PROCTER & GAMBLE Co
Form 10-Q
April 23, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2014
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-434

THE PROCTER & GAMBLE COMPANY
(Exact name of registrant as specified in its charter)

Ohio (State of Incorporation)	31-0411980 (I.R.S. Employer Identification Number)
One Procter & Gamble Plaza, Cincinnati, Ohio (Address of principal executive offices)	45202 (Zip Code)

(513) 983-1100
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

There were 2,705,960,276 shares of Common Stock outstanding as of March 31, 2014.

PART I. FINANCIAL INFORMATION

Item I. Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended March 31		Nine Months Ended March 31	
Amounts in millions except per share amounts	2014	2013	2014	2013
NET SALES	$20,559	$20,598	$64,044	$63,512
Cost of products sold	10,601	10,344	32,541	31,574
Selling, general and administrative expense	6,500	6,849	19,342	20,090
OPERATING INCOME	3,458	3,405	12,161	11,848
Interest expense	179	163	531	504
Interest income	29	21	73	59
Other non-operating income, net	20	25	68	929
EARNINGS BEFORE INCOME TAXES	3,328	3,288	11,771	12,332
Income taxes	692	697	2,606	2,812
NET EARNINGS	2,636	2,591	9,165	9,520
Less: Net earnings attributable to noncontrolling interests	27	25	101	83
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	$2,609	$2,566	$9,064	$9,437
NET EARNINGS PER COMMON SHARE [(1)]				
Basic net earnings per common share	$0.94	$0.92	$3.26	$3.38
Diluted net earnings per common share	0.90	0.88	3.12	3.22
Dividends per common share	$0.602	$0.562	$1.805	$1.686
Diluted Weighted Average Common Shares Outstanding	2,894.1	2,930.7	2,908.9	2,927.6

(1)Basic net earnings per share and diluted net earnings per share are calculated on net earnings attributable to Procter & Gamble.

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31		Nine Months Ended March 31	
Amounts in millions	2014	2013	2014	2013
NET EARNINGS	$2,636	$2,591	$9,165	$9,520
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Financial statement translation	(316)	(1,143)	1,164	604
Cash flow hedges	(12)	358	(322)	212
Investment securities	(1)	8	(2)	9
Defined benefit retirement plans	60	189	24	226
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	(269)	(588)	864	1,051
TOTAL COMPREHENSIVE INCOME	2,367	2,003	10,029	10,571
Less: Total comprehensive income attributable to noncontrolling interests	26	18	111	87
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO PROCTER & GAMBLE	$2,341	$1,985	$9,918	$10,484

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Amounts in millions			March 31, 2014	June 30, 2013
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents			$8,182	$5,947
Available-for-sale investment securities			1,570	—
Accounts receivable			6,353	6,508
Inventories				
Materials and supplies			1,802	1,704
Work in process			718	722
Finished goods			4,707	4,483
Total inventories			7,227	6,909
Deferred income taxes			1,255	948
Prepaid expenses and other current assets			3,539	3,678
TOTAL CURRENT ASSETS			28,126	23,990
PROPERTY, PLANT AND EQUIPMENT, NET			22,274	21,666
GOODWILL			56,226	55,188
TRADEMARKS AND OTHER INTANGIBLE ASSETS, NET			31,306	31,572
OTHER NONCURRENT ASSETS			5,265	6,847
TOTAL ASSETS			$143,197	$139,263
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable			$7,512	$8,777
Accrued and other liabilities			9,078	8,828
Debt due within one year			15,528	12,432
TOTAL CURRENT LIABILITIES			32,118	30,037
LONG-TERM DEBT			20,837	19,111
DEFERRED INCOME TAXES			10,913	10,827
OTHER NONCURRENT LIABILITIES			9,288	10,579
TOTAL LIABILITIES			73,156	70,554
SHAREHOLDERS' EQUITY				
Preferred stock			1,115	1,137
Common stock – shares issued –	March 2014	4,009.2		
	June 2013	4,009.2	4,009	4,009
Additional paid-in capital			63,780	63,538
Reserve for ESOP debt retirement			(1,339)	(1,352)
Accumulated other comprehensive income/(loss)			(6,635)	(7,499)
Treasury stock			(75,869)	(71,966)
Retained earnings			84,220	80,197
Noncontrolling interest			760	645
TOTAL SHAREHOLDERS' EQUITY			70,041	68,709
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$143,197	$139,263

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31	
Amounts in millions	2014	2013
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$5,947	$4,436
OPERATING ACTIVITIES		
Net earnings	9,165	9,520
Depreciation and amortization	2,317	2,188
Share-based compensation expense	247	250
Deferred income taxes	(90)	75
Gain on purchase/sale of businesses	(17)	(906)
Changes in:		
Accounts receivable	150	(504)
Inventories	(355)	(492)
Accounts payable, accrued and other liabilities	(1,160)	(84)
Other operating assets and liabilities	(1,005)	483
Other	200	(49)
TOTAL OPERATING ACTIVITIES	9,452	10,481
INVESTING ACTIVITIES		
Capital expenditures	(2,607)	(2,426)
Proceeds from asset sales	67	559
Acquisitions, net of cash acquired	3	(1,148)
Purchases of available-for-sale investment securities	—	(1,504)
Change in other investments	(161)	(156)
TOTAL INVESTING ACTIVITIES	(2,698)	(4,675)
FINANCING ACTIVITIES		
Dividends to shareholders	(5,097)	(4,797)
Change in short-term debt	2,259	4,152
Additions to long-term debt	4,268	2,253
Reductions of long-term debt	(1,992)	(3,749)
Treasury stock purchases	(5,505)	(4,985)
Impact of stock options and other	1,544	2,730
TOTAL FINANCING ACTIVITIES	(4,523)	(4,396)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4	30
CHANGE IN CASH AND CASH EQUIVALENTS	2,235	1,440
CASH AND CASH EQUIVALENTS, END OF PERIOD	$8,182	$5,876

