Section 1: 10-Q (FY1819 Q1 JAS 10-Q)

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

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended September 30, 2018

OR

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

For the transition period from _________ to _________

P&G

THE PROCTER & GAMBLE COMPANY

(Exact name of registrant as specified in its charter)

Ohio	**1-434**	**31-0411980**
(State of Incorporation)	***(Commission File Number)***	***(I.R.S. Employer Identification Number)***

One Procter & Gamble Plaza, Cincinnati, Ohio	**45202**
(Address of principal executive offices)	***(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 ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 2,491,408,329 shares of Common Stock outstanding as of September 30, 2018.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in millions except per share amounts	Three Months Ended September 30	
	2018	2017
NET SALES	$ 16,690	$ 16,653
Cost of products sold	8,484	8,269
Selling, general and administrative expense	4,652	4,736
OPERATING INCOME	3,554	3,648
Interest expense	129	115
Interest income	53	49
Other non-operating income, net	462	169
EARNINGS BEFORE INCOME TAXES	3,940	3,751
Income taxes	729	881
NET EARNINGS	3,211	2,870
Less: Net earnings attributable to noncontrolling interests	12	17
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	$ 3,199	$ 2,853
NET EARNINGS PER SHARE [(1)]		
Basic	1.26	1.09
Diluted	1.22	1.06
DIVIDENDS PER COMMON SHARE	$ 0.7172	$ 0.6896
Diluted Weighted Average Common Shares Outstanding	2,612.1	2,690.6

(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/(LOSS)

Amounts in millions	Three Months Ended September 30 2018	2017
NET EARNINGS	**$ 3,211**	$ 2,870
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX		
Financial statement foreign currency translation	**(216)**	840
Unrealized gains/(losses) on hedges	**7**	(463)
Unrealized gains/(losses) on investment securities	**(5)**	(4)
Unrealized gains/(losses) on defined benefit retirement plans	**152**	(33)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**(62)**	340
TOTAL COMPREHENSIVE INCOME	**3,149**	3,210
Less: Total comprehensive income attributable to noncontrolling interests	**8**	17
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO PROCTER & GAMBLE	**$ 3,141**	$ 3,193

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Amounts in millions			September 30, 2018	June 30, 2018
Assets				
CURRENT ASSETS				
Cash and cash equivalents			**$ 2,545**	$ 2,569
Available-for-sale investment securities			**8,708**	9,281
Accounts receivable			**5,035**	4,686
INVENTORIES				
Materials and supplies			**1,429**	1,335
Work in process			**600**	588
Finished goods			**3,153**	2,815
Total inventories			**5,182**	4,738
Prepaid expenses and other current assets			**1,876**	2,046
TOTAL CURRENT ASSETS			**23,346**	23,320
PROPERTY, PLANT AND EQUIPMENT, NET			**20,590**	20,600
GOODWILL			**45,225**	45,175
TRADEMARKS AND OTHER INTANGIBLE ASSETS, NET			**23,919**	23,902
OTHER NONCURRENT ASSETS			**5,360**	5,313
TOTAL ASSETS			**$ 118,440**	$ 118,310
Liabilities and Shareholders' Equity				
CURRENT LIABILITIES				
Accounts payable			**$ 10,243**	$ 10,344
Accrued and other liabilities			**8,469**	7,470
Debt due within one year			**10,508**	10,423
TOTAL CURRENT LIABILITIES			**29,220**	28,237
LONG-TERM DEBT			**20,779**	20,863
DEFERRED INCOME TAXES			**6,179**	6,163
OTHER NONCURRENT LIABILITIES			**9,758**	10,164
TOTAL LIABILITIES			**65,936**	65,427
SHAREHOLDERS’ EQUITY				
Preferred stock			**951**	967
Common stock – shares issued –	September 2018	4,009.2		
	June 2018	4,009.2	**4,009**	4,009
Additional paid-in capital			**63,711**	63,846
Reserve for ESOP debt retirement			**(1,177)**	(1,204)
Accumulated other comprehensive income/(loss)			**(15,133)**	(14,749)
Treasury stock			**(99,956)**	(99,217)
Retained earnings			**99,831**	98,641
Noncontrolling interest			**268**	590
TOTAL SHAREHOLDERS’ EQUITY			**52,504**	52,883
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY			**$ 118,440**	$ 118,310

See accompanying Notes to Consolidated Financial Statements.

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

Amounts in millions	Three Months Ended September 30 2018	2017
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	**$ 2,569**	$ 5,569
OPERATING ACTIVITIES		
Net earnings	**3,211**	2,870
Depreciation and amortization	**643**	692
Share-based compensation expense	**102**	84
Deferred income taxes	**34**	426
Gain on sale of assets	**(361)**	(81)
Changes in:		
Accounts receivable	**(475)**	(304)
Inventories	**(494)**	(357)
Accounts payable, accrued and other liabilities	**933**	235
Other operating assets and liabilities	**(84)**	(30)
Other	**58**	96
TOTAL OPERATING ACTIVITIES	**3,567**	3,631
INVESTING ACTIVITIES		
Capital expenditures	**(1,080)**	(1,132)
Proceeds from asset sales	**9**	120
Acquisitions, net of cash acquired	**(237)**	—
Purchases of short-term investments	**(158)**	(1,942)
Proceeds from sales and maturities of short-term investments	**649**	388
Change in other investments	**(48)**	32
TOTAL INVESTING ACTIVITIES	**(865)**	(2,534)
FINANCING ACTIVITIES		
Dividends to shareholders	**(1,853)**	(1,823)
Change in short-term debt	**24**	48
Additions to long-term debt	**—**	2,124
Reductions of long-term debt	**—**	(151)
Treasury stock purchases	**(1,252)**	(2,502)
Impact of stock options and other	**425**	580
TOTAL FINANCING ACTIVITIES	**(2,656)**	(1,724)
EFFECT OF EXCHANGE RATE CHANGES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH	**(70)**	82
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	**(24)**	(545)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	**$ 2,545**	$ 5,024

See accompanying 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, 2018. In the opinion of management, the accompanying unaudited Consolidated Financial Statements of The Procter & Gamble Company and subsidiaries (the "Company," "Procter & Gamble," "P&G," "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 and U.S. Tax Reform

On July 1, 2018, we adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." This guidance outlines a single, comprehensive model of accounting for revenue from contracts with customers. We adopted the standard using the modified retrospective transition method, under which prior periods were not revised to reflect the impacts of the new standard. Our revenue is primarily generated from the sale of finished product to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. Accordingly, the timing of revenue recognition is not materially impacted by the new standard. Trade promotions, consisting primarily of customer pricing allowances, in-store merchandising funds, advertising and other promotional activities, and consumer coupons, are offered through various programs to customers and consumers. The adoption of the new standard impacts the accrual timing for certain portions of our customer and consumer promotional spending, which resulted in a cumulative adjustment to Retained earnings of $534, net of tax, on the date of adoption. The provisions of the new standard also impact the classification of certain payments to customers, moving an immaterial amount of such payments from expense to a deduction from net sales. Had this standard been effective and adopted during fiscal 2018, the impact would have been to reclassify $77 from Selling, General and Administrative expense (SG&A) to a reduction of Net sales for the quarter ended September 30, 2017 and $309 for the year ended June 30, 2018, with no impact to operating profit. This guidance included practical expedients, none of which are material to our Consolidated Financial Statements. This new guidance does not have any other material impacts on our Consolidated Financial Statements, including financial disclosures.

On July 1, 2018, we adopted ASU 2017-07, "Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)." This guidance requires an entity to disaggregate the current service cost component from the other components of net benefit costs in the face of the income statement. It requires the service cost component to be presented with other current compensation costs for the related employees in the operating section of the income statement, with other components of net benefit cost presented outside of income from operations. We adopted the standard retrospectively, using the practical expedient which allows entities to use information previously disclosed in their pension and other postretirement benefit plans footnote as the basis to apply the retrospective presentation requirements. As such, prior periods' results have been revised to report the other components of net defined benefit costs, previously reported in Cost of products sold and SG&A, in Other non-operating income, net.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows: Restricted Cash (Topic 230)." This guidance requires the Statement of Cash Flows to present changes in the total of cash, cash equivalents and restricted cash. Prior to the adoption of this ASU, the relevant accounting guidance did not require the Statement of Cash Flows to include changes in restricted cash. We adopted the standard retrospectively on July 1, 2018. We currently have no significant restricted cash balances. Historically, we had restricted cash balances and changes related to divestiture activity. Such balances were presented as Current assets held for sale on the balance sheets, with changes presented as Investing activities on the Statements of Cash Flow. In accordance with ASU 2016-08, such balances are now included in the beginning and ending balances of Cash, cash equivalents and restricted cash for all periods presented.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)." This guidance permits companies to make an election to reclassify stranded tax effects from the recently enacted U.S. Tax Cuts and Jobs Act included in Accumulated other comprehensive income (AOCI) to Retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has elected to early adopt this guidance in the quarter ended September 30, 2018. The reclassification from the adoption of this standard resulted in an increase of $326 to Retained earnings and a decrease of $326 to AOCI.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity transfers of Assets other than Inventory." The standard eliminates the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. We have adopted this standard effective July 1, 2018 on a modified retrospective basis. The adoption of ASU 2016-16 did not have a material impact on our Consolidated Financial Statements, including the cumulative effect adjustment required upon adoption.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The standard requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. We plan to adopt the standard on July 1, 2019. We are currently assessing the impact that the new standard will have on our Consolidated Financial Statements, which will consist primarily of a balance sheet gross up of our operating leases to show equal and offsetting lease assets and lease liabilities.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The standard simplifies the accounting for goodwill impairment by requiring a goodwill impairment to be measured using a single step impairment model, whereby the impairment equals the difference between the carrying amount and the fair value of the specified reporting units in their entirety. This eliminates the second step of the current impairment model that requires companies to first estimate the fair value of all assets in a reporting unit and measure impairments based on those fair values and a residual measurement approach. It also specifies that any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. We will adopt the standard no later than July 1, 2020. The impact of the new standard will be dependent on the specific facts and circumstances of future individual impairments, if any.

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

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "U.S. Tax Act"). The U.S. Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U.S. corporate income tax rates and implementing a hybrid territorial tax system. As the Company has a June 30 fiscal year-end, the lower corporate income tax rate was phased in, resulting in a U.S. statutory federal rate of approximately 28% for our fiscal year ended June 30, 2018, and 21% for subsequent fiscal years. However, the U.S. Tax Act eliminates the domestic manufacturing deduction and moves to a hybrid territorial system, which also largely eliminates the ability to credit certain foreign taxes that existed prior to enactment of the U.S. Tax Act.

