



Fellow Shareholders and Employees

2004 was a very good year for Clorox.

- > Sales grew 4 percent to \$4.3 billion.
- > Eight of the 10 business units grew volume.
- > We generated more than \$100 million in cost savings.
- > We achieved a top-tier operating margin at just over 20 percent of sales.
- > Earnings grew 15 percent to \$2.56 per diluted share.
- > We earned 14.5 percent return on our invested capital.

2004 was also a very good year for Clorox shareholders.

- > Total shareholder return grew 29 percent.

Importantly, the year played out much as we anticipated. We needed to improve our consistency and predictability — and we did, delivering against both the year's business and financial plans.

As I look back over the year, I'm very proud of what Clorox people accomplished. Their focus on a few key priorities drove our strong performance. Everyone did a great job.

So, how does the future look? During 2004, we engaged in a major effort to develop our strategic plans and goals through

2008. We stepped back and tried to clearly understand the kind of company we are, where we excel, and how we will win in the future. I want to share some of our conclusions with you.

What Is Clorox?

With our fairly broad portfolio of brands and categories, I am often asked, "What is Clorox?"

In my view, Clorox is simply the best company in our business at building big market-share brands in midsized categories... brands that make people's lives easier, healthier and better.

Let me break that down further, because it contains some important ideas.

First of all, market share is a very important scorecard. It's a measure of how consumers vote when they choose among competing products. And it is an essential key to profitability. With customer consolidation and consumer fragmentation today, the rewards go to brands with big shares in their categories. Most of our business today is in big-share brands like Clorox® bleach, Kingsford® charcoal, Brita® water filtration, Glad® bags and wraps and many of our other brands.

Our business is also focused on midsized categories. Typically, these are not huge, global categories with large global competitors. They tend to have a more regional geographic profile, for example, the United States, and generally have only one or two major competitors. They are a sufficient size to support our business model. At the same time, they are not so unique or focused that they're niche categories and too small for us. And in those few areas where we participate in somewhat larger categories, our goal is to stake out strong positions in smaller, defensible segments, such as Hidden Valley® in the Ranch segment of the salad dressing category.

We succeed because we bring big-company capabilities to these midsized categories in areas like technology, innovation, consumer marketing, retail customer capability and strong cost-structure management. The results are leading shares and consistent returns.

How do we compete in our eight major categories? We focus on building brands that make people's lives easier, healthier and better.

We have brands like Clorox® disinfecting wipes, which kill germs to help make life healthier...like Glad® Press 'n Seal™, which makes protecting food easier...and Hidden Valley® with its great Ranch flavor, which makes life just a little better. Our focus on delivering these kinds of benefits with brands that have big shares in midsized categories...that's what Clorox is all about.

Our Portfolio — “Creating the Right to Win”

We are also all about winning...with consumers...with customers...with shareholders. Every business needs to have a “right to win.” What does that mean? It means owning a strong, advantaged market position that delivers and sustains exceptional returns. We expect to be the No. 1 or a strong No. 2 brand in each and every business. Weak brand positions that don't have the potential to win in the marketplace will not have a place in our business.

As a part of our strategy work this past year, we evaluated our portfolio of brands, businesses and countries. That includes our business in the United States and our businesses in Latin America, Asia-Pacific and other geographies. Each one needed

LARRY PEIROS, GROUP VICE PRESIDENT

“Everything we do, every day, must begin and end with the consumer. At Clorox, nothing is more important.”



to justify its place in our portfolio and why it is winning or how it can win in its competitive environment. That review confirmed our belief in the strength of this portfolio. Nearly all of the businesses in our portfolio around the world have or can create the “right to win.”

Importantly, that does not mean that we are going to invest equally in each business. We aren’t. We have made a conscious choice to invest to create the “right to win” in some areas where we believe that investment will yield solid results in growth and profitability for us and our shareholders over the next several years. The Glad® products business is an example where we are investing heavily to introduce new “gamechangers” that we believe will generate long-term profitable growth and a stronger market position.