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013 and the Form 8-K filed October 28, 2013 to update the Form 10-K for a change to our reportable segments that was effective July 1, 2013. In the opinion of management, the accompanying unaudited Consolidated Financial Statements of The Procter & Gamble Company and subsidiaries (the "Company," "Procter & Gamble," "we" or "our") contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, the results of operations included in such financial statements may not necessarily be indicative of annual results.

2. New Accounting Pronouncements and Policies

No new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on the Consolidated Financial Statements.

3. Segment Information

Effective July 1, 2013, the Company implemented a number of changes to our GBU structure, which resulted in changes to our reportable segments. We organized our Global Business Units (GBUs) into four industry-based sectors comprised of 1) Global Beauty, 2) Global Health and Grooming, 3) Global Fabric and Home Care, and 4) Global Baby, Feminine and Family Care. Under U.S. GAAP, the GBUs underlying these sectors will be aggregated into five reportable segments: 1) Beauty, 2) Grooming, 3) Health Care, 4) Fabric Care and Home Care, and 5) Baby, Feminine and Family Care. As a result of the organizational changes, Feminine Care transitioned from Health Care to Baby, Feminine and Family Care, and Pet Care transitioned from Fabric Care and Home Care to Health Care. Prior periods have been recast to reflect the change.

Following is a summary of segment results.

		Three Months Ended March 31			Nine Months Ended March 31		
		Net Sales	Earnings Before Income Taxes	Net Earnings	Net Sales	Earnings Before Income Taxes	Net Earnings
Beauty	2014	$4,691	$800	$624	$14,878	$2,869	$2,241
	2013	4,763	692	535	15,106	2,682	2,070
Grooming	2014	1,863	613	463	5,937	1,944	1,469
	2013	1,931	593	444	6,057	1,922	1,428
Health Care	2014	2,361	438	294	7,241	1,372	938
	2013	2,406	459	305	7,198	1,446	976
Fabric Care and Home Care	2014	6,340	1,030	658	19,891	3,672	2,392
	2013	6,195	1,065	679	19,483	3,730	2,435
Baby, Feminine and Family Care	2014	5,453	1,103	725	16,559	3,366	2,215
	2013	5,537	1,233	810	16,342	3,575	2,334
Corporate	2014	(149)	(656)	(128)	(462)	(1,452)	(90)
	2013	(234)	(754)	(182)	(674)	(1,023)	277
Total	2014	$20,559	$3,328	$2,636	$64,044	$11,771	$9,165
	2013	20,598	3,288	2,591	63,512	12,332	9,520

4. Goodwill and Other Intangible Assets

Goodwill is allocated by reportable segment as follows:

Amounts in millions of dollars unless otherwise specified.

	Beauty	Grooming	Health Care	Fabric Care and Home Care	Baby, Feminine and Family Care	Corporate	Total Company
GOODWILL at June 30, 2013	$16,663	$20,617	$8,318	$4,453	$4,828	$309	$55,188
Translation and Other	427	355	110	55	92	—	1,039
Acquisitions and Divestitures	—	—	—	(1)	—	—	(1)
GOODWILL at March 31, 2014	$17,090	$20,972	$8,428	$4,507	$4,920	$309	$56,226

Goodwill increased from June 30, 2013 primarily due to currency translation across all reportable segments.

Identifiable intangible assets at March 31, 2014 are comprised of:

	Gross Carrying Amount	Accumulated Amortization
Intangible assets with determinable lives	$9,795	$5,346
Intangible assets with indefinite lives	26,857	—
Total identifiable intangible assets	$36,652	$5,346

Intangible assets with determinable lives consist of brands, patents, technology and customer relationships. The intangible assets with indefinite lives consist primarily of brands. The amortization of intangible assets for the three months ended March 31, 2014 and 2013 was $126 million and $136 million, respectively. For the nine months ended March 31, 2014 and 2013, the amortization of intangibles was $389 million for both periods.

The results of our annual goodwill impairment testing, which took place during the quarter ended December 31, 2013, indicated a decline in the fair value of the Batteries reporting unit due to lower long-term market growth assumptions in certain key geographies. The estimated fair value of Batteries continues to exceed its underlying carrying value, but the excess has been reduced to approximately 6%. The business unit valuations used to test goodwill for impairment are dependent on a number of significant estimates and assumptions, including macroeconomic conditions, overall category growth rates, competitive activities, cost containment and margin expansion and Company business plans. We believe these estimates and assumptions are reasonable. However, actual events and results of the Batteries reporting unit could differ substantially from those used in our valuations. To the extent such factors result in a further reduction of the level of projected cash flows used to estimate the Batteries reporting unit fair value, we may need to record non-cash impairment charges in the future.