There are also certain transitional impacts of the U.S. Tax Act. As part of the transition to the new hybrid territorial tax system, the U.S. Tax Act imposed a one-time repatriation tax on deemed repatriation of historical earnings of foreign subsidiaries. In addition, the reduction of the U.S. corporate tax rate caused us to adjust our U.S. deferred tax assets and liabilities to the lower federal base rate of 21%. These transitional impacts resulted in a provisional net charge of $602 million for the fiscal year ended June 30, 2018, comprised of an estimated repatriation tax charge of $3.8 billion (comprised of U.S. repatriation taxes and foreign withholding taxes) and an estimated net deferred tax benefit of $3.2 billion.

The changes included in the U.S. Tax Act are broad and complex. The final transitional impacts of the U.S. Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the U.S. Tax Act, any legislative action to address questions that arise because of the U.S. Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transitional impacts, which we expect to finalize when we complete our tax return for fiscal 2018. The SEC has issued rules that would allow for a measurement period of up to one year after the enactment date of the U.S. Tax Act to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments during the quarter ending December 31, 2018.

3. Segment Information

Under U.S. GAAP, our Global Business Units (GBUs) are aggregated into five reportable segments: 1) Beauty, 2) Grooming, 3) Health Care, 4) Fabric & Home Care and 5) Baby, Feminine & Family Care. Our five reportable segments are comprised of:

- *Beauty*: Hair Care (Conditioner, Shampoo, Styling Aids, Treatments); Skin and Personal Care (Antiperspirant and Deodorant, Personal Cleansing, Skin Care);
- *Grooming*: Shave Care (Female Blades & Razors, Male Blades & Razors, Pre- and Post-Shave Products, Other Shave Care); Appliances
- *Health Care*: Oral Care (Toothbrushes, Toothpaste, Other Oral Care); Personal Health Care (Gastrointestinal, Rapid Diagnostics, Respiratory, Vitamins/Minerals/Supplements, Other Personal Health Care);
- *Fabric & Home Care*: Fabric Care (Fabric Enhancers, Laundry Additives, Laundry Detergents); Home Care (Air Care, Dish Care, P&G Professional, Surface Care); and
- *Baby, Feminine & Family Care*: Baby Care (Baby Wipes, Diapers and Pants); Feminine Care (Adult Incontinence, Feminine Care); Family Care (Paper Towels, Tissues, Toilet Paper).

Our business units are comprised of similar product categories. Nine business units individually accounted for 5% or more of consolidated net sales as follows:

% of Net sales by Business Unit [(1)]

Three Months Ended September 30	2018	2017
Fabric Care	**23%**	22%
Baby Care	**12%**	13%
Hair Care	**10%**	11%
Home Care	**10%**	10%
Skin and Personal Care	**9%**	9%
Family Care	**9%**	8%
Shave Care	**8%**	8%
Oral Care	**8%**	8%
Feminine Care	**6%**	6%
All Other	**5%**	5%
Total	**100%**	100%

(1) % of Net sales by business unit excludes sales held in Corporate.

Following is a summary of reportable segment results:

		Three Months Ended September 30		
		Net Sales	Earnings/(Loss) Before Income Taxes	Net Earnings
Beauty	**2018**	**$ 3,289**	**$ 947**	**$ 759**
	2017	3,138	836	632
Grooming	**2018**	**1,562**	**417**	**340**
	2017	1,577	414	329
Health Care	**2018**	**1,845**	**440**	**332**
	2017	1,902	455	305
Fabric & Home Care	**2018**	**5,488**	**1,144**	**877**
	2017	5,383	1,179	769
Baby, Feminine & Family Care	**2018**	**4,390**	**902**	**692**
	2017	4,545	964	630
Corporate	**2018**	**116**	**90**	**211**
	2017	108	(97)	205
Total Company	**2018**	**$ 16,690**	**$ 3,940**	**$ 3,211**
	2017	16,653	3,751	2,870

4. Goodwill and Other Intangible Assets

Goodwill is allocated by reportable segment as follows:

	Beauty	Grooming	Health Care	Fabric & Home Care	Baby, Feminine & Family Care	Total Company
Goodwill at June 30, 2018	$ 12,992	$ 19,820	$ 5,929	$ 1,865	$ 4,569	$ 45,175
Acquisitions and divestitures	117	—	(50)	6	—	73
Translation and other	(7)	(3)	(1)	(6)	(6)	(23)
Goodwill at September 30, 2018	**$ 13,102**	**$ 19,817**	**$ 5,878**	**$ 1,865**	**$ 4,563**	**$ 45,225**

Goodwill increased from June 30, 2018 due to acquisitions in the Beauty and Fabric & Home Care reportable segments partially offset by the divestiture of the Teva portion of the PGT business in the Health Care reportable segment and currency translation.

Amounts in millions of dollars unless otherwise specified.

Identifiable intangible assets at September 30, 2018 were comprised of:

	Gross Carrying Amount	Accumulated Amortization
Intangible assets with determinable lives	$ 7,420	$ (5,184)
Intangible assets with indefinite lives	21,683	—
Total identifiable intangible assets	**$ 29,103**	**$ (5,184)**

Intangible assets with determinable lives consist of brands, patents, technology and customer relationships. The intangible assets with indefinite lives consist of brands. The amortization expense of intangible assets for the three months ended September 30, 2018 and 2017 was $73 and $77, respectively.

Goodwill and indefinite lived intangible assets are not amortized, but are tested annually for impairment. The test to evaluate goodwill for impairment is a two-step process. In the first step, we compare the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying value, we perform a second step to determine the implied fair value of the reporting unit's goodwill. The second step of the impairment analysis requires a valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the resulting implied fair value of the reporting unit's goodwill is less than its carrying value, that difference represents an impairment.

The business unit valuations used to test goodwill and intangible assets for impairment are dependent on a number of significant estimates and assumptions, including macroeconomic conditions, overall category growth rates, competitive activities, cost containment, margin expansion and Company business plans. We believe these estimates and assumptions are reasonable. However, future changes in the judgments, assumptions and estimates that are used in our impairment testing for goodwill and indefinite-lived intangible assets, including discount and tax rates or future cash flow projections, could result in significantly different estimates of the fair values.

Most of our goodwill reporting units are comprised of a combination of legacy and acquired businesses and as a result have fair value cushions that, at a minimum, exceed two times their underlying carrying values. Certain of our goodwill reporting units, in particular Shave Care and Appliances, are comprised entirely of acquired businesses and as a result, have fair value cushions that are not as high. Both of these wholly acquired reporting units have fair value cushions (the fair values currently exceed the underlying carrying values). However, the overall Shave Care cushion and the related Gillette indefinite-lived intangible asset cushion have both been reduced to below 10%, both due in large part to an increased competitive market environment in the U.S., a deceleration of category growth caused by changing grooming habits and significant currency devaluations in a number of countries relative to the U.S. dollar that have occurred in recent years and resulted in reduced cash flow projections. As a result, this reporting unit and indefinite-lived intangible asset are more susceptible to impairment risk.

The most significant assumptions utilized in the determination of the estimated fair values of Shave Care reporting unit and the Gillette indefinite-lived intangible asset are the residual net sales and earnings growth rates and discount rate. The residual growth rate represents the expected rate at which the reporting unit and Gillette brand are expected to grow beyond the shorter term business planning period. The residual growth rate utilized in our fair value estimates is consistent with the reporting unit and brand operating plans, and approximates expected long term category market growth rates. The residual growth rate is dependent on overall market growth rates, the competitive environment, inflation, relative currency exchange rates and business activities that impact market share. As a result, the residual growth rate could be adversely impacted by a sustained deceleration in category growth, grooming habit changes, devaluation of currencies against the U.S. dollar or an increased competitive environment. The discount rate, which is consistent with a weighted average cost of capital that is likely to be expected by a market participant, is based upon industry required rates of return, including consideration of both debt and equity components of the capital structure. Our discount rate may be impacted by adverse changes in the macroeconomic environment, volatility in the equity and debt markets or other country specific factors, such as further devaluation of currencies against the U.S. dollar. While management can and has implemented strategies to address these events, significant changes in operating plans or adverse changes in the future could reduce the underlying cash flows used to estimate fair values and could result in a decline in fair value that could trigger future impairment charges of the business unit's goodwill and indefinite-lived intangibles. As of September 30, 2018, the carrying values of Shave Care goodwill and the Gillette indefinite-lived intangible asset were $19.5 billion and $15.7 billion, respectively.

The table below provides a sensitivity analysis for the Shave Care reporting unit and the Gillette indefinite lived intangible asset, utilizing reasonably possible changes in the assumptions for the residual growth rate and the discount rate, to demonstrate the potential impacts to the estimated fair values. The table below provides, in isolation, the estimated fair value impacts related to a 50 basis point decrease to our residual growth rate or a 50 basis point increase to our discount rate.

	Approximate Percent Change in Estimated Fair Value	
	+50 bps Discount Rate	-50 bps Long-term Growth
Shave Care goodwill reporting unit	**(10)%**	**(7)%**
Gillette indefinite-lived intangible asset	**(10)%**	**(7)%**

Amounts in millions of dollars unless otherwise specified.

5. Earnings Per Share

Basic net earnings per common share are calculated by dividing Net earnings attributable to Procter & Gamble less preferred dividends (net of related tax benefits) by the weighted average number of common shares outstanding during the period. Diluted net earnings per common share are calculated using the treasury stock method on the basis of the weighted average number of common shares outstanding plus the dilutive effect of stock options and other stock-based awards and the assumed conversion of preferred stock.

Net earnings per share were as follows:

CONSOLIDATED AMOUNTS	Three months ended September 30	
	2018	2017
Net earnings	**$ 3,211**	$ 2,870
Less: Net earnings attributable to noncontrolling interests	**12**	17
Net earnings attributable to P&G (Diluted)	**3,199**	2,853
Preferred dividends, net of tax	**(66)**	(62)
Net earnings attributable to P&G available to common shareholders (Basic)	**$ 3,133**	$ 2,791
SHARES IN MILLIONS		
Basic weighted average common shares outstanding	**2,495.8**	2,550.5
Add: Effect of dilutive securities		
Conversion of preferred shares [(1)]	**91.9**	96.6
Impact of stock options and other unvested equity awards [(2)]	**24.4**	43.5
Diluted weighted average common shares outstanding	**2,612.1**	2,690.6
NET EARNINGS PER SHARE [(3)]		
Basic	**$ 1.26**	$ 1.09
Diluted	**$ 1.22**	$ 1.06

(1) Despite being included currently in Diluted net earnings per common share, the actual conversion to common stock occurs when the preferred shares are sold. Shares may only be sold after being allocated to the ESOP participants pursuant to the repayment of the ESOP's obligations through 2035.

(2) Weighted average outstanding stock options of approximately 69 million and 20 million for the three months ended September 30, 2018 and 2017 respectively, were not included in the Diluted net earnings per share calculation because the options were out of the money or to do so would have been antidilutive (i.e., the total proceeds upon exercise would have exceeded the market value of the underlying common shares).

