Dear Shareholders:

P&G is the world’s largest and most profitable consumer packaged goods company, with nearly $84 billion in sales and more than $10 billion in net earnings. We have built a portfolio of 25 billion-dollar brands—each of which generates from $1 billion to more than $10 billion of sales per year. They span a broad range of product categories—including household care, beauty, grooming, and personal health care—and are household names around the world, including Pampers, Gillette, Tide, Ariel, Downy, Pantene, Head & Shoulders, Olay, Oral-B, Crest, Dawn, Fairy and Always. We have three times more billion-dollar brands in our categories than our next-largest competitor and more than most of our remaining competitors combined.
Focusing Our Growth Strategy

WE ARE FOCUSING P&G’S growth strategy on our biggest opportunities:

40
We are focusing on our 40 largest and most profitable product categories in the most important geographic markets. These 40 businesses represent about 50% of sales and nearly 70% of operating profit.

20
We are focusing resources on winning with our 20 largest innovations.

10
We are maintaining strong momentum in developing markets, targeting the 10 developing markets with the highest potential for growth.

We’re celebrating P&G’s 175th anniversary this year, a milestone that very few companies have achieved. Our long track record of success is based on a time-tested business model—we discover meaningful insights into what consumers need and want; we translate those insights into noticeably superior products focused on those needs; we communicate that superiority through advertising that includes compelling claims, performance demonstrations, and superior benefit visuals; and we price our products at a point where consumers experience superior overall value. All of this drives leadership market share, higher sales and lower costs, which enable us to reinvest in our business and win on a sustained basis. This model is simple and clear—and when we execute it consistently, we win.

We have used this model to build a company with nearly $84 billion in sales and more than $10 billion in net earnings.

This model has also enabled P&G to deliver reliable and meaningful growth over long periods of time, outperforming the market and performing among the very best in our industry. Measuring from the end of each quarter starting in 1980, rolling 10-year returns have exceeded both the S&P 500 and the Dow Jones Industrial Average in 82 out of 88 periods, or 93% of the time. And rolling 20-year returns have exceeded both the S&P 500 and the Dow Jones Industrial Average in 46 out of 48 periods, or 96% of the time.

Within this longer-term track record, there have been shorter periods of underperformance, as we’ve experienced the past couple of years. These have typically been followed by periods of strong outperformance. This past track record does not in any way guarantee future success. It does reflect, however, the strength of our time-tested business model.

P&G’s Long-Term Growth Targets

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organic Sales Growth</strong></td>
<td>1–2% above global market growth rates</td>
</tr>
<tr>
<td><strong>Core EPS Growth</strong></td>
<td>High single to low double digits</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td>90% of net earnings</td>
</tr>
</tbody>
</table>
The model works. Funding it with productivity savings and executing it broadly and consistently with discipline is the proven way for P&G to deliver the business and financial results to which we’ve committed. This is what we are doing.

**Fiscal Year 2012 Financial Results**

Developing-market organic sales growth and cash flow productivity were both strong in 2012. Developed-market organic sales growth and earnings progress were not.

In fiscal 2012, we delivered 3% organic sales growth overall. P&G has averaged 4% organic sales growth over the past three years, achieving 3% to 5% organic sales growth for 11 consecutive quarters.

In just three years, we’ve added organic sales of $8.5 billion, the equivalent of adding a Fortune 300 company to our portfolio.

Growth continues to be very strong in developing markets, which now generate 38% of P&G’s sales and 44% of our unit volume. It’s a $32 billion business for P&G, the largest developing-market business of any consumer products company. We see significant remaining growth opportunities as our business in developing markets is still smaller as a percent of sales than the developing market businesses of some of our competitors, and we will continue to focus on growing our business in the largest and most important of these markets.

Our growth in developed markets has been weaker, resulting from slower market growth and declining market shares. The share declines in these markets were driven primarily by consumer value issues on key brands in several large categories due to a combination of price increases taken to recover higher commodity costs, which our competitors did not take, and increased promotional activity by competitors. Developed markets represent about 60% of our sales and 70% of operating profits, so it’s essential that they are healthy and growing. Consequently, developed-market businesses—including fabric care and baby care in the United States and the largest markets in Western Europe, as well as the United States oral care, skin care, hair care, shave care and feminine care categories—are a disproportionate focus of strengthened plans that we began to implement earlier this year. We are ensuring we have product offerings from each of these businesses that provide superior value—at the right price and with innovation that is strong—supported by marketing that effectively communicates the superiority of our products.
Core earnings per share for fiscal year 2012 were $3.85, which is 1% below the prior-year level. The EPS benefits from sales growth, cost savings and share repurchase this past year were more than offset by a combination of headwinds from higher raw material costs, geographic mix, a higher effective core tax rate and increased investments to support our accelerated portfolio expansion into developing markets.