5. Share-Based Compensation

Total share-based compensation expense was as follows:

	Three Months Ended March 31		Nine Months Ended March 31	
	2014	2013	2014	2013
Stock options	$64	$66	$170	$183
Other share-based awards	30	30	77	67
Total share-based compensation	$94	$96	$247	$250

Assumptions utilized in the model that estimates the fair value of share-based awards for purposes of calculating compensation expense are evaluated and revised, as necessary, to reflect market conditions and experience.

6. Postretirement Benefits

The Company offers various postretirement benefits to its employees.

The components of net periodic benefit cost for defined benefit plans are as follows:

Amounts in millions of dollars unless otherwise specified.

	Pension Benefits Three Months Ended March 31		Other Retiree Benefits Three Months Ended March 31	
	2014	2013	2014	2013
Service cost	$76	$76	$37	$48
Interest cost	149	140	64	65
Expected return on plan assets	(177)	(146)	(96)	(95)
Prior service cost / (credit) amortization	6	4	(5)	(5)
Net actuarial loss amortization	54	55	29	49
Settlement loss	—	2	—	—
Gross benefit cost	108	131	29	62
Dividends on ESOP preferred stock	—	—	(16)	(17)
Net periodic benefit cost	$108	$131	$13	$45

	Pension Benefits Nine Months Ended March 31		Other Retiree Benefits Nine Months Ended March 31	
	2014	2013	2014	2013
Service cost	$223	$226	$112	$143
Interest cost	440	421	192	195
Expected return on plan assets	(523)	(442)	(289)	(286)
Prior service cost / (credit) amortization	19	13	(15)	(15)
Net actuarial loss amortization	160	161	88	149
Curtailment loss	—	2	—	—
Settlement loss	—	2	—	—
Gross benefit cost	319	383	88	186
Dividends on ESOP preferred stock	—	—	(48)	(52)
Net periodic benefit cost	$319	$383	$40	$134

For the year ending June 30, 2014, the expected return on plan assets is 7.2% and 8.3% for pensions and other retiree benefit plans, respectively.

7. Risk Management Activities and Fair Value Measurements

As a multinational company with diverse product offerings, we are exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices.

Fair Value Hierarchy

The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period. The following table sets forth the Company's financial assets and liabilities as of March 31, 2014 and June 30, 2013 that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

Amounts in millions of dollars unless otherwise specified.

	Level 1		Level 2		Level 3		Total	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Assets recorded at fair value:								
Investments:								
U.S. government securities	$—	$—	$1,570	$1,571	$—	$—	$1,570	$1,571
Other investments	6	23	—	—	24	24	30	47
Derivatives relating to:								
Foreign currency hedges	—	—	199	168	—	—	199	168
Other foreign currency instruments [1]	—	—	45	19	—	—	45	19
Interest rates	—	—	152	191	—	—	152	191
Net investment hedges	—	—	115	233	—	—	115	233
Total assets recorded at fair value [2]	6	23	2,081	2,182	24	24	2,111	2,229
Liabilities recorded at fair value:								
Derivatives relating to:								
Other foreign currency instruments [1]	—	—	77	90	—	—	77	90
Interest rates	—	—	54	59	—	—	54	59
Liabilities recorded at fair value [3]	—	—	131	149	—	—	131	149
Liabilities not recorded at fair value:								
Long-term debt [4]	26,510	22,671	1,650	3,022	—	—	28,160	25,693
Total liabilities recorded and not recorded at fair value	$26,510	$22,671	$1,781	$3,171	$—	$—	$28,291	$25,842

(1) Other foreign currency instruments are comprised of foreign currency financial instruments that do not qualify as hedges.

(2) All derivative assets are presented in prepaid expenses and other current assets and other noncurrent assets. Investment securities are presented in available-for-sale investment securities and other noncurrent assets. The U.S government securities are included in other noncurrent assets in our Consolidated Balance Sheet at June 30, 2013. The amortized cost of the U.S. government securities was $1,599 as of March 31, 2014 and $1,604 as of June 30, 2013. All U.S. government securities have contractual maturities between one and five years. Fair values are generally estimated based upon quoted market prices for similar instruments.

(3) All liabilities are presented in accrued and other liabilities or other noncurrent liabilities.

(4) Long-term debt includes the current portion ($5,258 and $4,540 as of March 31, 2014 and June 30, 2013, respectively) of debt instruments. Long-term debt is not recorded at fair value on a recurring basis, but is measured at fair value for disclosure purposes. Fair values are generally estimated based on quoted market prices for identical or similar instruments.

The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter. There were no transfers between levels during the periods presented. Also, there was no significant activity within the Level 3 assets and liabilities during the periods presented and there were no assets or liabilities that were remeasured at fair value on a non-recurring basis for the period ended March 31, 2014.

Substantially all of the Company’s financial instruments used in hedging transactions are governed by industry standard netting agreements with counterparties. If the Company’s credit rating were to fall below the levels stipulated in the agreements, the counterparties could demand either collateralization or termination of the arrangement. The aggregate fair value of the instruments covered by these contractual features that are in a net liability position as of

March 31, 2014, was not material. The Company has not been required to post any collateral as a result of these contractual features.