(3) Net earnings per share are calculated on Net earnings attributable to Procter & Gamble.

6. Share-Based Compensation and Postretirement Benefits

The following table provides a summary of our share-based compensation expense and postretirement benefit costs:

	Three Months Ended September 30	
	2018	2017
Share-based compensation expense	**$ 102**	$ 84
Net periodic benefit cost for pension benefits [(1)]	**28**	51
Net periodic benefit cost/(credit) for other retiree benefits [(1)]	**(41)**	(38)

(1) The components of the total net periodic benefit cost for both pension benefits and other retiree benefits for those interim periods, on an annualized basis, do not differ materially from the amounts disclosed in the Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

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. There have been no significant changes in our risk management policies or activities during the three months ended September 30, 2018.

The Company has not changed its valuation techniques used in measuring the fair value of any financial assets and liabilities during the period. 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. There were no significant assets or liabilities that were remeasured at fair value on a non-recurring basis for the three months ended September 30, 2018.

The following table sets forth the Company's financial assets as of September 30, 2018 and June 30, 2018 that are measured at fair value on a recurring basis during the period:

	Fair Value Asset	
	September 30, 2018	**June 30, 2018**
Investments:		
U.S. government securities	**$ 5,233**	$ 5,544
Corporate bond securities	**3,475**	3,737
Other investments	**158**	141
Total	**$ 8,866**	$ 9,422

Investment securities are presented in Available-for-sale investment securities and Other noncurrent assets. The amortized cost of U.S. government securities with maturities less than one year was $1,702 as of September 30, 2018 and $2,003 as of June 30, 2018. The amortized cost of U.S. government securities with maturities between one and five years was $3,658 as of September 30, 2018 and $3,659 as of June 30, 2018. The amortized cost of Corporate bond securities with maturities of less than a year was $1,431 as of September 30, 2018 and $1,291 as of June 30, 2018. The amortized cost of Corporate bond securities with maturities between one and five years was $2,095 as of September 30, 2018 and $2,503 as of June 30, 2018. The Company's investments measured at fair value are generally classified as Level 2 within the fair value hierarchy. There are no material investment balances classified as Level 1 or Level 3 within the fair value hierarchy, or using net asset value as a practical expedient. Fair values are generally estimated based upon quoted market prices for similar instruments.

The fair value of long-term debt was $23,260 and $23,402 as of September 30, 2018 and June 30, 2018, respectively. This includes the current portion of debt instruments ($1,772 and $1,769 as of September 30, 2018 and June 30, 2018, respectively). Certain long-term debt (debt tied to derivatives designated as a fair value hedge) is recorded at fair value. All other long-term debt is recorded at amortized cost, but is measured at fair value for disclosure purposes. We consider our debt to be Level 2 in the fair value hierarchy. Fair values are generally estimated based on quoted market prices for identical or similar instruments.

Disclosures about Financial Instruments

The notional amounts and fair values of financial instruments used in hedging transactions as of September 30, 2018 and June 30, 2018 are as follows:

	Notional Amount		Fair Value Asset		Fair Value (Liability)	
	September 30, 2018	**June 30, 2018**	**September 30, 2018**	**June 30, 2018**	**September 30, 2018**	**June 30, 2018**
DERIVATIVES IN FAIR VALUE HEDGING RELATIONSHIPS						
Interest rate contracts	**$ 4,588**	$ 4,587	**$ 110**	$ 125	**$ (62)**	$ (53)
DERIVATIVES IN NET INVESTMENT HEDGING RELATIONSHIPS						
Foreign currency interest rate contracts	**$ 1,842**	$ 1,848	**$ 33**	$ 41	**$ (76)**	$ (75)
TOTAL DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS	**$ 6,430**	$ 6,435	**$ 143**	$ 166	**(138)**	(128)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS						
Foreign currency contracts	**$ 7,936**	$ 7,358	**$ 42**	$ 30	**$ (21)**	$ (56)
TOTAL DERIVATIVES AT FAIR VALUE	**$ 14,366**	$ 13,793	**$ 185**	$ 196	**(159)**	(184)

All derivative assets are presented in Prepaid expenses and other current assets or Other noncurrent assets. All derivative liabilities are presented in Accrued and other liabilities or Other noncurrent liabilities.

Amounts in millions of dollars unless otherwise specified.

The fair value of the interest rate derivative asset/liability directly offsets the cumulative amount of the fair value hedging adjustment included in the carrying amount of the underlying debt obligation. The carrying amount of the underlying debt obligation, which includes the unamortized discount or premium and the fair value adjustment, was $4,618 and $4,639 as of September 30, 2018 and June 30, 2018, respectively. In addition to the foreign currency derivative contracts designated as net investment hedges, certain of our foreign currency denominated debt instruments are designated as net investment hedges. The carrying value of those debt instruments designated as net investment hedges, which includes the adjustment for the foreign currency transaction gain or loss on those instruments, was $15,054 and $15,012 as of September 30, 2018 and June 30, 2018, respectively. All of the Company's derivative assets and liabilities measured at fair value are classified as Level 2 within the fair value hierarchy.

Before tax gains/(losses) on our financial instruments in hedging relationships are categorized as follows:

	Amount of Gain/(Loss) Recognized in AOCI on Derivatives	
	Three Months Ended September 30	
	2018	2017
DERIVATIVES IN NET INVESTMENT HEDGING RELATIONSHIPS (1) (2)		
Foreign exchange contracts	**$ (43)**	$ (184)

	Amount of Gain/(Loss) Recognized in Earnings	
	Three Months Ended September 30	
	2018	2017
DERIVATIVES IN FAIR VALUE HEDGING RELATIONSHIPS		
Interest rate contracts	**$ (24)**	$ (3)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
Foreign currency contracts	**$ (2)**	$ (1)

(1) For the derivatives in net investment hedging relationships, the amount of gain/(loss) excluded from effectiveness testing, which was recognized in earnings, was $14 and $31 for the three months ended September 30, 2018 and 2017, respectively.

(2) In addition to the foreign currency derivative contracts designated as net investment hedges, certain of our foreign currency denominated debt instruments are designated as net investment hedges. The amount of gain/(loss) recognized in AOCI for such instruments was $207 and $248, as of September 30, 2018 and 2017, respectively.

The gain/(loss) on the derivatives in fair value hedging relationships is fully offset by the mark-to-market impact of the related exposure. These are both recognized in the Consolidated Statements of Earnings in Interest Expense. The gain/(loss) on derivatives not designated as hedging instruments is substantially offset by the currency mark-to-market of the related exposure. These are both recognized in the Consolidated Statements of Earnings in SG&A.

8. Accumulated Other Comprehensive Income/(Loss)

The table below presents the changes in Accumulated other comprehensive income/(loss) (AOCI), including the reclassifications out of Accumulated other comprehensive income/(loss) by component:

	Changes in Accumulated Other Comprehensive Income/(Loss) by Component				
	Hedges	Investment Securities	Pension and Other Retiree Benefits	Financial Statement Translation	Total AOCI
Balance at June 30, 2018	$ (3,246)	$ (173)	$ (4,058)	$ (7,272)	$ (14,749)
OCI before reclassifications (1)	7	(4)	100	(218)	(115)
Amounts reclassified from AOCI (2)	—	(1)	52	2	53
Net current period OCI	7	(5)	152	(216)	(62)
Reclassification to retained earnings in accordance with ASU 2018-02 (3)	(18)	—	(308)	—	(326)
Less: Other comprehensive income/(loss) attributable to non-controlling interests	—	—	—	(4)	(4)
Balance at September 30, 2018	**$ (3,257)**	**$ (178)**	**$ (4,214)**	**$ (7,484)**	**$ (15,133)**

(1) Net of tax expense/(benefit) of $2, $0 and $20 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively.

(2) Net of tax expense/(benefit) of $0, $0 and $16 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively.

(3) Adjustment made to early adopt ASU 2018-02: "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," as discussed in Note 2.

Amounts in millions of dollars unless otherwise specified.

The below provides additional details on amounts reclassified from AOCI into the Consolidated Statements of Earnings:

- Hedges: see Note 7 for classification of gains and losses from hedges in the Consolidated Statements of Earnings.
- Investment securities: amounts reclassified from AOCI into Other non-operating income, net.
- Pension and other retiree benefits: amounts reclassified from AOCI into Other non-operating income, net and included in the computation of net periodic postretirement costs.
- Financial statement translation: amounts reclassified from AOCI into SG&A.

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 annually.

In fiscal 2017, the Company announced specific elements of a multi-year productivity and cost savings plan to further reduce costs in the areas of supply chain, certain marketing activities and overhead expenses. This program is expected to result in incremental enrollment reductions, along with further optimization of the supply chain and other manufacturing processes.

Restructuring costs incurred consist primarily of costs to separate employees, asset-related costs to exit facilities and other costs. For the three month period ended September 30, 2018, the Company incurred total restructuring charges of $137. Approximately $72 of these charges were recorded in SG&A, $64 of these charges were recorded in Cost of products sold. The remainder of these charges were recorded in Other non-operating income, net. The following table presents restructuring activity for the three months ended September 30, 2018:

		Three Months Ended September 30, 2018			
	Reserve Balance June 30, 2018	Charges	Cash Spent	Charges Against Assets	Reserve Balance September 30, 2018
Separations	$ 259	$ 53	$ (62)	$ —	**$ 250**
Asset-related costs	—	28	—	(28)	**—**
Other costs	254	56	(66)	—	**244**
Total	**$ 513**	**$ 137**	**$ (128)**	**$ (28)**	**$ 494**

Separation Costs

Employee separation charges for the three month period ended September 30, 2018 relate to severance packages for approximately 470 employees. Separations related to non-manufacturing employees were approximately 150 for the three month period ended September 30, 2018. The packages were predominantly voluntary and the amounts were 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.

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 standardizations. 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 asset removal and termination of contracts related to supply chain optimization.

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:

	Three Months Ended September 30, 2018
Beauty	$ 10
Grooming	6
Health Care	8
Fabric & Home Care	13
Baby, Feminine & Family Care	21
Corporate [(1)]	79
Total Company	**$ 137**

(1) Corporate includes costs related to allocated overheads, including charges related to our Sales and Market Operations, Global Business Services 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, advertising, contracts, environmental, labor and employment and tax. With respect to these and 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 materially affect 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 50 – 60 jurisdictional 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 2008 and forward. We are generally not able to reliably estimate the ultimate settlement amounts 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 could increase or decrease within the next 12 months. 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 our Annual Report on Form 10-K for the year ended June 30, 2018.

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,” “Risk Factors,” and "Notes 4 and 10 to the Consolidated Financial Statements." These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions, which are subject to risks and uncertainties that may cause results to differ materially from those expressed or implied in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise.

