

# Fellow Shareholders and Employees

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Our company had another good year in fiscal 2005.

- > Sales grew more than 5 percent to \$4.4 billion, ahead of our annual goal of 3 percent to 5 percent growth.
- > We grew all-outlet market share with our brands in each of our eight categories in the U.S.
- > We grew sales and gross profit by double-digit percentages in our International business.
- > We generated more than \$100 million in cost savings.
- > Earnings per diluted share from continuing operations grew 26 percent to \$2.88
- > Return on invested capital increased approximately 40 basis points.
- > Total shareholder return grew 6 percent in fiscal 2005 on top of 29 percent growth last year.

We also completed the largest transaction in Clorox history with the acquisition of \$2.8 billion of our stock from Henkel KGaA at a cost of \$46.25 per share in a tax-free exchange. The successful execution of this transaction resulted in a recapitalization of the company, lowering our cost of capital, increasing earnings per share and, importantly, generating substantial value for our shareholders.

The biggest challenge we faced in fiscal 2005 was the sharp increase in energy-related costs such as oil and natural gas. This drove our raw-material and packaging costs up substantially, along with other operating costs such as transportation. While we executed our cost-savings program effectively and took selective price increases throughout the year, those actions were not enough to overcome our cost pressures. As a result, we fell short of our gross margin and operating margin improvement goals for the year. Nonetheless, I am very proud of the results that Clorox people around the world achieved during the year.

Clorox people also made great progress in implementing the 2008 strategy that I outlined for you in last year's letter.

Let me give you a brief review of that strategy. There are four key elements:

- > Our purpose and mission
- > Our portfolio — "Creating the Right to Win"
- > Winning with corporate capabilities — "the 3Cs and 3Ps"
- > Delivering top-third shareholder return

Fiscal 2005 Key Results by Operating Segment

	Net Sales	Percent of Company Net Sales	Net Sales	Pretax Earnings
Household Group — North America	\$2.0 billion	46%	+3%	+0%
Specialty Group	\$1.8 billion	41%	+7%	+4%
International	\$0.6 billion	13%	+13%	+3%

Note: Intersegment sales are insignificant. All comparisons are with fiscal year 2004, and pretax earnings exclude the results of discontinued operations.

**Our Purpose and Mission**

Our strategy work brought clarity to the central reason for our success over the long term. That is, “Clorox begins and ends with the consumer.” That is our purpose, and nothing is more important.

We also reaffirmed our position in the marketplace. It’s about having No. 1 and No. 2 leadership brands in our categories. In fact, we believe, “We are the best at building big-share brands in midsized categories.” Ultimately, this guides our portfolio and investment choices.

Finally, we articulated our mission: “We build brands that make people’s lives easier, healthier and better.” This is the theme of this year’s annual report. I believe Clorox people are making great progress in pursuing our mission.

**Our Portfolio — “Creating the Right to Win”**

Through the work we completed on our portfolio, we’ve identified the “right to win” with our many leading brands. The identification of our unique strengths and capabilities has helped us focus our efforts to grow our categories, build market share and improve the profitability of our brands.

We also differentiated our investment levels across our product portfolio to seek to maximize the potential of our businesses overall.

Through these efforts we concluded that Clorox has an advantaged portfolio in both the U.S. and our international markets. We believe we can effectively compete and grow with our brands well into the future.

**Winning With Corporate Capabilities — the 3Cs and 3Ps**

For many people at Clorox, the key elements of our strategy are what we call the 3Cs and the 3Ps. These are the critical choices we have made to continue building important capabilities at the corporate level that will help ensure the “right to win” with our brands over the long term.

The 3Cs — Consumer, Customer and Cost — are our core business strategies:

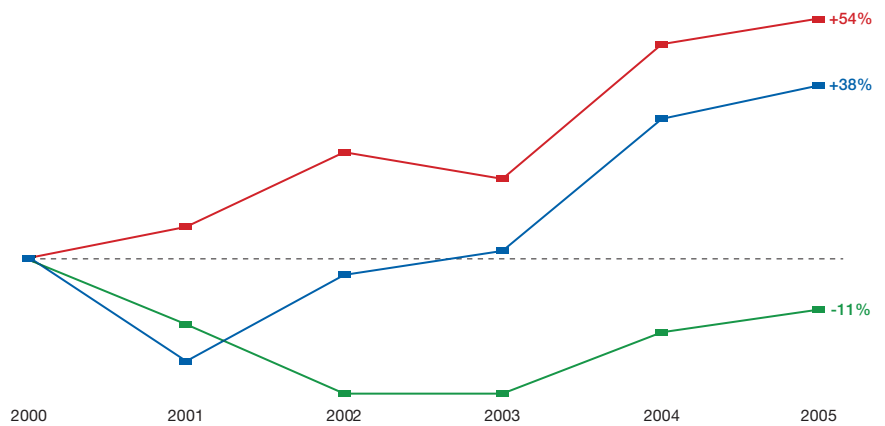
- > Consumer: This strategy choice is about building world-class consumer insights capability and applying it to our innovation work and to our integrated brand-building activities.
- > Customer: Our customer strategy choice is to deliver to our retail customers high-impact, value-creating services, based on mutual growth and profit potential.
- > Cost: This strategy choice focuses specific efforts on improving productivity and enhancing margins through systemic improvements across businesses and geographies.



## Cumulative Total Shareholder Return

July 1, 2000, through June 30, 2005 (assumes reinvestment of quarterly dividends)  
Peer companies — An average of 20 consumer packaged goods companies used for benchmarking purposes.

■ Clorox ■ Peer Companies ■ S&P 500



The 3Ps — People, Process and Partnerships — are the strategic capabilities that enable us to achieve our core business and portfolio goals:

- > People: This strategy choice is about building leadership capability, diversity and bench strength.
- > Process: Our process strategy choice is aimed at creating a seamless organization by improving key business processes that make work easier, enable better-informed and faster decision-making and deliver greater consistency and predictability.
- > Partnerships: This strategy choice continues our focus on leveraging partnerships to drive growth and create virtual scale.

Our “right to win” portfolio work along with our corporate capability efforts (3Cs and 3Ps) generated some very positive results this past year. Here are just a few examples:

- > We introduced 19 new products in the U.S., including two new “game changers”: Glad® ForceFlex™ trash bags and the Clorox® BathWand system.
- > We increased total market share across all categories, and became the leader in the bathroom-cleaning category.

- > We leveraged our Clorox® bleach and home-cleaning brand equity under a successful health and wellness platform. By working with our retail customers to communicate the benefits of disinfecting to their shoppers, we helped build their business with our brands and increase overall category sales. Ultimately, this is all about making people’s lives healthier.
- > We received our best scores ever on a well-respected study of consumer packaged goods manufacturers that asks a broad range of retailers to identify their best suppliers. We were the smallest company recognized; we were among the top 10 in five of the eight categories measured; and we were one of only three personal-care and household-products companies recognized.
- > We continued our progress toward improving working capital management with U.S. days sales outstanding improving from 34 to 27. It’s a great example of our process-improvement efforts delivering real business results.
- > Execution against our global lean-manufacturing initiative, aimed at reducing defects and downtimes, was outstanding and delivered cost savings and efficiencies greater than planned.
- > We successfully executed internal control requirements of Section 404 of the Sarbanes-Oxley Act.

We remain committed to ensuring corporate governance process excellence.

- > On the partnership front, Procter & Gamble increased its stake in our Glad joint venture to the maximum 20 percent allowed under the terms of the venture agreement. We continue to have confidence in the success of the Glad business well into the future. We are also expanding our technical partnering with other companies.

As these examples demonstrate, we're seeing real results from the diligent execution of our portfolio strategy and our choices related to the 3Cs and 3Ps.

#### Looking Forward

In fiscal 2006, we will continue to focus our efforts on driving growth through consumer insights for our brand-building and innovation activities. We will also be very focused on mitigating the effects of sharply escalating raw-material costs. We will continue our work to improve annual consistency and our predictability. We are also committed to delivering strong returns on invested capital over time, a key measure of our overall business progress. We plan to continue taking appropriate pricing actions while also delivering consumer value. Finally, we remain committed to begin and

end with the consumer... building brands that make people's lives easier, healthier and better.

We made good progress over the past year, both in our performance and in the implementation of our strategy. We believe the choices we've made will lead to delivering our longer-term financial goals — and we are committed to achieving those goals.

I am also convinced that Clorox people's passion for the consumer is the best path to delivering top-third shareholder return over the short and long term.

I am proud of and thankful for Clorox people, and their commitment to the company and our future. They are simply the best.

Thanks for supporting us.



Jerry Johnston  
Chairman and Chief Executive Officer