Disclosures about Derivative Instruments

The notional amounts and fair values of qualifying and non-qualifying financial instruments used in hedging transactions as of March 31, 2014 and June 30, 2013 are as follows:

Amounts in millions of dollars unless otherwise specified.

	Notional Amount		Fair Value Asset/(Liability)	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Derivatives in Cash Flow Hedging Relationships				
Foreign currency contracts	$951	$951	$199	$168
Derivatives in Fair Value Hedging Relationships				
Interest rate contracts	$11,818	$9,117	$98	$132
Derivatives in Net Investment Hedging Relationships				
Net investment hedges	$1,125	$1,303	$115	$233
Derivatives Not Designated as Hedging Instruments				
Foreign currency contracts	$10,743	$7,080	$(32)	$(71)

	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	
	March 31, 2014	June 30, 2013
Derivatives in Cash Flow Hedging Relationships		
Interest rate contracts	$ 4	$ 7
Foreign currency contracts	15	14
Total	$ 19	$ 21
Derivatives in Net Investment Hedging Relationships		
Net investment hedges	$ 71	$ 145

The effective portion of gains and losses on derivative instruments that was recognized in other comprehensive income (OCI) during the nine months ended March 31, 2014 and 2013, was not material. During the next 12 months, the amount of the March 31, 2014 accumulated OCI (AOCI) balance that will be reclassified to earnings is expected to be immaterial.

The amounts of gains and losses on qualifying and non-qualifying financial instruments used in hedging transactions for the three and nine months ended March 31, 2014 and 2013 are as follows:

Amounts in millions of dollars unless otherwise specified.

	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income [1]			
	Three Months Ended March 31		Nine Months Ended March 31	
	2014	2013	2014	2013
Derivatives in Cash Flow Hedging Relationships				
Interest rate contracts	$2	$2	$5	$5
Foreign currency contracts	(11)	82	45	170
Total	$(9)	$84	$50	$175

	Amount of Gain/(Loss) Recognized in Income			
	Three Months Ended March 31		Nine Months Ended March 31	
	2014	2013	2014	2012
Derivatives in Fair Value Hedging Relationships [2]				
Interest rate contracts	$80	$(64)	(34)	(39)
Debt	(80)	64	33	43
Total	—	—	(1)	4
Derivatives in Net Investment Hedging Relationships [2]				
Net investment hedges	$—	$—	$—	$(1)
Derivatives Not Designated as Hedging Instruments [3]				
Foreign currency contracts [4]	$5	$(209)	$88	$17

(1) The gain or loss on the effective portion of cash flow hedging relationships is reclassified from AOCI into net income in the same period during which the related item affects earnings. Such amounts are included in the Consolidated Statements of Earnings as follows: interest rate contracts in interest expense, foreign currency contracts in selling, general and administrative expense (SG&A) and interest expense and commodity contracts in cost of products sold.

(2) The gain or loss on the ineffective portion of interest rate contracts and net investment hedges, if any, is included in the Consolidated Statements of Earnings in interest expense.

(3) The gain or loss on contracts not designated as hedging instruments is included in the Consolidated Statements of Earnings as follows: foreign currency contracts in SG&A and commodity contracts in cost of products sold.

(4) The gain or loss on non-qualifying foreign currency contracts substantially offsets the foreign currency mark-to-market impact of the related exposure.

8. Accumulated Other Comprehensive Income / (Loss)

The tables below present the changes in accumulated other comprehensive income / (loss) by component and the reclassifications out of accumulated other comprehensive income / (loss).

Changes in Accumulated Other Comprehensive Income / (Loss) by Component

	Hedges	Investment Securities	Pension and Other Retiree Benefits	Financial Statement Translation	Total
Balance at June 30, 2013	$(3,529)	$(27)	$(4,296)	$353	$(7,499)
OCI before reclassifications [1]	(274)	9	(158)	1,164	741
Amounts reclassified out of AOCI	(48)	(11)	182	—	123
Net current period OCI	(322)	(2)	24	1,164	864

Balance at March 31, 2014	$(3,851)	$(29)	$(4,272)	$1,517	$(6,635)

[1] Net of tax (benefit) / expense of $(192), $3 and $(44) for hedges, investment securities, and defined benefit retirement plans, respectively.

Amounts in millions of dollars unless otherwise specified.

Reclassifications out of Accumulated Other Comprehensive Income

	Three Months Ended March 31		Nine Months Ended March 31	
	2014	2013	2014	2013
Hedges [1]				
Interest rate contracts	$2	$2	$5	$5
Foreign exchange contracts	(11)	82	45	170
Total before-tax	(9)	84	50	175
Tax (expense) / benefit	(1)	(1)	(2)	(2)
Net of tax	(10)	83	48	173
Gains and (losses) on Investment Securities [2]	2	—	18	—
Tax (expense) / benefit	(1)	—	(7)	—
Net of tax	1	—	11	—
Pension and Other Retiree Benefits [3]				
Amortization of deferred amounts	(1)	1	(4)	2
Recognized net actuarial gains/(losses)	(83)	(104)	(248)	(310)
Curtailments and settlements	—	(2)	—	(4)
Total before-tax	(84)	(105)	(252)	(312)
Tax (expense) / benefit	24	31	70	102
Net of tax	(60)	(74)	(182)	(210)
Total reclassifications, net of tax	$(69)	$9	$(123)	$(37)

[1] See Note 7 for classification of these items in the Consolidated Statement of Earnings.
[2] Reclassified from AOCI into Other non-operating income, net.
[3] Reclassified from AOCI into costs of products sold and SG&A. These components are included in the computation of net periodic pension cost (see Note 6 for additional details).

