-edible grocery and health and beauty care, *Progressive Grocer Magazine,* 1998.
- "Brand of the Year" awards to: Pantene Pro-V, "Best Shampoo Brand;" Tide, "Best Washing Powder Brand;" Blend-a-Med, "Best Toothpaste Brand" and the overall Company, "Most Trusted Organization" — ahead of Russian flagship companies, Russia, 1998.
- Donor of the Year, Second Harvest, 1998.

Employer Awards

- Top 50 Best Companies for Latina to Work for in America, *LATINA Style Magazine,* 1999.
- Optima Program, Spanish Institute for Women in recognition of P&G's diversity efforts, 1999.
- No. 11 in a list of the top 50 companies which accommodate employees with disabilities, *Careers and the disABLED Magazine,* 1999.
- 100 Best Companies for Working Mothers (13th year), *Working Mother Magazine,* 1999.
- 100 Best Companies to Work For in America, *Fortune Magazine,* 1998.
- Top 25 Companies for Executive Women, *Working Woman Magazine,* 1998.
- Catalyst Award for demonstrated success at moving women into leadership positions, Catalyst, 1998.
- Top 100 Employers, *Black Collegian Magazine,* 1998.

P&G received the Catalyst Award for demonstrated success at moving women into leadership positions.

- No. 1 in Recruiting and Retention Survey, National Society of Black Engineers, 1998.
- Premio a la Equidad (Equity Award), to P&G Peru in recognition of P&G's labour policy protecting the rights of women, Peru Ministry of Women's Affairs and Human Development, 1998.
- Second Annual Golden Ladder Award, as one of the top 10 companies that accommodate employees with disabilities, *WE Magazine,* 1998.
- Employers Hall of Fame, Careers and the Disabled Magazine, 1998.

Environmental Awards

- William H. Phelps Environmental Award; Venezuela Headquarters, Baruta Municipality, Caracas, Venezuela, 1998.
- Environmental Protection Award; Tianjin Bar Soap Plant, Mayor, Tianjin City, China, 1998.
- Corporate Award; Urban Litter Partnership, Keep America Beautiful, 1998.
- Environmental and Energy Achievement Award; Albany Plant, New York, USA, American Forest & Paper Association, 1998.
- Health, Hygiene and Education Award, Bombay Chamber of Commerce and Industry, 1998.

Safety Awards

- Award of Best Honor for the best safety record; Ivorydale Beauty Care Plant, Ohio, USA, National Safety Council, 1998.
- Excellence in Safety Award; Canada Manufacturing Facilities, Canadian Chemical Producers, 1998.

External Activities

Sustainability Activities

- P&G promoted the creation of a local business council for sustainable development in Venezuela. The new organization, CEVEDES, is part of the global network of business councils affiliated with the World and Latin American Business Councils.
- An International Sustainable Development Symposium in Taipei was coordinated by P&G with the Taiwan Soap & Detergent Association. Attendees included non-governmental organizations, industry, academia and government officials.

Social Activities

- A seminar in Cincinnati, Ohio, USA, to encourage local companies to employ people with disabilities was hosted by P&G, in May 1999.
- P&G created an awards program to honor outstanding family oriented television programs in conjunction with the Forum for Responsible Advertisers, in April 1999.
- P&G joined a new alliance, comprised of 15 organizations from private and public sectors, dedicated to fighting vitamin A deficiency, in March 1999.
- March 1999, The William McConnell Education Center, an environmental and historic park, opened in Lexington, Kentucky, USA. P&G was a key funding partner. The site, previously an urban industrial dump site, now has nature trails and a visitor center.
- P&G's Pampers brand and Fisher-Price announced a joint project to donate and renovate toddler playgrounds throughout Western Europe, in February 1999.

Economic Activities

- June, 1999, P&G Eastern Europe completed the initial $50 million investment program for the Novomoskovsk plant in Russia.
- P&G announced plans to invest $150 million to expand its existing plant in Chachoengsao, Thailand, in May 1999.
- March 1999, P&G, Johnson & Johnson and Eastman Kodak formed a Consumer Products Manufacturer's Consortium to create and license a global security standard which will help prevent product counterfeiting and theft.
- P&G announced plans to increase production capacity in bar soap and liquid laundry detergent, and a capital investment of $20 million at the Ivorydale Plant in St. Bernard, Ohio, USA, in October 1998.
- August 1998, P&G hosted a meeting of interactive marketing and technology industry stakeholders to accelerate development of effective advertising models and to identify ways to ensure interactive media is available to all people.
- P&G announced plans to convert its soap plant in Hamilton, Ontario, Canada, to a distribution center. The Company also announced plans to build a 300,000 square foot facility in Butler County, north of Cincinnati, Ohio, USA, to house its Manufacturing, Supply and Technology Group in August 1998.

Environmental Activities

- March 1999, Phase 1 of GREAT-ER, a tool to predict environmental concentrations of down-the-drain chemicals in selected river basins in Europe, was completed on schedule. P&G led the project, involving partners from industry, academia and regulatory agencies. The tool, a CD-ROM modeling program, was distributed at the European Union Technical Meeting for Risk Assessment.
- Summer 1998, Automobile gasoline cap checking program to improve air quality in Cincinnati, Ohio, USA, was sponsored by P&G, other industries and a regional council of governments.
- A promotion to raise money for tree planting in Japan was conducted by P&G in cooperation with 55 retail stores. The promotion resulted in about 15,000 trees being planted by volunteers. ■

Part 7. Operational Performance

Overview

P&G has developed a comprehensive system of measuring performance throughout the Company. The Company measures operational performance in order to drive continuous improvement. This approach enables the Company to report data on a wide range of operational categories. Some of these data are included in this report.

