

A Message from the Chairman



It's hard for me to believe that it was at about this time 11 years ago when I first wrote to our shareholders in my new role as Clorox's chief executive officer. In that first letter, I told you that I saw my job as rather straightforward. Essentially it was about setting priorities so that you, our shareholders, would achieve the kind of return you expect from your investment. That statement was every bit as true this past year as it was back in 1992.

Not surprisingly then, when I wrote to you last year, I said that in fiscal 2003 Clorox would build upon the things that were working so well for us, namely establishing a few key priorities to keep the organization focused. In that letter I told you that Clorox employees around the world were dedicated to delivering results and building the value of the company. Clearly, Clorox's results in 2003 reflect the passion, drive and dedication that are hallmarks of Clorox's culture and its people.

As you'd expect, first orders of business in fiscal 2003 were top-line growth and cost savings in order to improve profitability and to provide for investment in growth initiatives. I'm pleased to report the Clorox organization delivered on those objectives and went on to achieve each of our 2003 financial targets. To be sure, there were plenty of challenges in fiscal 2003 — as there are in any year — but we confidently met those challenges and Clorox emerged as a much stronger and healthier company. Our progress and accomplishments in 2003 underscore my confidence in the company's future.

Some time ago, I announced my plans to retire on Dec. 31, 2003, and on June 19, the board of directors named Clorox's president and chief operating officer, Jerry Johnston, as my successor effective July 1, 2003. That decision further underscores my confidence in the company's future. Jerry is the right person to lead the company forward. He has the breadth of experience necessary to address the challenges that may come, to drive sustainable growth and to create long-term shareholder value.

Now as I prepare to retire, I can't help but look back over the past 10-plus years and be enormously proud of what Clorox people all throughout the organization have been able to accomplish. Essentially, they have stepped up to the challenges we set out year after year and have continually raised the bar for themselves. I am grateful to them for that. It has been a privilege to serve as Clorox's CEO the past 11 years. I will leave knowing that the company is in the hands of a very strong and capable leadership team. Clorox enters 2004 from a position of strength, and in the right hands to build upon a very strong foundation. Many thanks.

Sincerely,

A handwritten signature in dark ink, appearing to read "G. Craig Sullivan".

G. Craig Sullivan
Chairman of the Board

Fellow Shareholders



2003 was another good year for The Clorox Company. We accomplished much of what we set out to do in fiscal 2003, and the impact of these efforts is evident throughout our results. We grew sales and profit margins, we invested in brand building and innovation, we improved asset and working capital management, and we delivered strong earnings growth.

As we did the previous year, we set a few key priorities in 2003 to keep the organization focused: drive growth, cut costs everywhere, get more customer focused and out-execute the competition. In the pages ahead, you'll see some examples of how Clorox people throughout the company delivered against these four priorities. The organization's focus and determination can clearly be seen in our fiscal 2003 results.

On the top line, overall company volume increased 2 percent and sales rose 3 percent to \$4.1 billion. Excluding divestitures, total company sales increased 5 percent. And in North America, which represents more than 85 percent of the company's business, sales grew 6 percent, excluding divestitures. On the bottom line, net earnings grew 86 cents, or 63 percent, to \$2.23 per diluted share, benefiting from sales growth, cost savings and share repurchases in the current year in comparison to the prior year, which included several impairment and other charges. Gross profit rose 10 percent to \$1.9 billion, or 46.3 percent of sales. Operating profit climbed 12 percent to \$855 million, or 20.6 percent of sales.

On the balance sheet, building on 10 consecutive quarters of year-over-year improvements, working capital averaged less than 0 percent of net sales (-1.6 percent), about 2 percentage points better than the prior year. These "best-in-class" working capital results helped generate very strong cash from operations at \$803 million. Many consider return on invested capital (ROIC) to be a key driver of shareholder value. And, importantly, Clorox ROIC increased from 13.4 percent in fiscal 2002 to 14.7 percent in fiscal 2003.

As Craig Sullivan noted in his letter to you, we achieved each of our 2003 financial targets (chart, page 3). Our results also were near the top of our peer group on several measures. At 20.6 percent of net sales, Clorox operating margin is top tier. At 19.4 percent, operating cash flow as a percent of net sales is also top tier. Our working capital performance ranks Clorox among the top three companies in our peer group. With our 23 percent dividend increase effective July 31, 2003, our dividend yield will be among the best. And Clorox ROIC is also top tier.

So was it a good year? I think it's fair to say 2003 is a year Clorox employees and shareholders can feel quite good about.

Building on Our Strong Foundation

I've been talking a lot lately to the Clorox organization about the importance of delivering consistent results year in and year out — it's one of my top priorities. In fiscal 2004, we'll continue to drive toward that goal by maintaining our focus on essentially the same key priorities we had in fiscal 2003.

Fiscal 2003 Results Versus Targets

Metrics	Targets	Results
Sales	+3-5%	+3%
Gross margin	+100-150 basis points on average per year	+296 basis points
Selling & administrative expenses	Grow at half rate of sales	+1%
Advertising and R&D	Invest	+16%
Operating margin	+100-150 basis points on average per year	+170 basis points
Earnings per share	Double-digit growth	+63%
Working capital	<0% of sales	-1.6%
Return on invested capital	~100 basis points growth per year	+130 basis points

First, we'll step up our efforts to drive growth through innovation and investment in brand building while we also pursue some longer-term growth opportunities. With a strong lineup of new products, including Glad® Press 'n Seal™ wrap among the record level of first-quarter product introductions, we expect good top-line growth for fiscal 2004. Ultimately, it's about our leading brands leveraging their "right to win" in each of our categories. Second, we'll fund growth initiatives through our priority to cut costs everywhere, which has clearly delivered for us and will continue to do so with initiatives already in the pipeline. In 2004 and going forward, we'll emphasize improving the productivity of our spending to optimize growth and margins. Third, while we are already a preferred partner with many of our retail customers, we'll accelerate our efforts to get more customer focused. This includes our initiative to improve the category-to-customer linkages in our planning process that help us better partner with key customers.

Our final company priority is to out-execute the competition. As more systems come online this year, Project Delta, our process and systems initiative, will be a big enabler for Clorox. I believe that in today's environment, you simply must have real-time access to the right data and information for decision-making. We will also continue to leverage the strength of the Clorox organization to out-execute the competition. There is no doubt Clorox has great people — it's something we're known for — but going forward, we'll do even more to build the capability of our organization.

We're building on a strong foundation as we head into 2004, and that is in very large measure due to the leadership of Clorox Chairman Craig Sullivan. Craig retires in December after 32 years with Clorox, 11 at the company's helm. He leaves an indelible mark on this company and, importantly, its people. And so, on behalf of Clorox people everywhere, I'd like to thank Craig for the focus, determination and inspired leadership that in no small way have made Clorox what it is today — a company well-positioned for even greater success going forward. This is an exciting time to be at Clorox. I'm honored to have been appointed CEO of this great company as we enter fiscal 2004. I have every confidence in the 8,900 Clorox employees who are dedicated to building on the success of this past year and building the value of Clorox for you, our shareholders.

Sincerely,



Gerald E. Johnston
President and Chief Executive Officer