9. Restructuring Program

The Company has historically incurred an ongoing annual level of restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization. Before-tax costs incurred under the ongoing program have generally ranged from $250 to $500 million annually. In February and November 2012, the Company made announcements regarding an incremental restructuring program as part of a productivity and cost savings plan to reduce costs in the areas of supply chain, research and development, marketing and overheads. The productivity and cost savings plan was designed to accelerate cost reductions by streamlining management decision making, manufacturing and other work processes in order to help fund the Company's growth strategy. The restructuring program is being executed across the Company's centralized organization as well as across virtually all of its Sales and Market Operations (SMO) and GBUs.

The Company expects to incur in excess of $3.5 billion in before-tax restructuring costs over a five year period (from fiscal 2012 through fiscal 2016), including costs incurred as part of the ongoing and incremental restructuring program. The restructuring program included an initial net reduction in non-manufacturing overhead personnel of approximately 5,700 by the end of fiscal 2013. In addition to the initial reduction of 5,700 employees, the restructuring program includes plans for a further non-manufacturing overhead personnel reduction of approximately 2% - 4% annually from fiscal 2014 through fiscal 2016, roughly doubling the size of the initial enrollment reduction target. This is being done via the elimination of duplicate work, simplification through the use of technology and the optimization of various functional and business organizations and the Company's global footprint. In addition, the plan includes integration of newly acquired companies and the optimization of the supply chain and other manufacturing

processes.

Restructuring costs incurred consist primarily of costs to separate employees and asset-related costs to exit facilities. The Company is also incurring other types of costs as outlined below. Through fiscal 2013, the Company incurred charges of

Amounts in millions of dollars unless otherwise specified.

---

approximately $2.0 billion. Approximately $1.1 billion of these charges were related to separations, $487 million were asset-related and $431 million were related to other restructuring-type costs. Through fiscal 2013, the Company reduced non-manufacturing enrollment by approximately 7,000, which was 1,300 positions above initial target.

For the three- and nine-month periods ended March 31, 2014, the Company incurred total restructuring charges of approximately $212 million and $514 million, respectively. For the three- and nine-month periods ended March 31, 2014 approximately $101 million and $250 million of these charges were recorded in SG&A, respectively. The remainder is included in cost of products sold. The following table presents restructuring activity for the nine months ended March 31, 2014:

				For the Nine Months Ended March 31, 2014		
	Accrual Balance June 30, 2013	Charges Previously Reported (Six Months Ended December 31, 2013)	Charges for the Three Months Ended March 31, 2014	Cash Spent	Charges Against Assets	Accrual Balance March 31, 2014
Separations	$296	$127	$99	$(202)	$—	$320
Asset-Related Costs	—	66	53	—	(119)	—
Other Costs	27	109	60	(172)	—	24
Total	$323	$302	$212	$(374)	$(119)	$344

Separation Costs
Employee separation charges for the three- and nine-month periods ended March 31, 2014 relate to severance packages for approximately 880 and 1,550 employees, respectively. Separations related to non-manufacturing employees were approximately 520 and 1,000 for the three- and nine-month periods ended March 31, 2014, respectively. These separations are primarily in North America and Western Europe. The packages are predominately voluntary and the amounts are calculated based on salary levels and past service periods. Severance costs related to voluntary separations are generally charged to earnings when the employee accepts the offer. Since its inception, the restructuring program has incurred separation charges related to approximately 8,300 employees, of which approximately 5,640 are non-manufacturing overhead personnel.

Asset-Related Costs
Asset-related costs consist of both asset write-downs and accelerated depreciation. Asset write-downs relate to the establishment of a new fair value basis for assets held-for-sale or disposal. These assets were written down to the lower of their current carrying basis or amounts expected to be realized upon disposal, less minor disposal costs. Charges for accelerated depreciation relate to long-lived assets that will be taken out of service prior to the end of their normal service period. These assets relate primarily to manufacturing consolidations and technology standardization. The asset-related charges will not have a significant impact on future depreciation charges.

Other Costs
Other restructuring-type charges are incurred as a direct result of the restructuring program. Such charges primarily include employee relocation related to separations and office consolidations, termination of contracts related to supply chain redesign and the cost to change internal systems and processes to support the underlying organizational changes.

Consistent with our historical policies for ongoing restructuring-type activities, the restructuring program charges are funded by and included within Corporate for both management and segment reporting. Accordingly, all of the charges under the program are included within the Corporate reportable segment. However, for informative purposes, the following table summarizes the total restructuring costs related to our reportable segments.

Amounts in millions of dollars unless otherwise specified.

	Three Months Ended March 31 2014	Nine Months Ended March 31 2014
Beauty	$28	$41
Grooming	5	18
Health Care	6	12
Fabric Care & Home Care	28	75
Baby, Feminine and Family Care	35	123
Corporate (1)	110	245
Total Company	$212	$514

(1) Corporate includes costs related to allocated overheads, including charges related to our SMO, GBS and Corporate Functions activities.