Process for Data Collection

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

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

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

P&G's data collection systems 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 the accuracy and consistency of the data.

Acquisitions and Divestitures

All facilities that operate during the fiscal year reporting period are included in the data of this report. For divestitures, wastes and emissions are estimated for the last year that they operated.

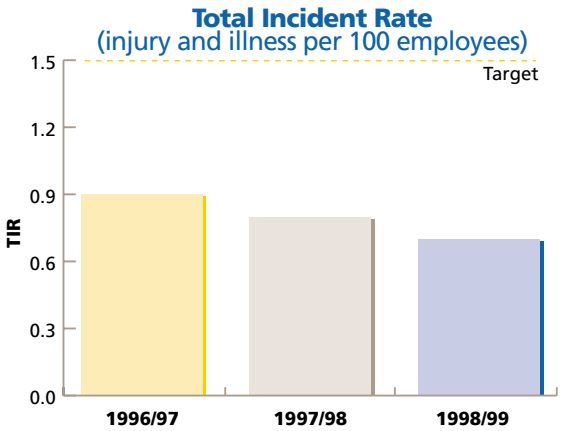
Industrial Hygiene & Safety

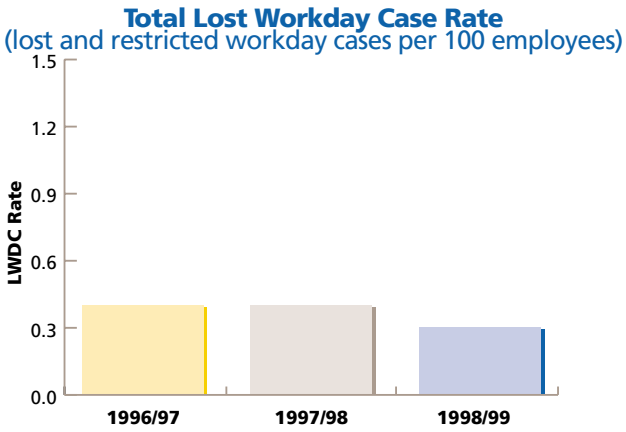
The health and safety of P&G employees are of paramount importance to the Company.

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

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

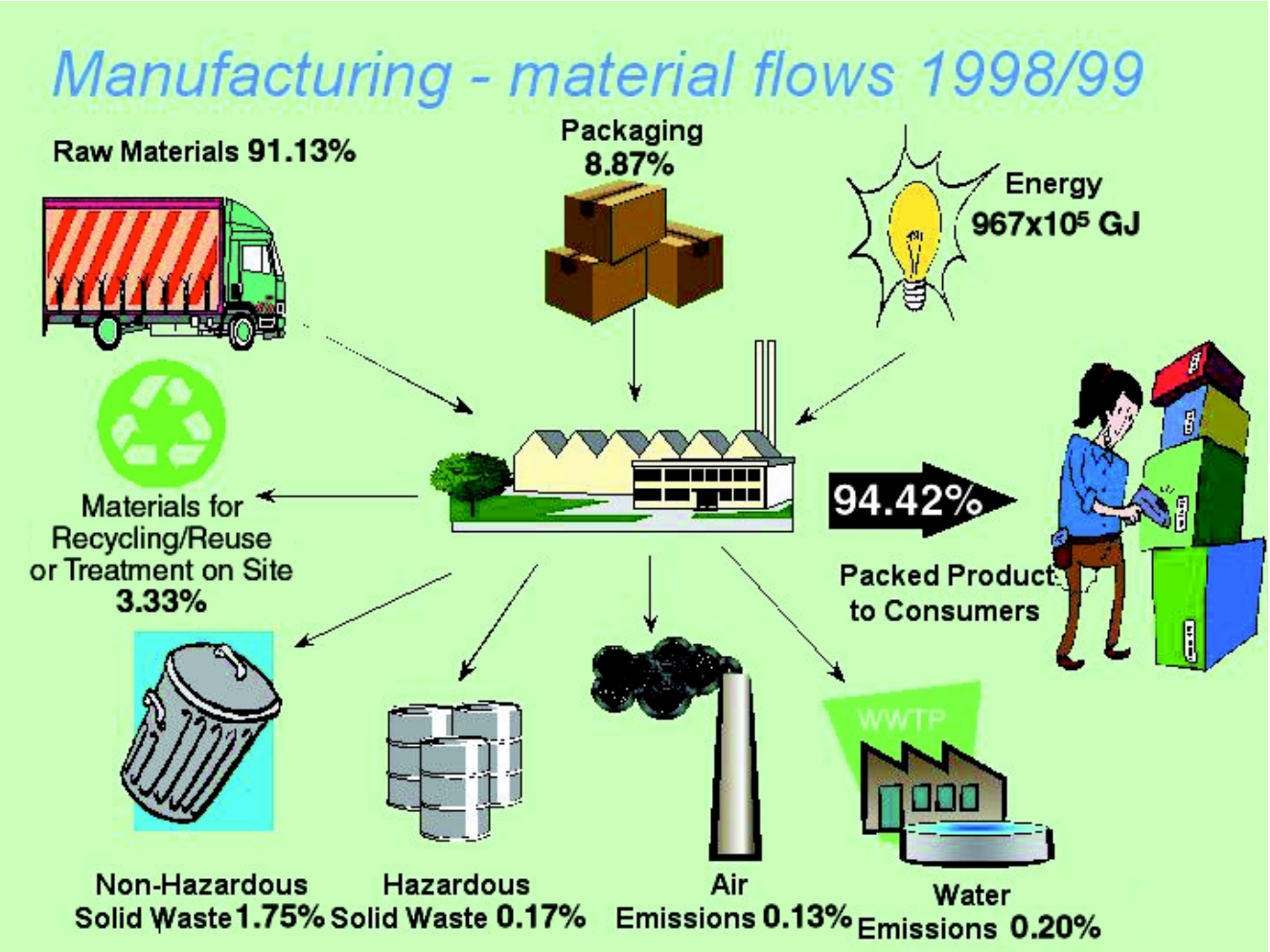
The following data are based on criteria established by P&G for use at all worldwide facilities. The data are representative of all P&G manufacturing facilities, worldwide.