Free cash flow for the fiscal year was $9.3 billion. Adjusted free cash flow productivity was 90%, consistent with our target. During the fiscal year, we returned $10 billion of cash to shareholders through $6 billion of dividends and $4 billion of share repurchase.

We paid a dividend for the 122nd consecutive year, making P&G one of only nine publicly traded companies headquartered in the U.S. to have delivered uninterrupted dividends for 120 years or more.

We also increased the dividend by 7%. This was the 56th consecutive year we have increased the dividend, one of only six companies to have done this.

Over the last 10 years, P&G has paid out $42 billion in dividends. Excluding $20 billion of share repurchase associated with the Gillette acquisition, we have repurchased $46 billion of stock. In total, through dividends and share repurchase, we have returned $88 billion of cash to our shareholders, which is 90% of reported net earnings.

Returning capital to shareholders, through both dividends and share repurchase, remains a central pillar of our efforts to create superior shareholder value.

I’m proud of the extraordinary efforts P&G people have made to keep our Company growing through a very demanding economic period. We know, however, that we have not delivered sufficient growth to rank among the best performers in our industry. To do this, we must get back on a path toward our long-term annual objective of high single-digit to low double-digit EPS growth and total shareholder return in the top third of our competitive peer group.

Innovation that Sets New Standards

TIDE PODS IS AN EXAMPLE OF P&G innovation that obsoletes existing products or creates entirely new product categories. The innovative, three-chamber, pre-measured packet can simply be dropped in the wash — no measuring, no worrying — and it even dissolves in cold water.

Since launching in the U.S. in February 2012, Tide PODS has had a very strong performance — ahead of our expectations. Since we began shipping PODS, the unit dose laundry segment has more than doubled to 6% of total laundry share — and Tide PODS is over two-thirds of this segment.

It’s an innovation that’s making laundry day easier — and is saving consumers loads of time.
To accelerate progress down this path and address our shortfalls, we have implemented three meaningful changes: strengthening our core business, renewing our focus on discontinuous innovation, and implementing a $10 billion productivity program.

**Focusing on Our Core**

The first change is our 40/20/10 focus—focusing resources on the 40 largest and most profitable businesses, many of which are in developed markets; on our 20 largest innovations; and on the 10 most important developing markets.

Our 40 largest businesses generate more than 50% of sales and nearly 70% of operating profit. They are disproportionately in the U.S. and China, which are P&G’s first and second largest, most profitable markets, respectively.

*Our 20 most important innovations are nearly 10 times larger on average than the rest of the initiatives. This is the core of our innovation pipeline.*

Our 10 most important developing markets are critical to P&G’s future growth. Between 2010 and 2020, the world’s population will grow by 700 million people, and 95% of this population growth will be in developing markets. During that same period, the world’s middle class will increase by 1.4 billion people, 98% in developing markets. Population growth and household income growth are the primary drivers of our business growth, so these trends are highly encouraging for P&G’s future. We are maintaining strong momentum in developing markets, targeting the 10 developing markets with the highest potential for growth.

We will innovate and execute with excellence across all our businesses, but this sharp focus on core businesses, our biggest innovations and developing markets will have the greatest impact on getting P&G back on track to leadership levels of growth and shareholder value.

**Winning with Innovation**

The second change we’ve made is a deliberate refocus on discontinuous innovation—innovation that obsoletes current products and creates new categories and new brands. Examples are products such as Tide PODS, Swiffer, and Crest Whitestrips.

We will maintain our commitment to ongoing innovation in our base business (i.e., the innovations that enable P&G’s brands to maintain superior performance and value between more
Time-Tested Business Model

P&G’s long track record of success is based on a time-tested business model:

- We discover meaningful insights into what consumers need and want.
- We translate those insights into noticeably superior products.
- We communicate product superiority through advertising that includes compelling claims, performance demonstrations and superior benefit visuals.
- We price our products so that consumers experience superior overall value.

This drives leadership market shares, higher sales and lower costs, enabling us to reinvest in our business.

The model is simple and clear—and when we execute it consistently, we win.

We have an increasingly promising pipeline of category- and brand-creating innovations. It will take some time to get these innovations ready for launch, but I am confident they will make a meaningful and sustainable difference as they enter the market.