10. Commitments and Contingencies

Litigation

The Company is subject to various legal proceedings and claims arising out of our business which cover a wide range of matters such as antitrust, trade and other governmental regulations, product liability, patent and trademark matters, advertising, contracts, environmental issues, labor and employment matters and income taxes.

As previously disclosed, the Company has had a number of antitrust matters in Europe. These matters involve a number of other consumer products companies and/or retail customers. Several regulatory authorities in Europe have issued separate decisions pursuant to their investigations alleging that the Company, along with several other companies, engaged in violations of competition laws in those countries. Many of these matters have concluded and the fines have been paid. For ongoing matters, the Company has accrued liabilities for competition law violations totaling $171 million as of March 31, 2014. While the ultimate resolution of these matters for which we have accrued liabilities may result in fines or costs in excess of the amounts reserved, it is difficult to estimate such amounts at this time. Currently, however, we do not expect any such incremental losses to materially impact our financial statements in the period in which they are accrued and paid, respectively.

With respect to other litigation and claims, while considerable uncertainty exists, in the opinion of management and our counsel, the ultimate resolution of the various lawsuits and claims will not materially affect our financial position, results of operations or cash flows.

We are also subject to contingencies pursuant to environmental laws and regulations that in the future may require us to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Based on currently available information, we do not believe the ultimate resolution of environmental remediation will have a material effect on our financial position, results of operations or cash flows.

Income Tax Uncertainties

The Company is present in approximately 150 taxable jurisdictions and, at any point in time, has 40 – 50 audits underway at various stages of completion. We evaluate our tax positions and establish liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law and closing of statutes of limitations. Such adjustments are reflected in the tax provision as appropriate. We have tax years open ranging from 2002 and forward. We are generally not able to reliably estimate the ultimate settlement amounts or timing until the close of the audit. While we do not expect material changes, it is possible that the amount of

unrecognized benefit with respect to our uncertain tax positions will significantly increase or decrease within the next 12 months related to audits described above. At this time, we are not able to make a reasonable estimate of the range of impact on the balance of uncertain tax positions or the impact on the effective tax rate related to these items.

Additional information on the Commitments and Contingencies of the Company can be found in Note 11, Commitments and Contingencies, which appears in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Amounts in millions of dollars unless otherwise specified.

11. Subsequent Events

On April 9, 2014, the Company announced that Mars, Incorporated has agreed to buy the IAMS®, EUKANUBA® and NATURA® brands in major markets for $2.9 billion in cash. The transaction is expected to be completed in the second-half of calendar 2014, subject to regulatory approvals. The Company has also begun activities with the intent to exit the remainder of its Pet Care business. The results of the Pet Care business will be presented as discontinued operations beginning with the quarter ending June 30, 2014. The earnings that will move to discontinued operations will be approximately $0.03 per share in fiscal 2013 and are expected to be approximately $0.04 per share in fiscal 2014. The one-time earnings impact from the divestiture is not expected to have a material impact on fiscal 2015 results.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements
Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, the following sections: “Management's Discussion and Analysis,” and “Risk Factors.” These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “ma
“will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based
current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Economic Conditions, Challenges and Risks" and the section titled “Risk Factors” (Part II, Item 1A of this Form 10-Q). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

The purpose of the Management's Discussion and Analysis (MD&A) is to provide an understanding of Procter & Gamble's financial condition, results of operations and cash flows by focusing on changes in certain key measures from year to year. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and accompanying notes. MD&A is organized in the following sections:

- Overview
- Summary of Results - Nine Months Ended March 31, 2014
- Economic Conditions, Challenges and Risks
- Results of Operations – Three and Nine Months Ended March 31, 2014
- Business Segment Discussion – Three and Nine Months Ended March 31, 2014
- Financial Condition
- Reconciliation of Non-GAAP Measures

Throughout MD&A, we refer to measures used by management to evaluate performance, including unit volume growth, net sales and net earnings. We also refer to a number of financial measures that are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP), including organic sales growth, core net earnings per share (EPS), free cash flow and free cash flow productivity. Organic sales growth is net sales growth excluding the impacts of foreign exchange, acquisitions and divestitures. Core EPS is a measure of the Company's diluted net earnings per share from continuing operations excluding certain items that are not judged to be part of the Company's sustainable results or trends. Free cash flow is operating cash flow less capital spending. Free

cash flow productivity is the ratio of free cash flow to net earnings. We believe these measures provide investors with important information that is useful in understanding our business results and trends. The explanation at the end of MD&A provides more details on the use and the derivation of these measures.

Management also uses certain market share and market consumption estimates to evaluate performance relative to competition despite some limitations on the availability and comparability of share and consumption information. References to market share and market consumption in MD&A are based on a combination of vendor-reported consumption and market size data, as well as internal estimates. All market share references represent the percentage of sales in dollar terms on a constant currency basis of our products, relative to all product sales in the category.

Amounts in millions of dollars unless otherwise specified.

OVERVIEW

We are a global leader in retail goods focused on providing branded consumer packaged goods of superior quality and value to our consumers around the world. Our products are sold in more than 180 countries and territories primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, salons, high-frequency stores and distributors. We continue to expand our presence in other channels, such as perfumeries and e-commerce. We have on-the-ground operations in approximately 70 countries.