There are other businesses that are equally focused on winning, but where we are consciously restricting our investment...sometimes because we already have strong defendable positions... and sometimes because other brands and businesses simply offer better returns or opportunities.

Now, there is also a small part of our portfolio that we will optimize for value. That means we will manage these businesses for cash or we could potentially exit them.

The bottom line...we have a strong portfolio. We will stratify our investments more aggressively and we will focus on our “right to win” in each business.

Winning With Corporate Capabilities — “The 3Cs and 3Ps”

On its own, the strength of the portfolio is not enough. A great deal of our work over the past year focused on identifying areas where we have or can create “corporate capabilities” that give us further ability to win in our categories.

We’ve identified six key strategic capabilities. We call them the 3Cs and the 3Ps. The 3Cs (consumer, customer and cost) are our core business capabilities. The 3Ps (people, process and partnerships) are enabling capabilities. In other words, they help us deliver our business strategies. Here’s a quick overview:

FRANK TATASEO, GROUP VICE PRESIDENT

“Success with customers will be driven by the unique, value-added services we provide to help grow their businesses with our market-leading brands.”



Consumers — “Begin and End With The Consumer”

Identifying and satisfying consumer needs with brands and products is at the heart of everything we do. We simply need to be better in this area than the competitors in our categories. Ultimately, we believe this is about having world-class consumer insights — our own unique capability to deeply understand our consumers. We then deploy those insights to develop consumer-preferred new products, to build our retail customers’ categories with our brands, to better target consumer segments and to communicate with consumers. We’re devoting a good portion of this annual report to our consumer efforts, including insights, innovation and brand building. After all, Clorox begins and ends with the consumer.

Customers — “Grow Our Customers’ Categories With Our Brands”

Our customers, that is, our retail partners, play a critical role in helping us reach the consumer. Simply said, our business is good when our customers’ businesses are good.

Over the past decades our success with customers has primarily been built on the strength of our No. 1 and our strong No. 2 leadership brand positions. That is still true, but it’s no longer sufficient.

We must also provide our customers with an integrated portfolio of high-impact, value-added, supply and demand-building services...like category management, creative customer comarketing programs, expertise in supply chain and financial analysis and consumer insights unique to a retailer’s shoppers.

That’s really what our customer strategy is all about: pairing our leadership brands and the right set of our innovative ideas and services with our customer’s strategies so that we both grow.

Cost — “Cut Costs and Enhance Margins”

Cutting costs has been a critical focus at Clorox for several years. Through our strategy to cut costs everywhere (CCE), we’ve had some remarkable results. In fiscal 2003 and 2004 alone, Clorox employees generated more than \$275 million in cost savings.

DAN HEINRICH, SENIOR VICE PRESIDENT — CHIEF FINANCIAL OFFICER

“Cost savings, productivity improvements and margin growth will be significant factors in achieving our growth and earnings targets over the next five years.”



Some people have asked whether there are any further cost-saving opportunities. Absolutely. There are still substantial cost savings in our future. But we're taking our program to the next level. We will still cut costs everywhere; but we are now also keenly focused on driving productivity and enhancing margins as an important part of our efforts. We will now call the strategy cut costs and enhance margins (CCEM).

We've identified numerous projects that cut across the boundaries of our businesses. Examples include capturing the real value of our Project Delta enterprise resource systems implementation through more efficient processes and decision-making tools. We are also standardizing best-in-class manufacturing tools and processes to eliminate waste in our supply chain and drive productivity gains throughout manufacturing operations. That is a big opportunity. We've prioritized and sequenced these and other major projects so we can deliver consistent cost savings and margin improvements over the next several years.

People — “Create the Right to Win Through Clorox People”

Clorox has great people. They're passionate, smart, hard working and dedicated. Staying at the top of our game means continually raising the bar of performance. People development is a top priority.

One key effort will be to develop leaders by using what we call the Clorox Leadership Model. We are convinced this will improve our leadership capabilities and our bench strength over time. Over the next several years, we will ensure that we have the strong leaders and the diverse company culture that we need to drive top-tier performance...to have the “right to win.”