Risks and uncertainties to which our forward-looking statements are subject include, without limitation: (1) the ability to successfully manage global financial risks, including foreign currency fluctuations, currency exchange or pricing controls and localized volatility; (2) the ability to successfully manage local, regional or global economic volatility, including reduced market growth rates, and to generate sufficient income and cash flow to allow the Company to affect the expected share repurchases and dividend payments; (3) the ability to manage disruptions in credit markets or changes to our credit rating; (4) the ability to maintain key manufacturing and supply arrangements (including execution of supply chain optimizations and sole supplier and sole manufacturing plant arrangements) and to manage disruption of business due to factors outside of our control, such as natural disasters and acts of war or terrorism; (5) the ability to successfully manage cost fluctuations and pressures, including prices of commodities and raw materials, and costs of labor, transportation, energy, pension and healthcare; (6) the ability to stay on the leading edge of innovation, obtain necessary intellectual property protections and successfully respond to changing consumer habits and technological advances attained by, and patents granted to, competitors; (7) the ability to compete with our local and global competitors in new and existing sales channels, including by successfully responding to competitive factors such as prices, promotional incentives and trade terms for products; (8) the ability to manage and maintain key customer relationships; (9) the ability to protect our reputation and brand equity by successfully managing real or perceived issues, including concerns about safety, quality, ingredients, efficacy or similar matters that may arise; (10) the ability to successfully manage the financial, legal, reputational and operational risk associated with third-party relationships, such as our suppliers, distributors, contractors and external business partners; (11) the ability to rely on and maintain key company and third party information technology systems, networks and services, and maintain the security and functionality of such systems, networks and services and the data contained therein; (12) the ability to successfully manage uncertainties related to changing political conditions (including the United Kingdom’s decision to leave the European Union) and potential implications such as exchange rate fluctuations and market contraction; (13) the ability to successfully manage regulatory and legal requirements and matters (including, without limitation, those laws and regulations involving product liability, intellectual property, antitrust, data protection, tax, environmental, and accounting and financial reporting) and to resolve pending matters within current estimates; (14) the ability to manage changes in applicable tax laws and regulations including maintaining our intended tax treatment of divestiture transactions; (15) the ability to successfully manage our ongoing acquisition, divestiture and joint venture activities, in each case to achieve the Company’s overall business strategy and financial objectives, without impacting the delivery of base business objectives; and (16) the ability to successfully achieve productivity improvements and cost savings and manage ongoing organizational changes, while successfully identifying, developing and retaining key employees, including in key growth markets where the availability of skilled or experienced employees may be limited. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from those projected herein, is included in the section titled “Economic Conditions and Uncertainties” and the section titled “Risk Factors” (Part II, Item 1A) of this Form 10-Q.

The purpose of 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. The MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and accompanying notes. The MD&A is organized in the following sections:

- Overview
- Summary of Results – Three Months Ended September 30, 2018
- Economic Conditions and Uncertainties
- Results of Operations – Three Months Ended September 30, 2018
- Business Segment Discussion – Three Months Ended September 30, 2018
- Liquidity and Capital Resources
- Reconciliation of Measures Not Defined by U.S. GAAP

Throughout the 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 (Core EPS), adjusted free cash flow and adjusted free cash flow productivity. The explanation at the end of the MD&A provides the definition of these non-GAAP measures as well as 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 the 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.

OVERVIEW

P&G is a global leader in fast-moving consumer 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, e-commerce, grocery stores, membership club stores, drug stores, department stores, distributors, wholesalers, baby stores, specialty beauty stores, high-frequency stores and pharmacies. 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.

The table below provides detail on our reportable segments, including the product categories and brand composition within each segment.

Reportable Segments	Product Categories (Sub-Categories)	Major Brands
Beauty	Hair Care (*Conditioner, Shampoo, Styling Aids, Treatments*)	Head & Shoulders, Pantene, Rejoice
	Skin and Personal Care (*Antiperspirant and Deodorant, Personal Cleansing, Skin Care*)	Olay, Old Spice, Safeguard, SK-II
Grooming	Grooming [(1)] (Shave Care - *Female Blades & Razors, Male Blades & Razors, Pre- and Post-Shave Products, Other Shave Care;* Appliances)	Braun, Fusion, Gillette, Mach3, Prestobarba, Venus
Health Care	Oral Care (*Toothbrushes, Toothpaste, Other Oral Care*)	Crest, Oral-B
	Personal Health Care (*Gastrointestinal, Rapid Diagnostics, Respiratory, Vitamins/Minerals/Supplements, Other Personal Health Care*)	Metamucil, Prilosec, Vicks
Fabric & Home Care	Fabric Care (*Fabric Enhancers, Laundry Additives, Laundry Detergents*)	Ariel, Downy, Gain, Tide
	Home Care (*Air Care, Dish Care, P&G Professional, Surface Care*)	Cascade, Dawn, Febreze, Mr. Clean, Swiffer
Baby, Feminine & Family Care	Baby Care (*Baby Wipes, Diapers and Pants*)	Luvs, Pampers
	Feminine Care (*Adult Incontinence, Feminine Care*)	Always, Tampax
	Family Care (*Paper Towels, Tissues, Toilet Paper*)	Bounty, Charmin, Puffs

(1) The Grooming product category is comprised of the Shave Care and Appliances Global Business Units.

The following table provides the percentage of net sales and net earnings by reportable business segment for the three months ended September 30, 2018 (excluding net sales and net earnings in Corporate):

	Three Months Ended September 30, 2018	
	Net Sales	Net Earnings
Beauty	20%	25%
Grooming	9%	12%
Health Care	11%	11%
Fabric & Home Care	33%	29%
Baby, Feminine & Family Care	27%	23%
Total Company	**100%**	**100%**

SUMMARY OF RESULTS

Following are highlights of results for the three months ended September 30, 2018 versus the three months ended September 30, 2017:

- Net sales were unchanged at $16.7 billion. Organic sales, which exclude the impacts of acquisitions and divestitures and foreign exchange, increased 4%. Organic sales increased 7% in Beauty, 4% in Grooming and Health Care and 5% in Fabric & Home Care. Organic sales decreased 1% in Baby, Feminine & Family Care.
- Unit volume increased 3%, with organic volume also up 3%. Volume increased mid-single digits in Grooming and Fabric & Home Care and low single digits in Beauty, Health Care and Baby, Feminine & Family Care. Excluding the impacts of the PGT Healthcare partnership dissolution and other minor divestitures, organic volume increased mid-single digits in Health Care.
- Net earnings were $3.2 billion, an increase of $341 million, or 12% versus the prior year due to a reduction in income taxes (due primarily to the ongoing impacts of the U.S. Tax Act) and a gain on the dissolution of the PGT Healthcare partnership.
- Diluted net earnings per share increased 15% to $1.22 due primarily to the increase in net earnings and a reduction in shares outstanding due to share repurchases.
- Net earnings attributable to Procter & Gamble increased $346 million or 12% versus the prior year period to $3.2 billion.
- Core net earnings attributable to Procter & Gamble, which represents net earnings excluding the current period gain on the dissolution of the PGT Healthcare partnership and incremental restructuring charges in both periods, was unchanged at $2.9 billion. Core net earnings per share increased 3% to $1.12 due to the reduction in shares outstanding.
- Operating cash flow was $3.6 billion. Adjusted free cash flow, which is operating cash flow less capital expenditures and certain other impacts, was $2.7 billion. Adjusted free cash flow productivity was 95%. Adjusted free cash flow and adjusted free cash flow productivity are defined in the section entitled "Reconciliation of Measures not defined by U.S. GAAP"

ECONOMIC CONDITIONS AND UNCERTAINTIES

Global Economic Conditions. Current macroeconomic factors remain dynamic, and any causes of market size contraction, such as reduced GDP in commodity-dependent economies, greater political unrest in the Middle East, Central & Eastern Europe and the Korean peninsula, economic uncertainty related to the execution of the United Kingdom's exit from the European Union, political instability in certain Latin American markets and overall economic slowdowns, could reduce our sales or erode our operating margin, in either case reducing our earnings.

Changes in Costs. Our costs are subject to fluctuations, particularly due to changes in commodity prices, transportation costs and our own productivity efforts. We have significant exposures to certain commodities, in particular certain oil-derived materials like resins and paper-based materials like pulp, and volatility in the market price of these commodity input materials has a direct impact on our costs. If we are unable to manage commodity fluctuations through pricing actions, cost savings projects and sourcing decisions, as well as through consistent productivity improvements, it may adversely impact our gross margin, operating margin and net earnings. Sales could also be adversely impacted following pricing actions if there is a negative impact on consumption of our products. We strive to implement, achieve and sustain cost improvement plans, including outsourcing projects, supply chain optimization and general overhead and workforce optimization. As discussed later in this MD&A, in 2012 we initiated overhead and supply chain cost improvement projects. In fiscal 2017, we communicated specific elements of an additional multi-year cost reduction program which is resulting in enrollment reductions and other savings. If we are not successful in executing and sustaining these changes, there could be a negative impact on our operating margin and net earnings.

Foreign Exchange. We have both translation and transaction exposure to the fluctuation of exchange rates. Translation exposures relate to exchange rate impacts of measuring income statements of foreign subsidiaries that do not use the U.S. dollar as their functional currency. Transaction exposures relate to 1) the impact from input costs that are denominated in a currency other than the local reporting currency and 2) the revaluation of transaction-related working capital balances denominated in currencies other than the functional currency. In four of the past five fiscal years, as well as the current year, the U.S. dollar had strengthened versus a number of foreign currencies leading to lower sales and earnings from these foreign exchange impacts. Certain countries experiencing significant exchange rate fluctuations, like Argentina, Russia, Turkey, Brazil, China and India have previously had, and could in the future have, a significant impact on our sales, costs and earnings. Increased pricing in response to certain fluctuations in foreign currency exchange rates may offset portions of the currency impacts but could also have a negative impact on consumption of our products, which would affect our sales and profits.

Government Policies. Our net earnings could be affected by changes in U.S. or foreign government tax policies, for example, the U.S. Tax Act enacted in December 2017, the implications and uncertainties of which are disclosed elsewhere in this report. Additionally, we attempt to carefully manage our debt, currency and other exposures in certain countries with currency exchange, import authorization and pricing controls, such as Nigeria, Algeria and Egypt. Further, our earnings and sales could be affected by changes to international trade agreements in North America and elsewhere, including increases of import tariffs, both currently effective and future potential changes. Changes in government policies in these areas might cause an increase or decrease in our sales, operating margin and net earnings.

For information on risk factors that could impact our results, please refer to “Risk Factors” in Part I, Item 1A of the Company's Form 10-K for the fiscal year ended June 30, 2018.

RESULTS OF OPERATIONS – Three Months Ended September 30, 2018

The following discussion provides a review of results for the three months ended September 30, 2018 versus the three months ended September 30, 2017.