Our market environment is highly competitive with global, regional and local competitors. In many of the markets and industry segments in which we sell our products, we compete against other branded products as well as retailers' private-label brands. Additionally, many of the product segments in which we compete are differentiated by price tiers (referred to as super-premium, premium, mid-tier and value-tier products). We are well positioned in the industry segments and markets in which we operate, often holding a leadership or significant market share position.

Effective July 1, 2013, the Company implemented a number of changes to our Global Business Unit (GBU) structure, which resulted in changes to our reportable segments. We organized our GBUs into four industry-based sectors comprised of 1) Global Beauty, 2) Global Health and Grooming, 3) Global Fabric and Home Care, and 4) Global Baby, Feminine and Family Care. Under U.S. GAAP, the GBUs underlying these sectors are aggregated into five reportable segments: 1) Beauty, 2) Grooming, 3) Health Care, 4) Fabric Care and Home Care, and 5) Baby, Feminine and Family Care. As a result of the organizational changes, Feminine Care transitioned from Health Care to Baby, Feminine and Family Care, and Pet Care transitioned from Fabric Care and Home Care to Health Care.

The table below provides more information about the components of our reportable business segment structure.

Reportable Segment	GBUs (Categories)	Billion Dollar Brands
Beauty	Beauty Care (Antiperspirant and Deodorant, Cosmetics, Personal Cleansing, Skin Care); Hair Care and Color; Prestige (SK-II, Fragrances); Salon Professional	Head & Shoulders, Olay, Pantene, SK-II, Wella
Grooming	Shave Care (Blades and Razors, Pre- and Post-Shave Products); Braun	Fusion, Gillette, Mach3, Prestobarba
Health Care	Personal Health Care (Gastrointestinal, Rapid Diagnostics, Respiratory, Other Personal Health Care, Vitamins/Minerals/Supplements); Oral Care (Toothbrush, Toothpaste, Other Oral Care); Pet Care	Crest, Iams, Oral-B, Vicks
Fabric Care and Home Care	Fabric Care (Bleach and Laundry Additives, Fabric Enhancers, Laundry Detergents); Home Care (Air Care, Dish Care, Surface Care); Personal Power (Batteries); Professional	Ace, Ariel, Dawn, Downy, Duracell, Febreze, Gain, Tide
Baby, Feminine and Family Care	Baby Care (Baby Wipes, Diapers and Pants); Feminine Care (Feminine Care, Incontinence); Family Care (Paper Towels, Tissues, Toilet Paper)	Always, Bounty, Charmin, Pampers

The following table provides the percentage of net sales and net earnings by reportable business segment for the three months ended March 31, 2014 (excludes net sales and net earnings in Corporate):

	Three Months Ended March 31, 2014	
	Net Sales	Net Earnings
Beauty	23%	22%
Grooming	9%	17%
Health Care	11%	11%
Fabric Care and Home Care	31%	24%
Baby, Feminine and Family Care	26%	26%
Total	100%	100%

The following table provides the percentage of net sales and net earnings by reportable business segment for the nine months ended March 31, 2014 (excludes net sales and net earnings in Corporate):

	Nine Months Ended March 31, 2014	
	Net Sales	Net Earnings
Beauty	23%	24%
Grooming	9%	16%
Health Care	11%	10%
Fabric Care and Home Care	31%	26%
Baby, Feminine and Family Care	26%	24%
Total	100%	100%

SUMMARY OF RESULTS

Following are highlights of results for the nine months ended March 31, 2014 versus the nine months ended March 31, 2013:

- Net sales increased 1% versus the previous year to $64.0 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, were up 3%.
- Unit volume increased 4%. Volume grew mid-single digits for Fabric Care and Home Care. Volume increased low single digits for Baby, Feminine and Family Care; Beauty; Grooming; and Health Care.
- Net earnings attributable to Procter & Gamble were $9.1 billion, a decrease of $373 million, or 4% versus the prior year period. This was primarily driven by an increase of approximately $400 million in non-core items including a prior year $623 million holding gain resulting from P&G's purchase of the balance of its Baby Care and Feminine Care joint venture in Iberia, partially offset by a $232 million after tax reduction in restructuring charges.
- Diluted net earnings per share from continuing operations decreased 3% to $3.12.
- Core net earnings per share, which excludes incremental restructuring charges, the balance sheet impact of a devaluation of the foreign exchange rate in Venezuela, certain legal charges for pending European legal matters and the base period holding gain from the joint venture in Iberia, increased 1% to $3.30.
- Operating cash flow was $9.5 billion. Free cash flow, which is operating cash flow less capital expenditures, was $6.8 billion. Free cash flow productivity, which is the ratio of free cash flow to net earnings, was 75%.

ECONOMIC CONDITIONS, CHALLENGES AND RISKS

Ability to Achieve Business Plans. We are a consumer products company and rely on continued demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to consumers and retail trade customers. Our continued success is dependent on leading-edge innovation with respect to both products and operations, the continued positive reputations of our brands and our ability to successfully maintain patent and trademark protection. This means we must be able to obtain patents and trademarks, and respond to technological advances and patents granted to competition. Our success is also dependent on effective sales, advertising and marketing programs. Our ability to innovate and execute in these areas will determine the extent to which we are able to grow existing sales and volume profitably, especially with respect to the product categories and geographic markets (including developing markets) in which we have chosen to focus. There are high levels of competitive activity in the environments in which we operate. To address these challenges, we must respond to competitive factors, including pricing, promotional incentives, trade terms and product initiatives. We must manage each of these factors, as well as maintain mutually beneficial relationships with our key customers, in order to effectively compete and achieve our business plans. As a company that manages a portfolio of consumer brands, our ongoing business model involves a certain level of ongoing acquisition, divestiture and joint venture activities. We must be able to successfully manage the impacts of these activities, while at the same time delivering against base business objectives. Daily conduct of our business also depends on our ability to maintain key information technology systems, including systems operated by third-party suppliers, and to maintain security over our data.