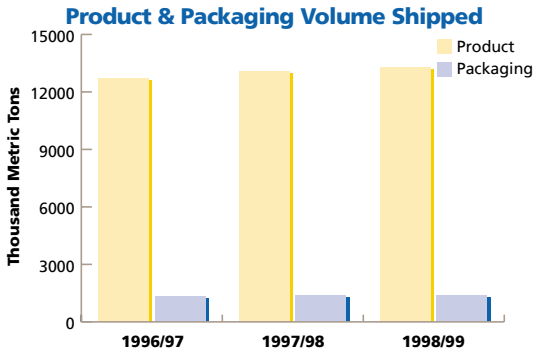
Product, Packaging and Manufacturing Data

As the diagram below illustrates, P&G's use of material resources is highly efficient. The vast majority of materials are converted to products and the output of manufacturing waste (which are largely non-hazardous) is low. To give the reader a more comprehensive understanding of materials used, data, in metric tons, for packaging and manufacturing operations are provided on page 5.

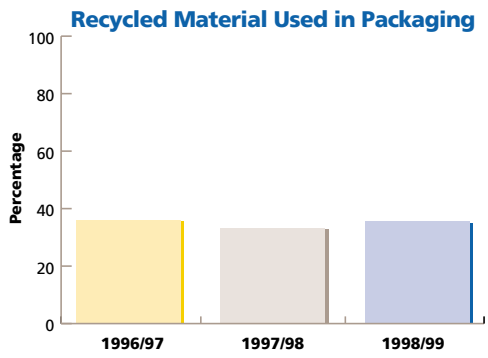


Product & Packaging Trends

The Company achieved record shipments for the year ending June 30, 1999. Packaging for product remains less than 10% of total volume shipped.



Recycled material is used in a variety of packages from corrugated shipping cartons to plastic bottles. More than 30% of the material that P&G uses for packaging is from recycled sources.

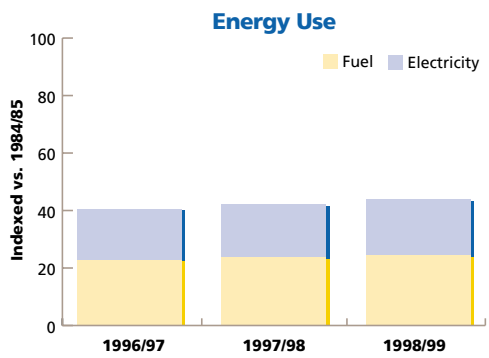


Manufacturing Trends

With the exception of Energy, the data in this section have been indexed against a 1990/91 baseline, and adjusted for sales growth. For absolute figures, see page 5 of this report.

Energy Use

P&G's use of energy is primarily concentrated in its manufacturing processes. This year energy use increased slightly versus last year, however, it is 44% of the 1984/85 baseline, adjusted for sales growth.



The Company's energy management program consists of loss analyses at the site level and life cycle cost analyses during the engineering phase. At the site level, energy use is considered a loss. Losses are defined as anything not shipped out the door as product. When energy is identified as a major loss at a site, it receives focus for reduction.

Energy use for new projects is evaluated by looking at costs through the life cycle. This analysis compares capital costs to ongoing expenses. For example, spending money to fully insulate a building is compared to the ongoing expense of heating or cooling the same building.

Water Use

To date, P&G has not corporately tracked water use at its facilities. This year water tracking has been initiated at all manufacturing sites worldwide, and will be reported next year.

A number of facilities have already identified water use as an area for reductions. These facilities have reduced water use through recycling, changes in raw material sources and reusing water to irrigate green areas around facilities.

Reductions in Water Use

Here are examples of how some plants are reducing water use.

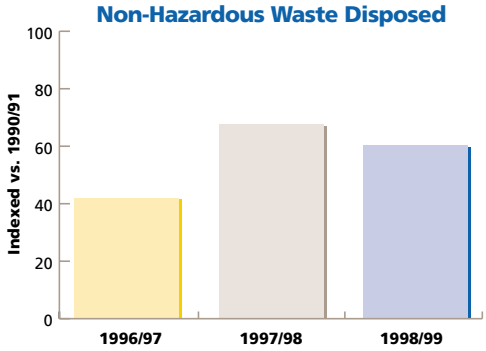
- Tissue and towel facilities in Witzenhausen, Germany, and Apizaco, Mexico, have implemented long-term process changes to increase water recycling. Also, on-line membrane filtration, that allows the use of recycled water in the paper making process, has been successfully pilot tested at Witzenhausen.
- The Mariscala Beauty Care plant in Guanajuato, Mexico, is now treating all process water and using the water for on-site irrigation.
- Through a series of capital improvements, the Vallejo detergent plant in Mexico City, Mexico, has become a "zero waste water" process operation. The plant reuses 100% of its industrial waste water.
- In the Philippines, the Cabuyao soap and detergent plant changed raw material sources to reduce process waste and water use.
- The Kansas City coffee plant, Kansas, USA, has installed a closed-loop system for cooling water, reducing water use and effluent from the facility.
- The Beirut, Lebanon, Fabric and Home Care plant reduced the amount of COD generated by 66%. The facility controlled leaking pumps and valves and installed a recycling system for the process washout water.