	Three Months Ended September 30		
Amounts in millions, except per share amounts	2018	2017	% Chg
Net sales	**$16,690**	$16,653	—%
Operating income	**3,554**	3,648	(3)%
Net earnings	**3,211**	2,870	12%
Net earnings attributable to Procter & Gamble	**3,199**	2,853	12%
Diluted net earnings per common share	**1.22**	1.06	15%
Core net earnings per common share	**1.12**	1.09	3%

	Three Months Ended September 30		
COMPARISONS AS A PERCENTAGE OF NET SALES	2018	2017	Basis Pt Chg
Gross profit	**49.2%**	50.3%	(110)
Selling, general & administrative expense	**27.9%**	28.4%	(50)
Operating income	**21.3%**	21.9%	(60)
Earnings before income taxes	**23.6%**	22.5%	110
Net earnings	**19.2%**	17.2%	200
Net earnings attributable to Procter & Gamble	**19.2%**	17.1%	210

Net Sales

Net sales for the quarter were unchanged versus the previous period at $16.7 billion including a three percent negative impact from foreign exchange. Unit volume increased 3%. Excluding the impact of minor brand divestitures, organic volume also increased 3%. Mix was a one percent positive impact to net sales, driven by disproportionate organic growth of the Skin and Personal Care and Personal Health Care categories and developed regions, all of which have higher than company average prices. Volume increased mid-single digits in Fabric & Home Care and Grooming and increased low single digits in Beauty, Health Care and Baby, Feminine & Family Care. Excluding the impact of the PGT Healthcare partnership dissolution, Health Care organic volume increased mid-single digits. Volume increased mid-single digits in developed and low single digits in developing regions. Organic sales increased 4%.

	Net Sales Change Drivers 2018 vs. 2017 (Three Months Ended September 30) [(1)]						
	Volume with Acquisitions & Divestitures	Volume Excluding Acquisitions & Divestitures	Foreign Exchange	Price	Mix	Other [(2)]	Net Sales Growth
Beauty	3%	3%	(3)%	2%	3%	—%	5%
Grooming	5%	5%	(4)%	1%	(2)%	(1)%	(1)%
Health Care	1%	4%	(2)%	—%	(1)%	(1)%	(3)%
Fabric & Home Care	4%	5%	(2)%	(1)%	1%	—%	2%
Baby, Feminine & Family Care	1%	1%	(2)%	(1)%	—%	(1)%	(3)%
Total Company	**3%**	**3%**	**(3)%**	**—%**	**1%**	**(1)%**	**—%**

(1) Net sales percentage changes are approximations based on quantitative formulas that are consistently applied.

(2) Other includes the sales mix impact from acquisitions and divestitures, the impact from the July 1, 2018 adoption of new accounting standards for "Revenue from Contracts with Customers" and rounding impacts necessary to reconcile volume to net sales.

Operating Costs

Gross margin decreased 110 basis points to 49.2% of net sales for the quarter. Gross margin benefited from 170 basis points of gross manufacturing cost savings projects (which nets to 100 basis points due to 30 basis points of product and packaging reinvestments and 40 basis points of manufacturing cyclicality impacts). This was offset by:

- a 100 basis point decline due to higher commodity costs,
- a 60 basis point decline from unfavorable product mix (primarily within segments due to disproportionate growth of lower margin products forms and club channels in certain categories) and
- a 60 basis point decline from unfavorable foreign exchange

Total SG&A spending decreased 2% to $4.7 billion due to decreases in overhead and marketing spending costs. SG&A as a percentage of net sales decreased 50 basis points to 27.9%. Reductions in overhead costs and marketing spending as a percentage of net sales were partially offset by an increase in other net operating costs as a percentage of net sales. Overhead costs as a percentage of net sales decreased 40 basis points due to productivity savings and positive scale impacts of the organic net sales increase, partially offset by an increase in restructuring costs. Marketing spending as a percentage of net sales decreased 100 basis points due to the positive scale impacts of the organic net sales increase, savings in agency compensation, production costs and advertising spending, and the impact of adopting the new standard on "Revenue from Contracts with Customers" which prospectively reclassified certain customer spending from marketing (SG&A) expense to a reduction of net sales. Other net operating costs as a percentage of net sales increased 90 basis points primarily due to an increase in foreign exchange transactional charges. Productivity-driven cost savings delivered 80 basis points of benefit in SG&A.

Non-Operating Expenses and Income

Interest expense was $129 million for the quarter, an increase of $14 million versus the prior year period due to an increase in weighted average interest rates. Interest income was $53 million for the quarter, a marginal increase versus the prior year period. Other non-operating income was $462 million, an increase of $293 million versus the prior year period primarily due to a $355 million before-tax gain from the dissolution of the PGT Healthcare partnership, partially offset by the impact of minor brand divestiture gains in the base period.

Income Taxes

For the three months ended September 30, 2018 the effective tax rate decreased 500 basis points versus the prior year period to 18.5% due to:

- a 390 basis point reduction from the ongoing impacts of the U.S. Tax Act, as the impact of the lower blended U.S. federal rate on current period earnings versus prior year rate was partially offset by reduced foreign tax credits versus prior year due to the inability to fully credit foreign taxes under the U.S. Tax Act,
- a 180 basis point reduction from the tax impact of the gain on the dissolution of the PGT Healthcare partnership,
- a 40 basis point reduction from favorable impacts from geographic mix of earnings,
- a 60 basis point increase from reduced excess tax benefits from the exercise of stock options (50 basis points in the current year versus 110 basis points in the prior year), and
- a 50 basis point increase from reduced favorable discrete impacts related to uncertain tax positions (10 basis points unfavorable in the current year versus 40 basis points favorable in the prior year period).

Net Earnings

Net earnings increased $341 million or 12% to $3.2 billion for the quarter, due primarily to the gain on the dissolution of the PGT Healthcare partnership and the decrease in the effective tax rate, partially offset by the decrease in gross margin, all of which are discussed above. Foreign exchange had a negative $255 million impact on net earnings for the quarter, including both transactional charges and translational impacts from converting earnings from foreign subsidiaries to U.S. dollars. Net earnings attributable to Procter & Gamble increased $346 million or 12% to $3.2 billion for the quarter. Diluted net earnings per share increased 15% to $1.22. The difference between the change in net earnings and diluted net earnings per share was due to a reduction in the number of shares outstanding. Core net earnings per share increased 3% to $1.12. Core net earnings per share represents diluted net earnings per share excluding the current period gain on the dissolution of the PGT Healthcare partnership and incremental restructuring charges in both periods related to our productivity and cost savings plans.

BUSINESS SEGMENT DISCUSSION – Three Months Ended September 30, 2018

The following discussion provides a review of results by reportable business segment. Analysis of the results for the three-month period ended September 30, 2018 is provided based on a comparison to the same three month period ended September 30, 2017. The primary financial measures used to evaluate segment performance are net sales and net earnings. The table below provides supplemental information on net sales and net earnings by reportable business segment for the three months ended September 30, 2018 versus the comparable prior year period (dollar amounts in millions):

	Three Months Ended September 30, 2018					
	Net Sales	% Change Versus Year Ago	Earnings Before Income Taxes	% Change Versus Year Ago	Net Earnings	% Change Versus Year Ago
Beauty	$ 3,289	5 %	$ 947	13 %	$ 759	20%
Grooming	1,562	(1)%	417	1 %	340	3%
Health Care	1,845	(3)%	440	(3)%	332	9%
Fabric & Home Care	5,488	2 %	1,144	(3)%	877	14%
Baby, Feminine & Family Care	4,390	(3)%	902	(6)%	692	10%
Corporate	116	7 %	90	N/A	211	N/A
Total Company	**$ 16,690**	**— %**	**$ 3,940**	**5 %**	**$ 3,211**	**12%**

<u>Beauty</u>

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Beauty net sales increased 5% to $3.3 billion during the first fiscal quarter on a 3% increase in unit volume. Favorable product mix added 3% to net sales due to the disproportionate growth of the super-premium SK-II and Olay Skin Care brands, which have higher than segment average selling prices. Higher pricing increased net sales by 2%. Unfavorable foreign exchange impacts reduced net sales by 3%. Organic sales increased 7%. Global market share of the Beauty segment was unchanged. Volume increased low single digits in developed regions and mid-single digits in developing regions.

- Volume in Hair Care increased low single digits. Developed market volume was unchanged. Volume in developing regions increased low single digits due to market growth and product innovation. Global market share of the Hair Care category decreased slightly.
- Volume in Skin and Personal Care increased mid-single digits. Volume increased low single digits in developed regions due to premium innovation and market growth. Volume increased high single digits in developing regions due to premium innovation, increased marketing spending and market growth. Global market share of the Skin and Personal Care category increased slightly.

Net earnings increased 20% to $759 million due to the increase in net sales and a 290 basis-point increase in net earnings margin. The net earnings margin increased primarily due to a decrease in SG&A as a percentage of net sales and a reduction in U.S. income tax rates. Gross margin was relatively unchanged. The reduction in SG&A as a percentage of sales was primarily driven by the positive scale impacts of the net sales increase and the impacts of adopting the new accounting standard on "Revenue from Contracts with Customers."

<u>Grooming</u>

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Grooming net sales decreased 1% to $1.6 billion during the first fiscal quarter on a 5% increase in unit volume. Foreign exchange had a 4% unfavorable impact on net sales. Pricing had a positive 1% impact on net sales due to price increases in certain markets. Negative mix reduced net sales 2% due to the disproportionate growth of lower tier products and club channels which have lower than segment average selling prices. Organic sales increased 4%. Global market share of the Grooming segment decreased 0.7 points. Volume increased mid-single digits in developed and developing regions.

- Shave Care volume increased mid-single digits. Developed regions volume increased mid-single digits due to increased competitiveness following price reductions in prior quarters and an increase in consumer promotions. Developing regions volume increased mid-single digits due to increase in consumer promotions and higher trade inventories in certain markets. Global market share of the Shave Care category was unchanged.
- Volume in Appliances increased mid-single digits. Volume increased mid-single digits in developed regions and low single digits in developing regions due to market growth. Global market share of the Appliances category decreased more than half a point.

Net earnings increased 3% to $340 million as the reduction in net sales was more than offset by a 90 basis-point increase in net earnings margin. Net earnings margin increased primarily due to a reduction in SG&A as a percentage of net sales and a reduction in U.S. income tax rates, partially offset by a decrease in gross margin. Gross margin declined due to the negative impact of unfavorable product mix and other manufacturing cost increases. SG&A as a percentage of net sales decreased due to reductions in both overhead costs and marketing spending and the impacts from adoption of the new accounting standard on "Revenue from Contracts with Customers."