Cost Pressures. Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, labor costs, foreign exchange and interest rates. Therefore, our success is dependent, in part, on our continued ability to manage these fluctuations through pricing actions, cost savings projects, sourcing decisions and certain hedging transactions, as well as through consistent productivity improvements. We also must manage our debt and currency

exposure, especially in certain countries with currency exchange, import authorization and pricing controls, such as Venezuela, Argentina, China, India, and Egypt. We need to maintain key manufacturing and supply arrangements, including sole supplier and sole manufacturing plant arrangements, and successfully manage any disruptions at Company manufacturing sites. We must implement, achieve and sustain cost improvement plans, including our outsourcing projects and those related to general overhead and workforce optimization. Successfully managing these changes, including identifying, developing and retaining key employees, is critical to our success.

Global Economic Conditions. Demand for our products has a correlation to global macroeconomic factors. The current macroeconomic factors remain dynamic. Economic changes, terrorist activity, political unrest and natural disasters may result in business interruption, inflation, deflation, lack of market growth or decreased demand for our products. Our success will depend, in part, on our ability to manage continued global political and/or economic uncertainty, especially in our significant geographic markets. We could also be negatively impacted by a global, regional or national economic crisis, including sovereign risk in the event of a deterioration in the credit worthiness of or a default by local governments, resulting in a disruption of credit markets. Such events could negatively impact our ability to collect receipts due from governments, including refunds of value added taxes, create significant credit risks relative to our local customers and depository institutions, and/or negatively impact our overall liquidity.
Regulatory Environment. Changes in laws, regulations and the related interpretations may alter the environment in which we do business. This includes changes in environmental, competitive and product-related laws, as well as changes in accounting standards and taxation requirements. Our ability to manage regulatory, tax and legal matters (including, but not limited to, product liability, patent, intellectual property, competition law matters and tax policy) and to resolve pending legal matters within current estimates may impact our results.

For information on risk factors that could impact our results, please refer to Part II, Item 1A "Risk Factors" in the Company’s Form 10-Q for the quarter ended September 30, 2013.

RESULTS OF OPERATIONS – Three Months Ended March 31, 2014
The following discussion provides a review of results for the three months ended March 31, 2014 versus the three months ended March 31, 2013.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Consolidated Earnings Information

	Three Months Ended March 31		
	2014	2013	% CHG
NET SALES	$20,559	$20,598	— %
COST OF PRODUCTS SOLD	10,601	10,344	2 %
GROSS PROFIT	9,958	10,254	(3)%
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	6,500	6,849	(5)%
OPERATING INCOME	3,458	3,405	2 %
INTEREST EXPENSE	179	163	10 %
INTEREST INCOME	29	21	38 %
OTHER NON-OPERATING INCOME, NET	20	25	(20)%
EARNINGS BEFORE INCOME TAXES	3,328	3,288	1 %
INCOME TAXES	692	697	(1)%
NET EARNINGS	2,636	2,591	2 %
LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	27	25	8 %
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	$2,609	$2,566	2 %
EFFECTIVE TAX RATE	20.8 %	21.2 %	
PER COMMON SHARE [1]:			
BASIC NET EARNINGS	$0.94	$0.92	2 %
DILUTED NET EARNINGS	$0.90	$0.88	2 %
DIVIDENDS	$0.602	$0.562	7 %
AVERAGE DILUTED SHARES OUTSTANDING	2,894.1	2,930.7	

[1] Basic net earnings per share and diluted net earnings per share are calculated on net earnings attributable to Procter & Gamble

COMPARISONS AS A % OF NET SALES			Basis Pt Chg
GROSS MARGIN	48.4 %	49.8 %	(140)
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	31.6 %	33.3 %	(170)
OPERATING MARGIN	16.8 %	16.5 %	30
EARNINGS BEFORE INCOME TAXES	16.2 %	16.0 %	20
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	12.7 %	12.5 %	20

Net Sales

Net sales were flat at $20.6 billion for the third quarter on a 3% increase in unit volume versus the prior year period. Fabric Care and Home Care volume grew mid-single digits. Health Care and Grooming volume grew low single digits. Baby, Feminine and Family Care and Beauty volume was unchanged. Volume increased low single digits in developed regions and grew mid-single digits in developing regions. Unfavorable foreign exchange reduced net sales

by 3%. Organic sales grew 3% driven by the unit volume increase. A 1% impact from higher pricing was offset by a 1% impact from unfavorable geographic and product mix due to higher relative growth of developing regions, which have lower than average selling prices and of lower priced product categories, such as Fabric Care and Baby Care.

Net Sales Change Drivers 2014 vs. 2013 (Three Months Ended March 31)

Volume with Acquisitions & Divestitures	Volume