Non-Product Output (Waste)

Each facility worldwide tracks and reports all waste that leaves the site. In this section, waste is reported by management process.

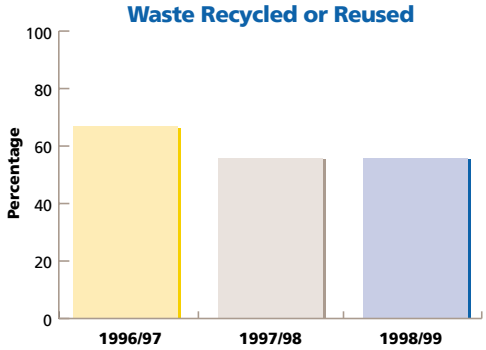
Non-Hazardous Waste Disposed

Non-hazardous waste disposed is defined as the solid waste landfilled, incinerated, or specially treated. Recycled waste is not included in this measure. Disposed non-hazardous waste decreased 7.4 index points this year, due to increased awareness at the plants, improved separation processes, and an increase in recycling. "Design Manufacturing Waste Out" efforts on upstream projects also continue to reduce waste.



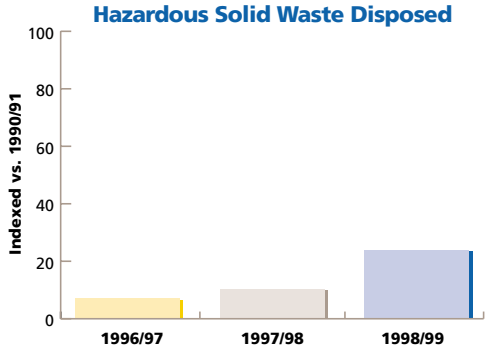
Waste Recycled or Reused

Recycling and reuse have been significant efforts within the Company to minimize impacts on the environment. Over the last 3 years the recycling/reuse rate has ranged from 56% to 67%, and contributed between $14 and $20 million in revenue annually.

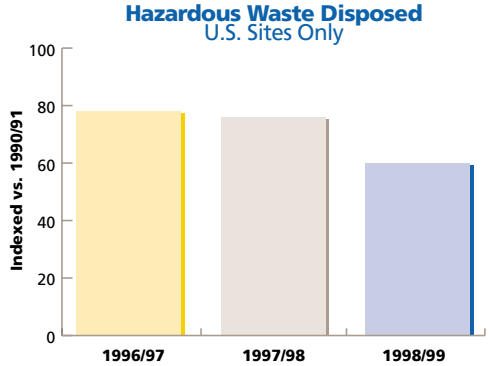


Hazardous Waste Disposed

Hazardous wastes are defined by regional policies and local rules and thus vary among regions. Globally, reported hazardous waste increased in 1998/99 because wastes that are not classified in some countries or regions are now being reported as hazardous waste. This also includes 12,000 metric tons of contaminated soil from the Manchester, UK, site.

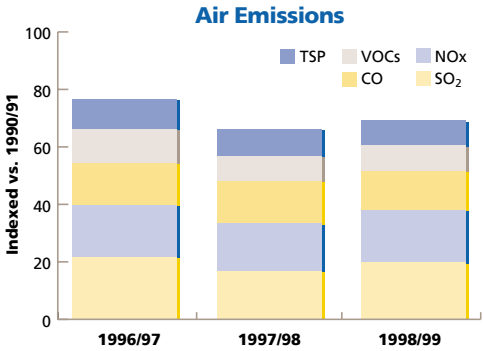


In the U.S., a strong focus on reduction, recycling and material substitution has reduced the amount of hazardous waste requiring disposal over the last three years. To further reduce risks, the Company inspects hazardous waste sites annually and maintains a limited number of hazardous waste handling and disposal vendors.

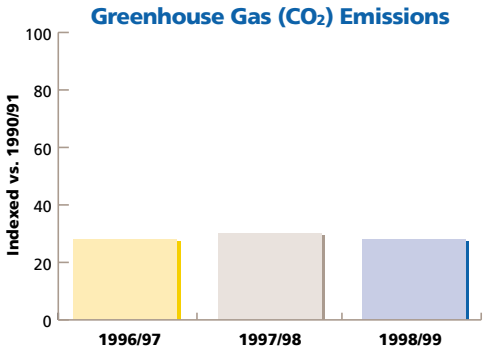


Non-Product Output to Air

Sites monitor total suspended particulates (TSP), volatile organic compounds (VOCs), carbon monoxide (CO), nitrogen oxides (NOx), and sulfur dioxide (SO_2). The total amount of air emissions has increased three index points from last year due to a global expansion in the Tissues & Towel business and better worldwide reporting.

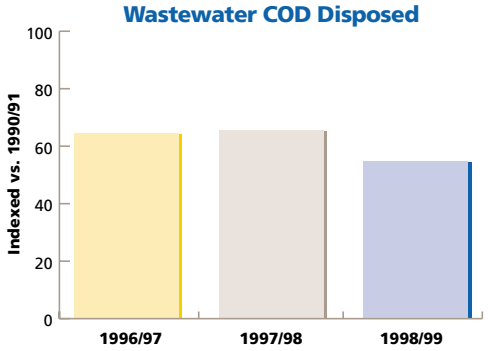


Carbon dioxide emissions have remained flat, and are 70% lower than the 1990 baseline. The decrease from 1990 resulted from the sale of pulp mills in the United States and Canada, and the conversion from coal to natural gas in the United Kingdom and China.



