



Clorox Shareholders and Fellow Employees

When I introduced myself in last year's annual report, I indicated there were a number of reasons I was particularly excited to join The Clorox Company: namely, the strength of the company's brands, the quality of the people, its values-based culture and a great board of directors. Today, I would add to that list the company's focus on the consumer and customer, its tremendous cost discipline and impressive process sophistication. Clorox has lived up to my high expectations and I couldn't be more pleased to be leading this organization.

My first year at Clorox has been an exciting one, as I've immersed myself in getting to know the business and people, understanding the tremendous opportunities before us, updating our strategic plan and delivering our fiscal year 2007 financial commitments.

2007: Another Strong Year

Clorox had another very good year in fiscal 2007.

- > We grew sales by 4 percent to \$4.8 billion. This was our sixth consecutive year of strong top-line growth at the middle to upper end of our annual target of 3 percent to 5 percent sales growth.
- > We delivered our sixth consecutive year of cost savings greater than \$100 million, generating \$107 million in cost savings for the year, helping offset higher year-over-year costs for energy-related and agricultural-based raw materials, manufacturing and logistics.
- > We increased earnings by 12 percent, delivering diluted earnings per share from continuing operations of \$3.23 in fiscal 2007 compared with \$2.89 in fiscal 2006.
- > Our financial condition remains very strong, with net cash provided by operations of \$709 million.
- > Strong free cash flow* of \$562 million allowed us to repurchase 2.4 million shares of the company's stock and pay down to target levels the debt issued to finance the fiscal 2005 reacquisition of 61 million shares of Clorox stock from a former shareholder.

*Free cash flow is a non-GAAP measure defined as cash flow from operations less capital expenditures. See reconciliation of free cash flow as set forth in Exhibit 99.1 of the company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

These results were achieved through the hard work and dedication of Clorox people throughout the business. These results are theirs, and I'm proud of their accomplishments.

2008: Investing in Our Future

As the chart on page 3 shows, over the past five years, Clorox stock delivered a 66 percent increase in total shareholder return, in line with the S&P 500 index and ahead of our peers. As we concluded fiscal 2007, however, our stock performance did not sustain that trend, and total shareholder return increased only 4 percent for the year. While many factors affect stock performance at any given time, the decline was impacted by the stock market's reaction to the outlook we communicated for fiscal 2008. The market's reaction reflected ongoing concerns about such things as raw-material cost increases, inflationary pressures and investments we're making to restructure a portion of our manufacturing network. So the year concluded with a question on investors' minds: Can Clorox continue to create significant value for shareholders?

I strongly believe the answer is yes, and we have the track record to support this belief. We have successfully weathered unprecedented raw-material cost increases over the past two years. In response, we successfully raised prices on a substantial portion of our product portfolio. While, in the short-term, this suppressed the volume of products we shipped, we believe maintaining higher margins on our products through our pricing actions will generate meaningful future profit. Looking ahead, while raw-material costs are still high, we anticipate that we will see them begin to drop in the latter half of fiscal 2008. Importantly, we are confident in our prospects to grow the value of the company and we're making substantial investments to do so, which we believe will accelerate our ability to increase value in the future.

2008-2013: Heading True North

In 2007, we also completed an in-depth review of our business, defined what winning means for Clorox, identified our highest value opportunities and made corporate strategy choices. In May, we announced our new Centennial Strategy, named for the company's 100-year anniversary in 2013.

Fiscal 2007 Key Results by Operating Segment

	Net Sales	Percent of Company Net Sales	Net Sales Growth	Pretax Earnings Growth
Household Group – North America	\$2.1 billion	44%	+ 1%	+0%
Specialty Group	\$2.0 billion	41%	+ 5%	+16%
International	\$0.7 billion	15%	+12%	+9%

Note: Intersegment sales are insignificant. All comparisons are with fiscal year 2006 and exclude the results of discontinued operations.

Central to the Centennial Strategy is our definition of winning: double-digit annual percentage growth in economic profit. We call this goal our “true north.” It’s the single direction everyone at Clorox is heading. Simply put, economic profit is the profit a company makes over and above the cost of paying for the assets used to generate those profits.

We’ve chosen this definition of winning because we believe it strongly correlates with shareholder value creation. Importantly, we can calculate and determine how to maximize economic profit across retail channels, with individual retail customers and in specific countries. We can even calculate it for a single business unit, brand or product. This capability gives us tremendous insight into our greatest opportunities for value creation; accordingly, we will use economic profit to make portfolio choices and allocate resources across the business. We believe economic profit growth is the best way to create value for our shareholders.

A deep understanding of economic profit also drives the four strategic choices we’ve made:

Be a High-Performance Organization of Enthusiastic Owners
Our No. 1 strategy is about Clorox people.

Clorox has great people. There’s nothing we can’t do when we set our minds — and hearts — to it. And this strategy is all about doing everything we can to ensure people walk through the door each day with passion, excitement and enthusiasm, feeling the kind of commitment to Clorox that a business owner has. We’ve done a good job at this over the years to be sure, but we’re raising the bar even higher: We want everyone to perform at the top of their game and love doing it every day. Key to achieving this is making it easier to make decisions quickly through greater role clarity; using economic profit to allocate resources; engaging everyone on a rational and an emotional level — in other words, fostering a culture that ensures we have our heads and our hearts in the game; enhancing our envi-

ronment of diversity and inclusion; building the capabilities of our leaders and ensuring we have a strong bench of players on our winning team.