Process — “Deliver Better Results Faster Through Process Discipline”

When you get down to basics, there are four things we do as a company. We build brands with consumers. We build business with customers. We create new and better products. And we ensure the supply of our products. These are our major processes.



KEITH TANDOWSKY, SENIOR VICE PRESIDENT — CHIEF INFORMATION OFFICER

“Now that our systems implementation is complete, we're focusing on process management to substantially improve our speed, our efficiency and our decision-making.”

With the successful completion of the Project Delta systems implementation, we're now establishing new and higher performance standards in these major processes along with clear metrics and accountability for delivering enhanced results. We're also working hard to be sure that we have real-time actionable information. Ultimately, this is about having a seamless organization — one that works effectively across the boundaries of businesses and functions. Process discipline is a meaningful enabler of improved performance.

Partnerships — “Leverage Partnerships to Drive Growth and Scale”

One of the questions I sometimes get asked is how Clorox can compete in a business where some of our competitors are larger. Over the past several years, Clorox has been building an important partnering capability. In other words, leveraging outside relationships that can help us grow and give us what I call “virtual scale.”

Clorox Research and Development is an excellent example. Over the past several years, the function has transformed a “not

invented here” culture to one that is constantly on the prowl for ideas and technology from other sources. We now have close partnerships with strategic suppliers, universities and even folks who compete with us in other categories. We developed a “breathable” food storage bag for freshness with Dow. We licensed the Teflon® trademark from DuPont to communicate the nonstick properties of new Clorox® bathroom cleaners. We formed a Glad® products joint venture with Procter & Gamble to access new plastics technology.

But we will move even further in the partnering arena. We are pursuing new relationships to ensure that our cost structure matches or beats our competitors in every category, whether it's production, distribution, procurement, marketing or any other area. We believe teaming up with the right partners in a variety of ways is a key to creating the “right to win” in our businesses over the long term.

The Path Forward

So the strategy work really comes down to three things. First, we have confidence in our portfolio of brands and businesses,

JACKIE KANE, SENIOR VICE PRESIDENT — HUMAN RESOURCES

“The difference between the most successful and least successful companies is the quality and motivation of their people. That's why we're investing in our 'right to win' through Clorox people.”



and we will aggressively segment and allocate investments to the best opportunities. Second, we will compete increasingly on corporate capabilities and we will focus on the diligent execution of our consumer, customer, cost, people, process and partnership choices. Third, we expect to deliver top-tier financial performance versus our peers.

So, what does Clorox look like in 2008?⁽¹⁾

- > We expect sales to grow 3 percent to 5 percent each year, excluding acquisitions.
- > We expect to have solid expansion of both our gross margins and operating margins.
- > We expect to deliver earnings-per-share growth at a rate higher than operating profit growth.
- > We expect that return on invested capital should increase to a range of 16 to 17 percent by 2008.
- > We will continuously improve our consistency and predictability.
- > We will improve our corporate capabilities to sustain our right to win.
- > We will look at sensible extensions of our portfolio and our geographic presence to ensure continuing growth beyond 2008.

And at the end of the day, we expect to deliver top-third total shareholder return in our peer group...because ultimately, the strategy is all about performance.

I'm proud of the results Clorox people delivered in fiscal 2004, and we are excited about our future. I look forward to reporting on our progress.

Sincerely,



Gerald E. Johnston
President and Chief Executive Officer
August 30, 2004

(1) As previously communicated, Clorox is having discussions with its major shareholder, Henkel KGaA. Henkel has announced that it might sell all or some of its stake in Clorox. At the time of this printing, the outcome of those discussions and the impact, if any, on the company's financial outlook is not known.



PETE BEWLEY, SENIOR VICE PRESIDENT — GENERAL COUNSEL

"Partnerships provide a real opportunity to enhance our performance — to drive innovation, improve efficiency and generate virtual scale."