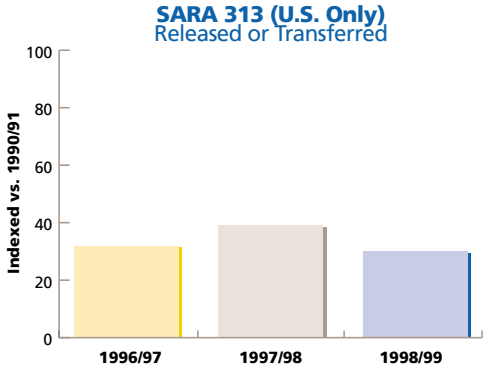
Non-Product Output to Water

Effluent waste includes oxygen consuming substances in water (measured as COD – chemical oxygen demand) but excludes water. The amount of COD leaving sites has decreased by nearly eleven index points this year. The main contributions to this reduction were from the Ivorydale site in Cincinnati, Ohio, USA, through higher reliability and effective loss analysis and lower production at the Sacramento, California, USA, plant.



Pollutant Release and Transfer Registers

Globally, many countries are considering some type of public reporting of toxic releases and transfers. In the U.S., P&G facilities report annually on the release of toxic chemicals to the land, air and water. These releases are defined in the U.S. Superfund Amendments and Reauthorization Act (SARA) by the U.S. Environmental Protection Agency. Total releases and transfers are down 70% versus the 1990 baseline.



Reductions in Material and Energy Use and Waste

Here are a few examples of waste, material and energy reductions at P&G facilities:

- Energy use in the Crailsheim, Germany, paper plant has been reduced by reusing heat from air compressors.
- The Millstone coffee plant in Henderson, Kentucky, USA, has made process changes that reduce both air emissions and energy use.
- The Green Bay plant, located in Wisconsin, USA, found a use for fines (short paper fibers). The plant pays to send the fines to a local company for re-use in lightweight paperboard production. An on-site incinerator, previously used for fine disposal, has been shut down.
- The Lucca, Italy, site installed machinery to separate plastic and paper scrap from finished product. The plastic is sold, and the paper is recycled within the plant.
- The Pampers plant in Euskirchen, Germany, is producing a new bikini-shaped baby diaper that eliminates trim waste from the manufacturing process.

Pampers Plant in Euskirchen, Germany

Social Performance

Diversity

A diverse workforce is a business advantage in understanding the needs and differences of people around the world. P&G expects its workforce to become even more diverse in the future. This is a global policy and programs are in place for continual improvement in all regions. The percentages of minority and women employees in the United States are shown in the following table:

	% Minorities			% Women		
	1998/99	1997/98	1996/97	1998/99	1997/98	1996/97
Management	15.0	15.6	15.5	38.4	38.0	37.5
Technicians, Laborers, Service Workers	18.1	18.6	18.6	41.7	41.1	40.8
Total	**16.9**	**17.4**	**17.4**	**40.4**	**39.9**	**39.5**

Disabilities

Employing people with disabilities is part of P&G's commitment to diversity. The Company works with employees with disabilities to ensure a positive working environment so that they can develop to their full potential. P&G is committed to improve its hiring of people with disabilities and will focus on the following:

- Nearly one million dollars will be spent in the next year to upgrade facilities and offices to meet the needs of workers with disabilities.
- A master plan is being prepared for all of the Company's technical centers to determine how people with disabilities can be accommodated and welcomed in the workplace.
- A team of P&G employees is visiting major companies across the US to benchmark what the best are doing regarding hiring and accommodating people with disabilities.

Community Donations

Total P&G philanthropic contributions in 1998/99 were $73.2 million, an increase of $6.39 million (+9.5%) versus 1997/98. This represents 1.25% of worldwide pre-tax earnings versus 1.17% in 1997/98. Contributions for the past three years are provided in the following table:

Worldwide P&G Philanthropic Contributions

	1998/99	1997/98	1996/97
Total	**$73,245,604**	**$66,859,204**	**$60,616,378**

Here are a few of the ways P&G is making a difference in the communities where it operates:

For ten years, P&G has partnered with Earl Haig Secondary School in Toronto, Canada, to teach high school students leadership and business management skills that prepare them for future careers.

- In Canada, P&G has supported KEY, a foundation providing environmental education to teachers. Each year, the program holds three week-long summer conferences for teachers who then apply what they learned to benefit students in the classroom.

- P&G's Mariscala Plant is located in a small village in Mexico. Since the opening of the facility six years ago, P&G has built a school for special education students, provided water to the community during dry seasons, and offered environmental training to schools in the region. As part of Fondo Unido (United Way), P&G also has provided funds for a children's hospital and a program to house homeless children.

- This past year, P&G's Targowek Plant in Warsaw, Poland, discovered an innovative way to put leftover detergent to good use. The detergent is donated to 12 homeless shelters where it is used to clean and wash clothes. This innovative idea saves the shelters money and reduces waste for P&G.

In Venezuela, P&G is helping students contribute to their education. Through Mision Futuro (Mission for the Future), students redeem used packages of P&G products for school equipment. Nearly 70% of the schools in Venezuela participate in the program.

Progress on Animal Testing

July 1, 1999, P&G announced that it would no longer conduct animal tests for current beauty, fabric and home care, and paper products, except where required by law. This was a major step towards the Company's ultimate goal of eliminating animal testing. In the future, animal testing will only be done when required by law or to evaluate the safety of new ingredients and new to the world products for which no valid non-animal tests are currently available.

Over the last 15 years, P&G has invested nearly $100 million in the study and development of alternative research methods. These methods include the development of historical research databases, computer models, *in vitro* tests and other advances in toxicology.