Health Care

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Health Care net sales decreased 3% to $1.8 billion during the first fiscal quarter on a 1% increase in unit volume. Excluding the impact of the dissolution of the PGT Healthcare partnership, organic volume increased 4%. Unfavorable foreign exchange impacts decreased net sales by 2%. Unfavorable mix impacts reduced net sales by 1%. Organic sales increased 4%. Global market share of the Health Care segment increased 0.4 points. Volume increased low single digits in developed regions and was unchanged in developing regions. Excluding the impact of the dissolution of the PGT Healthcare partnership, organic volume increased mid-single digits in both developed and developing regions.

- Oral Care volume increased low single digits. Volume increased low single digits in developed regions due to product innovation and lower pricing in the form of increased promotional spending. Volume in developing regions was unchanged. Global market share of the Oral Care category increased slightly.
- Volume in Personal Health Care decreased low single digits. Excluding the impact of the dissolution of the PGT Healthcare partnership, organic volume increased double digits. Developed regions volume decreased mid-single digits, while organic volume grew mid-single digits due to product innovation and increased advertising spending. Volume in developing regions increased low single digits and double digits on an organic basis, due to innovation and market growth. Global market share of the Personal Health Care category increased more than half a point.

Net earnings increased 9% to $332 million, as the reduction in net sales was more than offset by a 200 basis point increase in net earnings margin. Net earnings margin increased due to a reduction in SG&A as a percentage of sales and a decrease in U.S. income tax rates, partially offset by a reduction in gross margin. Gross margin decreased driven by unfavorable mix due to the impact of the dissolution of the PGT Healthcare partnership, and other manufacturing cost increases. SG&A as a percentage of net sales decreased primarily due to the impact of the dissolution of the PGT Healthcare partnership and the impacts from adoption of the new accounting standard on "Revenue from Contracts with Customers."

Fabric & Home Care

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Fabric & Home Care net sales increased 2% to $5.5 billion for the first fiscal quarter on a 4% increase in unit volume. Unfavorable foreign exchange impacts reduced net sales by 2%. Positive mix impacts increased net sales by 1%, while lower pricing reduced net sales 1%. Organic sales increased 5% on a 5% increase in organic volume. Global market share of the Fabric & Home Care segment increased 0.5 points. Volume increased mid-single digits in developed regions and increased low single digits in developing regions.

- Fabric Care volume increased mid-single digits. Volume in developed regions grew mid-single digits due to product innovation and lower pricing in the form of increased promotional spending. Volume in developing regions increased low single digits. Excluding the impact of minor brand divestitures, developing regions volume increased mid-single digits driven by product innovation and market growth. Global market share of the Fabric Care category increased more than half a point.
- Home Care volume increased mid-single digits. Volume in developed regions increased high single digits due to product innovation and market growth. Volume in developing regions decreased low single digits due to category contraction in certain markets. Global market share of the Home Care category increased nearly half a point.

Net earnings increased 14% to $877 million due to the increase in net sales and a 170 basis point increase in net earnings margin. Net earnings margin increase was primarily due to a reduction in SG&A as a percentage of sales and a decrease in U.S. income tax rates partially offset by a reduction in gross margin. Gross margin decreased due to negative product mix impacts (driven by disproportionate growth of product forms with lower than segment-average margins) and an increase in commodity costs, which were partially offset by manufacturing cost savings. SG&A as a percentage of net sales was down due to productivity savings, the positive scale effects of the increase in net sales and the impacts from adoption of the new accounting standard on "Revenue from Contracts with Customers."

Baby, Feminine & Family Care

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Baby, Feminine & Family Care net sales decreased 3% to $4.4 billion during the first fiscal quarter on a 1% increase in unit volume. Unfavorable foreign exchange impacts decreased net sales by 2%. Lower pricing reduced net sales 1%. Organic sales decreased 1%. Global market share of the Baby, Feminine & Family Care segment decreased 0.2 points. Volume increased mid-single digits in developed regions. Volume in developing regions decreased mid-single digits.

- Volume in Baby Care decreased high single digits. Volume in developed regions declined mid-single digits due to competitive activity, including lower competitor pricing due to higher promotional spending in certain markets. Volume in developing regions declined high single digits due to competitive activity, volume declines following increased prices and category contraction in certain markets. Global market share of the Baby Care category decreased more than a point.

- Volume in Feminine Care increased low single digits. Volume in developed regions increased mid-single digits due to product innovation and adult incontinence category growth. Volume increased low single digits in developing regions driven by innovation and lower pricing in the form of increased promotional spending. Global market share of the Feminine Care category increased less than half a point.
- Volume in Family Care, which is predominantly a North American business, increased high single digits driven by product innovation and distribution gains. In the U.S., all-outlet share of the Family Care category increased more than half a point.

Net earnings increased 10% to $692 million as the reduction in net sales was more than offset by a 190 basis point increase in net earnings margin. Net earnings margin increased primarily due to a decrease in U.S. income tax rates and a reduction in SG&A as a percentage of net sales, partially offset by a reduction in gross margin. Gross margin decreased primarily due to an increase in commodity costs, lower pricing and unfavorable foreign exchange impacts, partially offset by manufacturing cost savings projects. SG&A as a percentage of net sales decreased due to reduced marketing spending and overhead costs, and the impacts from adoption of the new accounting standard on "Revenue from Contracts with Customers."

Corporate

Corporate includes certain operating and non-operating activities not allocated to specific business segments. These include: the incidental businesses managed at the corporate level; financing and investing activities; certain employee benefit costs; other general corporate items; the gains and losses related to certain divested brands and categories; certain restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization. Corporate also includes reconciling items to adjust the accounting policies used in the segments to U.S. GAAP. The most significant reconciling item includes income taxes to adjust from blended statutory rates that are reflected in the segments to the overall Company effective tax rate.

Corporate net sales improved by $8 million to $116 million during the first fiscal quarter. Corporate net earnings increased $6 million to $211 million in the first fiscal quarter as higher current year divestiture gains (driven by the current year gain on the dissolution of the PGT healthcare partnership) was largely offset by higher current year foreign exchange transactional charges and higher income taxes in the current period caused by lower foreign tax credits under the U.S. Tax Act, each of which has been discussed earlier in the Results of Operations section.

Restructuring Program to deliver Productivity and Cost Savings

In 2012, the Company initiated a productivity and cost savings plan to reduce costs and better leverage scale in the areas of supply chain, research and development, marketing and overheads. The plan was designed to accelerate cost reductions by streamlining management decision making, manufacturing and other work processes to fund the Company's growth strategy. In 2017, the Company communicated specific elements of an additional multi-year productivity and cost savings program.

The current productivity and cost savings plan will further reduce costs in the areas of supply chain, certain marketing activities and overhead expenses. As part of this plan, the Company incurred $1.1 billion in total before-tax restructuring costs in fiscal 2018, with an additional amount of approximately $0.8 billion expected in fiscal 2019. This program is expected to result in additional enrollment reductions, along with further optimization of the supply chain and other manufacturing processes. Consistent with our historical policies for ongoing restructuring-type activities, the resulting charges are funded by and included within Corporate for segment reporting.

In addition to our restructuring programs, we have additional ongoing savings efforts in our supply chain, marketing and overhead areas that yield additional benefits to our operating margins.

Refer to Note 9 in the Notes to the Consolidated Financial Statements for more details on the restructuring program.

LIQUIDITY & CAPITAL RESOURCES

Operating Activities

We generated $3.6 billion of cash from operating activities fiscal year to date, flat versus the prior year. Net earnings, adjusted for non-cash items (depreciation and amortization, share-based compensation expense, deferred income taxes, and gain on sale of assets), generated $3.6 billion of operating cash flow. Working capital and other impacts used $62 million of cash in the period. Accounts receivable increased, using $475 million of cash due to sales growth and to a lesser extent, the extension of customer payment terms for seasonal products. Inventory consumed $494 million of cash primarily due to product initiatives, business growth, and production seasonality builds in certain GBU's. Accounts payable, accrued and other liabilities increased, generating $933 million of cash primarily driven by extended payment terms with our suppliers, an increase in payables to support the increase in inventory and an increase in taxes payable due to the timing of payments. All other operating assets and liabilities used $84 million of cash, driven by payments of the current year portion of taxes due related to the U.S. Tax Act, partially offset by collection of other receivables.

Investing Activities

Cash used by investing activities was $865 million fiscal year to date. Capital expenditures were $1.1 billion, or 6.5% of net sales. Acquisition activity used $237 million of cash. We used $158 million for purchases of short-term investments. These uses were partially offset by $649 million of cash generated from sales and maturities of short-term investments.

Financing Activities

Our financing activities consumed net cash of $2.7 billion fiscal year to date. We used $1.3 billion for treasury stock purchases and $1.9 billion for dividends. Cash from the exercise of stock options and other impacts generated $425 million of cash.

As of September 30, 2018, our current liabilities exceeded current assets by $5.9 billion. We have short- and long-term debt to meet our financing needs. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We have strong short- and long-term debt ratings that have enabled and should continue to enable us to refinance our debt as it becomes due at favorable rates in commercial paper and bond markets. In addition, we have agreements with a diverse group of financial institutions that, if needed, should provide sufficient credit funding to meet short-term financing requirements.

RECONCILIATION OF MEASURES NOT DEFINED BY U.S. GAAP

In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP measures and the reconciliation to the most closely related GAAP measures. We believe that these measures provide useful perspective on underlying business results and trends (i.e., trends excluding non-recurring or unusual items) and provide a supplemental measure of year-on-year results. The non-GAAP measures described below are used by management in making operating decisions, allocating financial resources and for business strategy purposes. These measures may be useful to investors as they provide supplemental information about business performance and provide investors a view of our business results through the eyes of management. These measures are also used to evaluate senior management and are a factor in determining their at-risk compensation. These non-GAAP measures are not intended to be considered by the user in place of the related GAAP measure, but rather as supplemental information to our business results. These non-GAAP measures may not be the same as similar measures used by other companies due to possible differences in method and in the items or events being adjusted.

Organic sales growth: Organic sales growth is a non-GAAP measure of sales growth excluding the impacts of acquisitions and divestitures, the impact from the July 1, 2018 adoption of new accounting standards for "Revenue from Contracts with Customers" and foreign exchange from year-over-year comparisons. The impact of the adoption of the new accounting standard for Revenue from Contracts with Customers is driven by the prospective reclassification of certain customer spending from marketing (SG&A) expense to a reduction of Net sales. We believe this measure provides investors with a supplemental understanding of underlying sales trends by providing sales growth on a consistent basis. This measure is used in assessing achievement of management goals for at-risk compensation.

Adjusted free cash flow: Adjusted free cash flow is defined as operating cash flow less capital spending and excluding payments for the transitional tax resulting from the comprehensive U.S. legislation commonly referred to as the Tax Cuts and Jobs Act in December 2017 (the U.S. Tax Act). Adjusted free cash flow represents the cash that the Company is able to generate after taking into account planned maintenance and asset expansion. Management views adjusted free cash flow as an important measure because it is one factor used in determining the amount of cash available for dividends, share repurchases, acquisitions and other discretionary investments.