Improving Productivity

The third change is the $10 billion productivity program we announced in February. This is critical because productivity is the great enabler. It enables us to fund top-line growth, to ensure our consumer value propositions are superior, to overcome macro headwinds, and to deliver better bottom-line growth.

disruptive innovations), but some of our fastest periods of growth—and some of our largest and most profitable present-day businesses—were driven by discontinuous innovation: disposable diapers, liquid laundry detergents, home care items like Swiffer and Febreze. We need to get back to this level of innovation in a meaningful way.
Leadership Brands
Brands with strong equities in the minds of consumers.
Brands that retailers want in their stores.
Brands that are platforms for innovation.
50 P&G’s 50 Leadership Brands are some of the world’s most well-known household names.

90% These 50 brands represent 90% of P&G sales and more than 90% of our profits.

25 25 of these 50 brands are our Billion-Dollar Brands, each generating more than $1 billion in annual sales.
Companies that deliver leadership levels of growth over long periods of time, through favorable and unfavorable economic conditions alike, are almost always companies with strong productivity cultures.

Our productivity program includes $6 billion of savings in cost of goods sold, $3 billion from non-manufacturing overhead, and $1 billion from marketing efficiencies. We have already identified and staffed $1 billion of the $1.2 billion in cost-of-goods-sold savings that we need in fiscal year 2013. We’re ahead of our targets to reduce non-manufacturing enrollment. In addition, manufacturing enrollment remained essentially flat, as significant productivity improvements offset the added staffing required to operate several new manufacturing facilities which went into operation during the past year. And while we are continuing to increase marketing spending, we are also leveraging efficiencies that enable our brands to increase reach and improve effectiveness—essentially doing more with less.

In addition to these three changes, we are improving execution in all parts of the Company. Better execution will help us to overcome macro challenges, manage competitive threats and get the maximum benefit from our innovation, marketing and productivity programs.

We are also maintaining accountability—at all levels. On average across the Company, short-term bonus awards will be below target for the 2012 fiscal year. Three-year performance awards for senior executives are currently tracking, in aggregate, to less than 50% of target. We all acknowledge this reflects the level and quality of our results.

We have the right metrics to incent results that are aligned with shareholder objectives. Our long-term bonus metrics are simple: organic sales growth relative to competition, operating earnings growth, EPS growth and free cash flow productivity—all of which drive total shareholder return.

We’ve aligned the entire Company next year on short-term metrics of volume and sales growth, market share, operating profit growth, productivity (which is delivering against the $10 billion plan), cash flow and internal controls. These are the metrics that we will measure ourselves against and that you can measure our progress by.
Committed to Shareholder Value Creation

THE WHOLE P&G ORGANIZATION is committed to shareholder value creation, and our objective is to consistently rank among the top third of our competitive peer group in Total Shareholder Return (TSR). Over the last 10 years, we have paid out $42 billion in dividends, and we have repurchased $46 billion* in stock. In total, we have returned $88 billion of cash to our shareholders, which is 90% of reported net earnings. Cash yield to shareholders has averaged 5% over this period.

And over approximately long periods of time—rolling 3-year, 5-year and 10-year periods—P&G has frequently outperformed the S&P 500 & Dow Jones Industrial Average since 1980. This performance has made P&G an excellent long-term investment.

With these changes, we should be poised to seize meaningful opportunities for top- and bottom-line growth. We have significant opportunity for revenue growth through increased market share in our established businesses, by expanding our portfolio of superior branded products into the most promising markets and price tiers, and by innovating to expand product categories and create new ones. On the bottom line, our productivity opportunity is substantive and the program is in place. This will help finance top-line growth, ensure our consumer value propositions are superior, overcome macro headwinds and deliver better earnings growth.

We have taken decisive action, but this Company wasn’t built overnight. It will take some time to restart growth in developed markets and to get the savings program to full run-rate levels. It will take some investment to restart innovation where it has been lacking, to ensure our brands are priced appropriately, and to ensure that our marketing plans are sufficient to generate consumer awareness, trial and loyalty. We are committed to make those investments, fueled by improvements in productivity and costs.

We are moving forward with urgency, but with balance—balancing developing- and developed-market growth, balancing the top and bottom lines, and balancing short- and long-term returns.

I am confident we will deliver.

175 Years of Growth

In its 175-year history, P&G has weathered economic downturns and crises, wars and unprecedented change in virtually every aspect of our business. We’ve gone through some rough patches, but we have stayed focused on the fundamentals of our business, learned from our mistakes, and preserved the core of our Company while being willing to change everything else necessary to win with consumers and retail customers.

We’ve been able to do this so consistently over time because of the quality of P&G people. They are P&G’s most important competitive advantage. Along with our time-tested business model, we have a successful and equally tested model of hiring the best people and building them into the best leaders in our industry. The character and caliber of P&G people remain my greatest sources of confidence in our Company’s future.

Robert A. McDonald
Chairman of the Board, President and Chief Executive Officer

*Excludes $20 billion of share repurchase associated with the Gillette acquisition.