P&G will continue to support research to develop non-animal test methods for food, drugs and new ingredients and technologies. The Company actively advocates reforms around the world to speed up the approval of reliable, non-animal test methods and to eliminate regulations that require unnecessary animal tests.

Additional information on P&G's support for alternatives to animal testing can be found at *http://www.pg.com/animalalternatives/*. ■

Part 8. Product Performance

Overview

Product innovation is at the core of P&G's success throughout its history. P&G innovation focuses on –

Setting new performance standards in existing categories such as:

- **Tide** and **Ariel** compact detergents that remove stains and sanitize laundry while protecting the original fabric colors.
- **Pampers Rash Guard,** the first diaper specifically designed to protect against diaper rash.

Creating entirely new categories and benefits like:

- **Febreze,** an odor eliminating fabric spray.
- **Dryel,** a product that allows consumers to clean and freshen "dry clean only" clothes at home.
- **Swiffer,** a new cleaning system that more effectively removes dust, dirt and hair from floors and other hard surfaces.

P&G's unique innovative capability is based on three key characteristics:

- A deep understanding of consumers, their habits and product needs.
- The capability to acquire, develop and apply technology across P&G's broad array of product categories.
- The ability to make "connections" between consumers' wants and what technology can deliver.

This year, P&G invested $1.7 billion, 4.5% of net sales in research and development – one of the largest amounts among consumer product companies in the world. The Company employs over 7,500 scientists working in 22 research centers in 12 countries around the world. Of the Company's scientists, 1,250 hold Ph.D. degrees, which is more than the combined science faculties of Harvard, Stanford and MIT.

P&G's innovation is evident in the 25,000 patents that the Company currently holds, making it one of the world's leaders in number of U.S. and global patents.

Major Impacts Associated with Products

Impacts associated with products don't exist in isolation. They span across all aspects of sustainable development. Certain impacts can be more closely associated with one area than others and that is how the following section has been organized.

Economic

P&G and its products have impacts that go beyond the Company's balance sheet.

The Company works across the entire product supply chain to enhance the value of raw materials, and to build relationships with suppliers and retailers that provide mutual economic benefits.

The Company works to get unnecessary costs out of the system while still delivering high quality products to consumers.

P&G's broad range of consumer products contributes to economic prosperity for employees, suppliers, retailers, shareholders and communities where the Company operates.

The Company's products have impacts on the distribution, solid waste and water treatment infrastructures of the communities where its products are made, sold, and used.

The Company pays taxes and fees in the communities in which it operates and makes voluntary contributions to organizations in those communities.

Social

The major social benefits of P&G products are improved health and hygiene for consumers. P&G products are an important part of many consumers' daily bathing and cleaning routines.

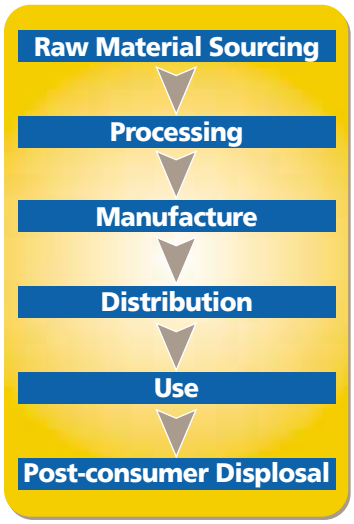
P&G products make clothes cleaner, babies drier and smiles healthier.

- In the U.S., **Tide with Bleach** sanitizes laundry, killing at least 99.9% of bacteria and is registered with the U.S. Environmental Protection Agency.
- **Pampers Rash Guard** is the first diaper specifically designed to protect against diaper rash.
- **Crest** toothpaste was the first toothpaste with fluoride clinically proven to fight cavities.

In addition to the health and hygiene benefits, many of the Company's products, like **Crest** and **Always,** also have an important educational component. Improving education, self esteem and offering superior performance are just as important to the Company as healthy bodies.

Environmental

Material use, waste disposal, energy and water use are of concern to the Company and to many of its stakeholders. The Company is able to account for and manage the use of raw materials, water and energy within its manufacturing operations. However, it is more difficult to measure and reduce resource use associated with raw material sourcing, distribution, product use and disposal.



The amount of energy and water used with consumer products depends in part on consumer habits and practices, which vary widely around the world. For example, whether the water used is hot or cold and whether a machine is used or clothes are hand washed impacts the amount of energy used for clothes washing.

One of the ways in which P&G is working to reduce environmental impacts throughout the product life cycle is by making products that use less raw material. P&G first introduced concentrated laundry detergents in Europe in 1989. Today, they are sold around the world. A life cycle study, done under U.S. manufacturing conditions, indicates that concentrated laundry detergents save 0.6 gigajoules of energy for every 1,000 loads of laundry, the equivalent of slightly more than 14 liters of gasoline. Concentrated detergents also use less packaging, resulting in less solid waste for disposal.

Waste disposal of down-the-drain products and solid wastes varies with local conditions and infrastructures. P&G designs all of its products for safe disposal in order to minimize environmental impacts. More than 30% of the material that P&G uses for packaging is from recycled sources. Packages are designed with recycling in mind, although actual recycling depends on local markets and programs.

P&G also has monitored the impacts of down-the-drain products on water quality in rivers, streams and municipal water treatment facilities for years. The Company is beginning to examine the broader issue of water; its use in manufacturing facilities, its use by consumers and the availability of clean water around the world.

P&G continues to address these issues as the Company works to reduce waste and resource use through every part of the product life cycle.