Adjusted free cash flow productivity: Adjusted free cash flow productivity is defined as the ratio of adjusted free cash flow to net earnings excluding the gain on dissolution of the PGT Healthcare partnership, which is non-recurring and not considered indicative of underlying cash flow performance. Management views adjusted free cash flow productivity as a useful measure to help investors understand P&G's ability to generate cash. Adjusted free cash flow productivity is used by management in making operating decisions, allocating financial resources and for budget planning purposes. This measure is also used in assessing the achievement of management goals for at-risk compensation. The Company's long-term target is to generate annual adjusted free cash flow productivity at or above 90 percent.

Core EPS: Core earnings per share, or Core EPS, is a measure of the Company's diluted net earnings per share adjusted as indicated. Management views this non-GAAP measure as a useful supplemental measure of Company performance over time. This measure is also used when evaluating senior management in determining their at-risk compensation.

The Core earnings measures included in the following reconciliation tables refer to the equivalent GAAP measures adjusted as applicable for the following items:

Incremental Restructuring: The Company has had and continues to have an ongoing level of restructuring activities. Such activities have resulted in ongoing annual restructuring related charges of approximately $250 - $500 million before tax. In 2012, the Company began a $10 billion strategic productivity and cost savings initiative that included incremental restructuring activities. In 2017, we communicated details of an additional multi-year productivity and cost savings plan. This results in incremental restructuring charges to accelerate productivity efforts and cost savings. The adjustment to Core earnings includes only the restructuring costs above what we believe are the normal recurring level of restructuring costs.

Gain on Dissolution of PGT Healthcare Partnership: The Company finalized the dissolution of our PGT Healthcare partnership, a venture between the Company and Teva Pharmaceuticals Industries, Ltd. (Teva) in the OTC consumer healthcare business, in the quarter ended September 30, 2018. The transaction was accounted for as a sale of the Teva portion of the PGT business; the Company recognized an after-tax gain on the dissolution of $353 million.

We do not view the above items to be part of our sustainable results and their exclusion from Core earnings measures provides a more comparable measure of year-on-year results. These items are also excluded when evaluating senior management in determining their at-risk compensation.

Organic sales growth:

Three Months Ended September 30, 2018	Net Sales Growth	Foreign Exchange Impact	Acquisition & Divestiture Impact/Other [1]	Organic Sales Growth
Beauty	5%	3%	(1)%	7%
Grooming	(1)%	4%	1%	4%
Health Care	(3)%	2%	5%	4%
Fabric & Home Care	2%	2%	1%	5%
Baby, Feminine & Family Care	(3)%	2%	—%	(1)%
Total Company	**—%**	**3%**	**1%**	**4%**

(1) Acquisition & Divestiture Impact/Other includes the volume and mix impact of acquisitions and divestitures, the impact from the July 1, 2018 adoption of new accounting standards for "Revenue from Contracts with Customers" and rounding impacts necessary to reconcile net sales to organic sales.

Adjusted free cash flow (dollar amounts in millions):

Fiscal Year-to-Date, September 30, 2018			
Operating Cash Flow	Capital Spending	U.S. Tax Act Payments	Adjusted Free Cash Flow
$3,567	$(1,080)	$235	$2,722

Adjusted free cash flow productivity (dollar amounts in millions):

Fiscal Year-to-Date, September 30, 2018				
Adjusted Free Cash Flow	Net Earnings	Gain on Dissolution of PGT Partnership	Adjusted Net Earnings	Adjusted Free Cash Flow Productivity
$2,722	$3,211	$(353)	$2,858	95%

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Reconciliation of Non-GAAP Measures

Three Months Ended September 30, 2018

	AS REPORTED (GAAP)	INCREMENTAL RESTRUCTURING	GAIN ON DISSOLUTION OF PGT PARTNERSHIP	ROUNDING	NON-GAAP (CORE)
COST OF PRODUCTS SOLD	8,484	(46)	—	—	8,438
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	4,652	(28)	—	1	4,625
OPERATING INCOME	3,554	74	—	(1)	3,627
INCOME TAX	729	6	(2)	1	734
NET EARNINGS ATTRIBUTABLE TO P&G	3,199	69	(353)	—	2,915
					Core EPS
DILUTED NET EARNINGS PER COMMON SHARE [(1)]	1.22	0.03	(0.14)	0.01	1.12

[(1)] Diluted net earnings per share are calculated on Net earnings attributable to Procter & Gamble.

CHANGE VERSUS YEAR AGO	
CORE EPS	3%

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(Amounts in Millions Except Per Share Amounts)
Reconciliation of Non-GAAP Measures

Three Months Ended September 30, 2017

	AS REPORTED (GAAP)	INCREMENTAL RESTRUCTURING	ROUNDING	NON-GAAP (CORE)
COST OF PRODUCTS SOLD	8,269	(100)	—	8,169
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	4,736	7	—	4,743
OPERATING INCOME	3,648	93	—	3,741
INCOME TAX	881	20	—	901
NET EARNINGS ATTRIBUTABLE TO P&G	2,853	75	—	2,928
				Core EPS:
DILUTED NET EARNINGS PER COMMON SHARE [(1)]	1.06	0.03	—	1.09

[(1)] Diluted net earnings per share are calculated on Net earnings attributable to Procter & Gamble.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the Company's exposure to market risk since June 30, 2018. Additional information can be found in Note 7 - Risk Management Activities and Fair Value Measurements of the Consolidated Financial Statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chairman of the Board, President and Chief Executive Officer, David S. Taylor, and the Company's Vice Chairman and Chief Financial Officer, Jon R. Moeller, performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) as of the end of the period covered by this report. Messrs. Taylor and Moeller have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including Messrs. Taylor and Moeller, to allow their timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject, from time to time, to certain legal proceedings and claims arising out of our business, which cover a wide range of matters, including antitrust and trade regulation, product liability, advertising, contracts, environmental issues, patent and trademark matters, labor and employment matters, and tax.

Item 1A. Risk Factors

For information on risk factors, please refer to "Risk Factors" in Part I, Item 1A of the Company's Form 10-K for the year ended June 30, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value of Shares That May Yet Be Purchased Under Our Share Repurchase Program
7/01/2018 - 7/31/2018	15,834,932	$79.09	12,638,835	(3)
8/01/2018 - 8/31/2018	3,024,703	$82.65	3,024,703	(3)
9/01/2018 - 9/30/2018	—	$0.00	—	(3)
Total	**18,859,635**	**$79.66**	**15,663,538**	

(1) All transactions were made in the open market with large financial institutions. This table excludes shares withheld from employees to satisfy minimum tax withholding requirements on option exercises and other equity-based transactions. The Company administers cashless exercises through an independent third party and does not repurchase stock in connection with cashless exercises.

(2) Average price paid per share for open market transactions is calculated on a settlement basis and excludes commission.

(3) On October 19, 2018, the Company stated that in fiscal year 2019 the Company expects to reduce outstanding shares through direct share repurchases at a value of up to $5 billion, notwithstanding any purchases under the Company's compensation and benefit plans. Purchases may be made in the open market and/or private transactions and purchases may be increased, decreased or discontinued at any time without prior notice. The share repurchases are authorized pursuant to a resolution issued by the Company's Board of Directors and are expected to be financed by a combination of operating cash flows and issuance of long-term and short-term debt.

Item 6. Exhibits

3-1	Amended Articles of Incorporation (as amended by shareholders at the annual meeting on October 11, 2011 and consolidated by the Board of Directors on April 8, 2016) (Incorporated by reference to Exhibit (3-1) of the Company's Form 10-K for the year ended June 30, 2016)
3-2	Regulations (as approved by the Board of Directors on April 8, 2016, pursuant to authority granted by shareholders at the annual meeting on October 13, 2009) (Incorporated by reference to Exhibit (3-2) of the Company's Form 10-K for the year ended June 30, 2016)
10-1	The Procter & Gamble Performance Stock Program Summary * +
10-2	The Procter & Gamble Company Executive Deferred Compensation Plan * +
10-3	Summary of Additional Personal Benefits Available to Certain Officers and Non-Employee Directors * +
12	Computation of Ratio of Earnings to Fixed Charges +
31.1	Rule 13a-14(a)/15d-14(a) Certification – Chief Executive Officer +
31.2	Rule 13a-14(a)/15d-14(a) Certification – Chief Financial Officer +
32.1	Section 1350 Certifications – Chief Executive Officer +
32.2	Section 1350 Certifications – Chief Financial Officer +
101.INS [(1)]	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH [(1)]	XBRL Taxonomy Extension Schema Document
101.CAL [(1)]	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF [(1)]	XBRL Taxonomy Definition Linkbase Document
101.LAB [(1)]	XBRL Taxonomy Extension Label Linkbase Document
101.PRE [(1)]	XBRL Taxonomy Extension Presentation Linkbase Document

* Compensatory plan or arrangement

\+ Filed herewith

[(1)] Pursuant to Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 or 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

October 19, 2018	/s/ VALARIE L. SHEPPARD
Date	(Valarie L. Sheppard)
	Senior Vice President, Comptroller and Treasurer

EXHIBIT INDEX

Exhibit

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(Back To Top)

Section 2: EX-10.1 (THE PROCTER & GAMBLE PERFORMANCE STOCK PROGRAM SUMMARY)

EXHIBIT (10-1)

The Procter & Gamble Performance Stock Program Summary

PERFORMANCE STOCK PROGRAM SUMMARY
(Effective July 1, 2018)

The Performance Stock Program ("PSP") is a part of The Procter & Gamble Company's (the "Company") long-term incentive ("LTI") compensation and is designed to provide additional focus on key Company measures for top executives with senior management responsibility for total Company results. Awards granted under the PSP ("PSP Awards") are made pursuant to authority delegated to the Compensation & Leadership Development Committee (the "C&LD Committee") by the Board of Directors for determining compensation for the Company's principal officers and for making awards under the Procter & Gamble 2014 Stock and Incentive Compensation Plan (the "2014 Plan") or any successor stock plan approved in accordance with applicable listing standards. PSP Awards are Performance-Based Compensation (as defined in Article 15 of the 2014 Plan).

I. ELIGIBILITY

The Chairman of the Board and/or Chief Executive Officer and those active executives at Band 6 or above as of October 1 prior to the grant date and recommended by management are eligible to participate ("Participants").

II. OVERVIEW

A significant portion of the Band 6 and above compensation is delivered through two long-term incentive programs tied to Company performance: PSP and the Long-term Incentive Program.

Total long-term incentive compensation targets are based on relevant competitive market data considering the median total long-term compensation of comparable positions, regressed for revenue size. The C&LD Committee establishes the Peer Group and sets compensation targets for all Principal Officers including the CEO. The CEO approves compensation targets for non-Principal Officers (generally Band 6 managers).