Win With Superior Capabilities in Desire, Decide and Delight
We will strive to be the best at driving demand creation and building consumer lifetime loyalty through superior capabilities in what we call the 3Ds: desire, decide and delight. These are the three points when a consumer faces a choice about our product.

- > **Desire** is created by using consistent messages everywhere and every time we communicate with consumers about why our products are the best choice to meet their needs. We want to ensure consumers are predisposed to buy our brands before they ever set foot in the store.
- > **Decide** is about winning at the store shelf — where most purchase decisions are made — through superior packaging and execution of what we call AMPS: assortment, merchandising, pricing and shelving. Getting these fundamentals right will drive growth for our retail partners and us.
- > **Delight** is when consumers take our products home. If we delight them, and our products exceed expectations and perform better than competitors’ products, we’re on the path to lifetime loyalty.

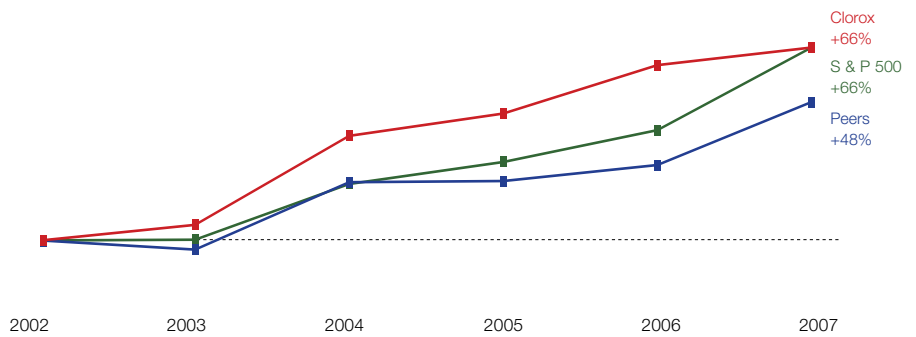
See pages 6-13 for examples of our capabilities in the 3Ds.

Accelerate Growth in and Beyond the Core
When it comes to market share, 63 of our brands are No. 1 or a strong No. 2 in their categories and countries (see page 14). We have an advantaged portfolio, participating in profitable categories with strong share positions, and our advantaged portfolio allows us to create economic value for our shareholders. The key to achieving growth is pursuing businesses in growing markets with good profit. Ideally, these businesses should be in categories that are large enough

Cumulative Total Shareholder Return

July 1, 2002, through June 30, 2007 (assumes reinvestment of quarterly dividends)

Peers: An average of 19 consumer packaged goods companies used for benchmarking purposes.



to be meaningful to Clorox and with competitive dynamics that allow our superior capabilities in the 3Ds to give us a clear right to win.

To achieve our true north goal, we must accelerate growth both in our core businesses and beyond. And we believe there's tremendous opportunity to do so. Superior execution with the 3Ds can help us broaden the footprint of our existing brands. We will focus on extending them into nearby categories where our well-known brand names carry weight; increasing the channels where we sell our brands, such as hospitals and health-care facilities; and expanding the range of products we offer in the countries where we do business, with an initial focus on the Americas, Australia and New Zealand.

Our financial strength and strong free cash flow give us the flexibility to reshape our existing portfolio over time and invest in economically attractive new businesses. As we expand, we will use economic profit to drive our portfolio choices in a disciplined way and ensure we leverage the capabilities that drive our competitive advantage. Our focus will be to further capitalize on four "megatrends" that are developing around the world: health and wellness, convenience, environmental sustainability and a more multicultural marketplace.

Relentlessly Drive Out Waste

Clorox has tremendous cost discipline and process sophistication. We've become extremely effective at identifying ways to save money and increase productivity. A solid pipeline of cost savings coupled with our strong free cash flow and capital capacity provide significant resources to invest in profitable growth and drive shareholder returns. Economic profit has a role here, too, as we use that "lens" to evaluate our operations and identify areas that offer opportunities for cost savings. Ongoing process discipline and process improvement, particularly in our supply chain, are also key as we continue to minimize the cost of processes that are not a source of competitive advantage and deploy our resources to the highest-value work.

We Make Everyday Life Better, Every Day

In June, we brought the company's worldwide leadership team together to roll out our Centennial Strategy. At that meeting, we adopted this phrase as the company's mission statement: We make everyday life better, every day.

When you think about it, this statement perfectly describes what Clorox people do every day, either directly or indirectly. We make and market different products, for different uses, for different people in different locations. But each one is designed to make everyday life better for consumers around the world. This is why we're here. It's why we come to work each day.

Indeed, 2007 was a very exciting year to take the helm at Clorox. We delivered very good financial results. We defined true north and charted a course to get there. We adopted a clear and simple statement for why we exist. And, from my vantage point, 2008 looks to be even more exciting as we begin to fully implement our Centennial Strategy.

I'm proud to be at Clorox and I have every confidence in the 7,800 Clorox people who are moving in unison toward our shared destination, giving their best every day for each other, for the business and ultimately for you, our shareholders.

Sincerely,

Donald R. Knauss
Chairman & Chief Executive Officer
Sept. 1, 2007