Improving quality of life, now and for generations to come

Vision

Peter R. White
Director, Global Sustainability

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

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

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

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

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

Finally, I would like to thank one of P&G’s sustainability pioneers—George Carpenter, Director of Global Sustainability—who has retired. George has defined environmental quality and sustainability, within P&G and externally. In 1999, he led creation of P&G’s sustainability group. George was determined to make sustainability a business driver. Today our business units embrace sustainability more strongly than ever, and we have robust systems to ensure we deliver on our commitments. Much credit for this goes to George. We thank him and wish him the best.
This is a fundamental part of Pampers’ global business and innovation plans. Continuous improvements in all three pillars are key contributors to Pampers’ global success.

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

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

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

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

P&G Profile

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

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

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

- Beauty and Health
- Household Care
- Gillette GBU

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

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

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

Global Key Brands

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

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

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

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

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

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

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

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

**Environmental Protection**
- Resource Use
- Water
- Waste Reduction

**Social Responsibility**
- Health
- Hygiene
- Education

**Financial Highlights**

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

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

**Diversity Data – Global Enrollment**

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

<table>
<thead>
<tr>
<th>GLOBAL ENROLLMENT % FEMALE</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>39.0</td>
<td>38.0</td>
<td>36.7</td>
</tr>
<tr>
<td>All Other Employees</td>
<td>39.0</td>
<td>38.4</td>
<td>36.9</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>U.S. ENROLLMENT</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Minorities</td>
<td>21.0</td>
<td>19.6</td>
<td>18.8</td>
</tr>
<tr>
<td>All Other Employees</td>
<td>19.0</td>
<td>18.7</td>
<td>19.5</td>
</tr>
<tr>
<td>% Female</td>
<td>37.0</td>
<td>36.3</td>
<td>35.4</td>
</tr>
<tr>
<td>All Other Employees</td>
<td>40.0</td>
<td>39.6</td>
<td>38.9</td>
</tr>
</tbody>
</table>

1 Administrative, Technical and Plant Technicians

**Occupational Health & Safety Data**

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

<table>
<thead>
<tr>
<th>TOTAL INCIDENT RATE</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Injury and illness per 100 employees</td>
<td>0.42</td>
<td>0.46</td>
<td>0.55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL LOST WORKDAY CASE RATE</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost and restricted workday cases per 100 employees</td>
<td>0.16</td>
<td>0.17</td>
<td>0.21</td>
</tr>
</tbody>
</table>

**Summary of Fines and Violations**

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

<table>
<thead>
<tr>
<th>Number</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fines</td>
<td>$127,500</td>
<td>$147,400</td>
<td>$28,320</td>
</tr>
</tbody>
</table>
This year alone, P&G and The P&G Fund contributed more than $115 million to support our communities.

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

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

**Live:**
Children’s Safe Drinking Water

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

**Learn:**
P&G Hope Schools

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

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

**Thrive:**
Let’s Succeed

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

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

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

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

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

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

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

Our Values

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