P&G's Support for SETAC Helps Make Products Safer, Advances Risk Sciences

Since 1979, P&G has supported the efforts of the Society of Environmental Toxicology and Chemistry (SETAC), a non-profit professional society devoted to advancing multi-disciplinary approaches to solving enviromental problems. SETAC's membership extends across business, goverment and academic sectors, offering an important forum for P&G scientists, engineers and risk managers to participate in the exchange of ideals and principles underlying sound environmental management policies. Now with growing units in North America, Europe, Latin America and the Asia-Pacific region, the ecological risk assessment tools developed through SETAC help P&G and other companies evaluate the safety of new product and packaging systems. In addition to serving on numerous SETAC Boards, panels and advisory groups, P&G is proud to sponsor a pre-doctoral fellowship award in SETAC.

Product Development

P&G's product development process is followed virtually every time the Company develops a new product or makes a significant change to an established brand. The process has four phases: **Concept, Development, Evaluation, and Execution.** These phases are designed to ensure that products meet important consumer needs and are safe. They also are used to manage risk and improve financial return.

The **Concept Phase** identifies an important consumer need or needs, using research with consumers from around the world. Once a need is established, the Company looks at ways to meet the identified need based on P&G's technologies and business strategies. The result of this work — the concept, is an approach to meeting the consumer need.

In the **Development Phase,** the concept is further refined into a product that will meet the consumer need. The Company identifies raw materials, packaging, manufacturing and distribution systems that will be necessary to deliver the product to consumers. Initial evaluations are made of human safety, environmental safety, market concerns and the economic impacts of the product on the Company and its shareholders.

A variety of tools are used to ensure the product will be safe for people and the environment. (See Product Development Tools Chart) The manufacturing process also is examined to ensure that health and safety issues for employees and communities are addressed. A regulatory assessment is done to ensure compliance with applicable laws and regulations, both where the product is manufactured and marketed. The Company also looks at the economic impacts on investment, jobs, profit and growth.

During this phase, P&G conducts consumer research to be sure the product meets the consumer need. Employees and consumers sample the actual product. Often, small batches or one-of-a-kind models of products are used to gain consumer feedback before the product is manufactured on a larger scale. It can take many tries before the Company develops just the right combination of ingredients for the final product.

In the **Evaluation Phase,** the Company confirms the product's viability with a wider group of consumers. P&G manufactures the product at the Company's facilities, ships it through the distribution system to target communities, and sells it to consumers. In this phase, the Company gets a better idea about consumer acceptance, distribution issues and profit potential.

In the final phase, the **Execution Phase,** the product moves into national or global distribution channels. Sales projections are confirmed. Ongoing monitoring of the product is conducted through the Company's consumer relations department. Throughout this phase, P&G is continuously looking at ways to improve products to increase their value to consumers. Other ongoing programs include reducing costs, increasing reliability, qualifying additional suppliers and improving performance.

Product Development Tools

Goal	Tools
1. Human and environmental safety	Human health risk assessment Ecological risk assessment
2. Regulatory compliance	Manufacturing site management system audits Manufacturing site waste reporting Materials consumption reporting New chemicals testing & registration Product and package classification & labeling
3. Efficient resource use and waste management	Material consumption monitoring Manufacturing site management system audits Manufacturing site environmental audits Supplier audits Disposal company audits Product life cycle inventory Design Manufacturing Waste Out Economic analysis
4. Addressing societal concern	Opinion surveys Consumer research Networking Presentations Lobbying Corporate reporting Problem solving

Design Manufacturing Waste Out

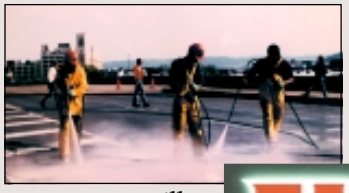
While waste reduction has always been a key focus area for us, in 1996 we introduced a process to ensure we focus even more sharply on eliminating waste in our manufacturing processes, and set a goal to save $300 million by 2000. Design Manufacturing Waste Out (DMWO) uses a series of "think lists" to help teams developing the product and manufacturing processes to eliminate waste up front. This saves both raw materials and money. Over the past year, over 100 new projects have undergone DMWO reviews. This year the program exceeded $300 million in cumulative savings, one year ahead of schedule.

Recent Product News

Global Shampoo Packaging

A newly designed bottle is replacing the bottle previously used by many of P&G's leading shampoo brands. Designed to reduce material use and improve handling, the new bottle saves 2000 metric tons of plastic, enough to fill an Olympic-sized swimming pool, each year.

Dawn Saves the Day – Again!



Greasy messes are no challenge for **Dawn** dishwashing liquid. Not only does Dawn cut grease on dishes, but highway officials credit Dawn for the clean-up of two greasy spills on Cincinnati, Ohio, USA, highways last year. From animal fat to biscuit dough, Dawn cut the grease and the highways reopened in record time.

Dental Care Education Brightens Smiles in Zimbabwe

P&G is a sustaining member of Health Volunteers Overseas, a group dedicated to improving the availability of health care in developing countries through training and education. In Zimbabwe, health care workers trained by the program use **Crest** toothpaste educational materials to improve dental hygiene in remote villages.

Crest Schools Program Improves Dental Hygiene

For thirty years, P&G's Crest Schools Program has provided dental health education to elementary students in the United States. Today, children around the world have the opportunity to learn about good dental hygiene through global school programs sponsored by **Crest** and **Blend-a-Med** toothpastes.

P&G Promotes Self-Esteem for Teenagers in Mexico

In Latin America, studies have shown that many women have low self-esteem. To address this, P&G's **Always** feminine hygiene products introduced a program to improve women's self-esteem by reminding them that they can aspire to live a fulfilling life through increased education, personal hygiene and the reinforcement of their family values. The education program targets teenagers and is based on a series of lectures in school classrooms and a colorful magazine.

FAIRY TAB IN TAB

Improved Dishwashing Detergent Cleans Best in Low Temperatures

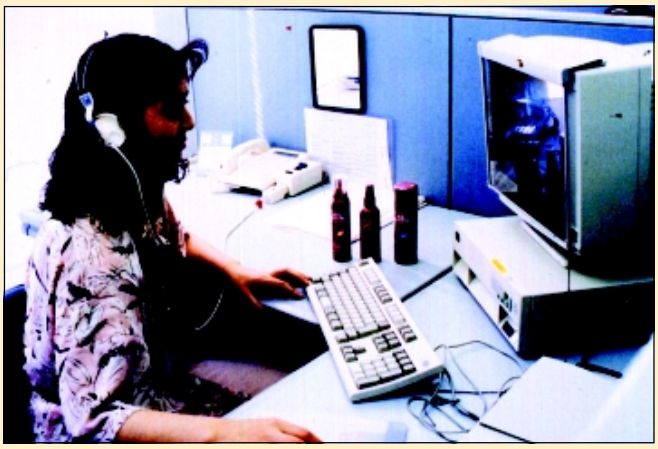
New **Fairy Tab-in-Tab** automatic dishwashing detergent provides tough food cleaning in low temperature wash cycles. The innovative use of enzymes delivers two to three times more cleaning while saving consumers water and electricity.

VOCs Reduced in Hairsprays

P&G has taken an innovative approach to reducing VOCs (volatile organic compounds) in hairsprays. A concentrated formula and new package deliver hairspray more efficiently, using 25% less packaging and with lower VOC emissions than conventional hairsprays. Consumers in California, USA, are the first to try this new hairspray.

Systems to Assist Consumers in Proper Use and Disposal of Products

In order to ensure consumers use and dispose of products and packages safely, P&G has the following systems in place:



Advertising — creates awareness of Company products, provides information on how and when to use the products, and educates consumers regarding product benefits.

Global Waste & Recycling Networks — help educate consumers and better enable them to properly dispose of products and packages.

Labeling and Instructions — provide appropriate information on how to use the products.

Packaging — increases shelf life of products, allows for efficient distribution, enhances product use, reduces product tampering and contamination, and provides space for product information, usage and disposal instructions.

Poison Control — partners with the Company regarding how to respond when the Company's products are used improperly.

Toll-free Telephone Numbers — allow consumers to call with questions and problems about products and packaging. P&G receives around 2.5 million contacts a year from consumers. Around 86% are calls, 7% are e-mail and 7% are postal mail.

Websites — provide information about product benefits and contact information for specific questions about products.

Work with Appliance Manufacturers — allows the Company to conduct ongoing tests of how products respond to new and improved appliances. ■

Part 9. Sustainability Overview

The year 1999 marks two important sustainability milestones for P&G. The first is the creation of the Corporate Sustainable Development organization that Durk Jager outlined in Part 1 of this report. The second is our move from an annual Environmental Progress Report to this Sustainability Report, including participation in the Global Reporting Initiative's (GRI) pilot of a standardized reporting format.

George D. Carpenter, Director of Corporate Sustainable Development

For the past two years, we have had a worldwide team of P&G people analyzing how sustainable development could and should relate to our business. We realized that P&G, to date, could be described as a sustainable corporation. Over the past 162 years, P&G has changed and reinvented itself many times. Today, it is a $38 billion global company with on the ground operations in over 70 countries, products sold in over 140 countries, and over 110,000 employees. But, the challenge for us as a sustainable corporation is how will we change and evolve to improve the lives of the world's consumers, such that we continue to exist and thrive into the future.

The creation of P&G's Corporate Sustainable Development department marks a strategic decision to more closely align our business with the more holistic concept of sustainability, taking advantage of the broader "umbrella" which encompasses economic development, social equity and environmental protection.

Sustainability aligns very well with our Company's Statement of Purpose which describes the synergy among meeting the needs of our consumers, building our sales and profit and contributing to the prosperity of our employees, shareholders and communities. This is not to say that we are defining sustainability as "business as usual." Instead, we see sustainability as an opportunity to address needs that are today unmet. Needs that are driven by the six billion people on this planet, which may grow to eight to ten billion in the next century.

Malnutrition affects 50% of the world's population. Water borne diseases, lack of sanitation, lack of hygiene and health care, and other problems affect populations in areas without adequate infrastructures. 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.

The decision to move from an annual Environmental Progress Report to a Sustainability Report is, of course, closely related to our decision to strategically embrace the concept of sustainability. We have been publishing an Environmental Report since 1993. With each report we used market research tools to understand the information needs of our target audience, and to sharpen the content.

As we again reviewed our target audience for this Sustainability Report, we chose external thought leaders, non-governmental organizations, academics, social investors and governments as our primary focus. This is a smaller audience than we have traditionally tried to satisfy.

Having settled on this audience, it then became important to format our report in a way that best met their needs. This is where participation in the pilot project of the GRI became opportune, since the GRI was made up of a global cross section of our chosen target audience. Furthermore, participation in the GRI pilot provided us both an easy means of obtaining customer feedback on this year's report, and an opportunity to have an impact on the format of the report itself, from a supplier's viewpoint.

This year's report continues our evolution towards paperless reporting. Therefore, this year's report is available in its entirety on our corporate web site, http://www.pg.com/99sr. In addition, for those that

do not have Internet access, we have published an abridged Executive Summary which includes key sustainability data and charts. I hope that our attempt to address your needs, as the consumers of this report, meets with your approval. I encourage you to contact us if you have any questions or comments.

George D. Carpenter
Director, Corporate Sustainable Development

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The report team wishes to thank all the individuals throughout the Company who contributed information, stories and data to this report.