The C&LD Committee determines the long-term incentive award for the CEO. The CEO recommends all other Principal Officer awards to the C&LD Committee based on benchmarked long-term compensation targets, adjusted for business results and individual contributions attributable to each executive and including that individual's leadership skills. The C&LD Committee retains full authority to accept, modify, or reject these recommendations. The CEO approves awards for participants who are not Principal Officers based on long-term compensation targets, business results and individual contributions. Long-term incentive awards can be up to 50% above or 50% below the benchmarked target. In exceptional cases, no award will be made. After total LTI award size is determined then approximately half of each Band 7 manager's long-term compensation is allocated to PSP via an Initial PSU Grant (as defined below). The remaining portion is a Long-term Incentive Program Grant. Approximately 25% of each Band 6 manager's total LTI is allocated to PSP with the remainder awarded under the Long-term Incentive Program.

PSP rewards Participants for Company performance against certain three-year performance goals in categories established by the C&LD Committee. The C&LD Committee sets these performance goals for each three-year period that begins on July 1 and ends on June 30 three years later ("Performance Period"). In the first year of each Performance Period, the C&LD Committee grants Performance Stock Units ("PSUs") to Participants that will vest at the end of the Performance Period based on the Company's performance relative to the pre-established performance goals ("Initial PSU Grant"). The number of PSUs that vest at the end of the Performance Period depends on the Company's performance against the pre-established performance goals. Vested PSUs, including dividend equivalents, are converted into shares of the Company's common stock ("Common Stock") delivered to the applicable Participant within 60 days following the end of the Performance Period, or such later date as may be elected by the Participant in accordance with Section 409A of the Internal Revenue Code ("Section 409A").

III. PERFORMANCE CATEGORIES

The PSP Award is based on the Company's performance in each of the following categories (each a "Performance Category") and weighted as indicated:

- Organic sales growth (percentile rank in the competitive peer group)* - 30%
- Constant currency core before-tax operating profit growth - 20%
- Core earnings per share (EPS) growth - 30%
- Adjusted free cash flow productivity - 20%

Awards will be further adjusted based on the three-year relative total shareholder return (R-TSR) of P&G compared to the competitive peer group*. Awards will be adjusted for top quartile performance using a 125% multiplier to increase awards, and reduced for bottom quartile performance using a 75% multiplier.

* *Competitive peer group is defined in the PSP Accounting Guidelines.*

Within the first 90 days of each Performance Period, the C&LD Committee sets three-year performance goals ("Performance Goals") for each Performance Category for such Performance Period and establishes a sliding scale to measure the Company's performance against each Performance Goal in each Performance Category. The C&LD Committee uses the sliding scale to establish a payout factor between 0% and 200% for each Performance Category (a "Sales Factor", "Profit Factor", "EPS Factor" and "Cash Flow Factor", collectively, "Performance Factors").

In all cases, the C&LD Committee retains the discretion to include or exclude certain of the Performance Categories for purposes of determining the PSP Award. The C&LD Committee may reduce or eliminate any payment if it determines that such payout is inconsistent with long-term shareholders' interests or incongruous with the overall performance of the company.

PSP awards will have the following terms unless otherwise approved by the C&LD Committee:

IV. THE INITIAL PSU GRANT

The C&LD Committee has the sole discretion to establish the target award ("PSP Target") for each Participant serving as a Principal Officer. The CEO establishes the PSP Targets for participants who are not Principal Officers. The PSP Target will be a cash amount and will be the basis for the Initial PSU Grant. The C&LD Committee will make the Initial PSU Grant on the last business date in February ("Grant Date") following the beginning of each Performance Period. If the New York Stock Exchange is closed on the day of the grant, then the C&LD will establish a grant date as soon as practical subsequent to the date previously specified for such award. The Initial PSU Grant will set forth a target and maximum number of PSUs. The target number of PSUs will be determined by dividing the PSP Target by the expense value of one PSU using the same methodology by which the Company expenses PSUs, rounding to the nearest whole unit.

The Initial PSU Grant maximum will be two times the Initial PSU Grant.

V. PSU VESTING AND PAYMENT

After the Performance Period is complete, the C&LD Committee will establish the Payout Factors for each of the Performance Categories based on the Company's results versus the pre-established Performance Goals. The number of PSUs that vest will be determined by multiplying the Performance Factors by their respective weightings, summing up the results, then applying the R-TSR multiplier if applicable. The final result will be rounded up or down to the nearest full percentage. The resulting percentage will be applied to the number of PSUs in the Initial PSU Grant target, including dividends that would have accumulated since the initial PSU grant on the vested units, rounding up to the nearest whole share. The number of PSUs that vest may be equal to, above or below the Initial PSU Grant target depending on the Company's performance in the Performance Categories, but in no event more than the Initial PSU Grant maximum. Vested PSUs are converted into shares of Common Stock delivered to the applicable Participant within 60 days following the end of the Performance Period, or such later date as may be elected by the Participant if applicable and in accordance with Section 409A.

Participants at Band 7 and above may elect to defer delivery of the Common Stock by electing to receive Restricted Stock Units. PSP RSUs will have the following terms unless otherwise approved by the Committee at grant:

> VESTING AND SETTLEMENT: PSP RSUs will be vested on the grant date with a settlement date at least one year following the original PSU delivery date (as elected by the Participant), are eligible for dividend equivalents, and can be further deferred in accordance with Section 409A. These RSUs will be paid on their Original Settlement Date or the Agreed Settlement Date, except in the case of death. In the case of death (except in France and the UK), payment will be made by the later of the end of the calendar year or two and a half months following the date of death. For awards granted in France or the UK, the consequences of death are determined by the local plan supplement, if applicable.

VI. SEPARATION FROM THE COMPANY (Defined terms shall have the meaning designated in the 2014 Plan or related award documents)

If the Participant's Termination of Employment occurs for any reason before the Vest Date, except for the reasons listed below, the Award will be forfeited. Participants must remain in compliance with the terms and conditions set forth in the 2014 Plan, including those in Article 6.

- Termination on Account of Death (except in France and the UK). The Award is immediately vested and will become deliverable on the Settlement Date or Agreed Settlement Date, whichever is applicable.
- Termination on Account of Death for awards granted in France or the UK. The consequences of death are determined by the local plan supplement, if applicable.
- Termination on Account of Retirement or Disability after June 30th of the fiscal year in which this Award was granted. PSUs are retained and will be delivered on the Settlement Date.
- Termination pursuant to a Written Separation Agreement that provides for retention of the Award, after June 30th of the fiscal year in which this Award was granted. PSUs are retained and will be delivered on the Settlement Date.
- Termination in connection with a divestiture or separation of any of the Company's businesses, as determined by the Company's Chief Human Resources Officer. PSUs are retained and will be delivered on the Settlement Date.

VII. CHANGE IN CONTROL

Notwithstanding the foregoing, if there is a Change in Control that meets the requirements of a change in control event under Section 409A, all outstanding PSP Awards will vest at 100% of the Initial PSU Grant target (or 100% of the PSP Target if the Change in Control occurs prior to the Initial PSU Grant) including dividends that would have accumulated since the initial PSU grant on the vested units, and shall be paid in shares of Common Stock at the time of such Change in Control. If there is a Change in Control event that does not meet the requirements of a change in control event under Section 409A, all outstanding PSP Awards will be settled according to the terms and conditions set forth herein, without the application Article 17 of the 2014 Plan. "Change in Control" shall have the same meaning as defined in the 2014 Plan or any successor stock plan approved in accordance with applicable listing standards.

VIII. GENERAL TERMS AND CONDITIONS

It shall be understood that the PSP does not give to any officer or employee any contract rights, express or implied, against any Company for any PSP Award, or for compensation in addition to the salary paid to him or her, or any right to question the action of the Board of Directors or the C&LD Committee.

Each PSP Award made to an individual at Band 7 and above is subject to the Senior Executive Recoupment Policy adopted by the C&LD Committee in December 2006.

To the extent applicable, it is intended that the PSP comply with the provisions of Section 409A. The PSP will be administered and interpreted in a manner consistent with this intent. Neither a Participant nor any of a Participant's creditors or beneficiaries will have the right to subject any deferred compensation (within the meaning of Section 409A) payable under the PSP to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to a Participant under the PSP may not be reduced by, or offset against, any amount owing by a Participant to the Company.

This program document may be amended at any time by the C&LD Committee.

(Back To Top)

Section 3: EX-10.2 (THE PROCTER & GAMBLE COMPANY EXECUTIVE DEFERRED COMP PLAN)

EXHIBIT (10-2)

The Procter & Gamble Company Executive Deferred Compensation Plan

The Procter & Gamble Company
Executive Deferred Compensation Plan
(As Amended and Restated Effective August 15, 2018)

Contents

The Procter & Gamble Company

Deferred Compensation Plan

Article 1. Purpose, Status, and Effective Date

1.1 Purpose of Plan. The Procter & Gamble Company (the “Company”), an Ohio corporation, has adopted The Procter & Gamble Company Executive Deferred Compensation Plan (the “Plan”), as set forth herein, as a means of rewarding and retaining selected employees and providing such individuals the opportunity for capital accumulation through elective deferrals of compensation.

1.2 Status of Plan. The Company has established the Plan as an unfunded deferred compensation plan for a select group of management and highly compensated employees within the meaning of Sections 201(2), 301(3), and 401(1) of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall at all times be administered and interpreted in a manner that is consistent with such status.

1.3 Effective Date. The Effective Date of the Plan is July 1, 2004, as originally adopted, and August 15, 2018, for the Plan as amended and restated herein.

Article 2. Definitions

Whenever used in this Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized.

(a) **“Account”** shall mean the bookkeeping account for a Participant that is established and maintained to record the Participant’s interest under the Plan. The balance posted to the record of the Account of a Participant shall reflect the Participant’s Contributions, PST Restoration Program Contributions, distributions, adjustments for income, gain, or loss, and other charges and credits pursuant to Article 6.

(b) **“Administrative Committee”** shall mean the committee that administers the Short-Term Achievement Reward incentive plan or such other administrative committee of the Company appointed by the Compensation and Leadership Development Committee to administer the Plan. Pursuant to Section 9.2, the Administrative Committee has the authority to delegate its responsibilities. Throughout this plan document, the term “Administrative Committee” shall also include any individual to whom the Administrative Committee has delegated its responsibilities pursuant to Section 9.2.

(c) **“Beneficiary”** shall mean the person or persons or entity designated by the Participant to receive the balance of the Participant’s Account in the event of the Participant’s death. The designation may be in favor of one or more Beneficiaries, may include contingent as well as primary designations and named or unnamed trustees under any will or trust agreement and may apportion the benefits payable in any manner among the Beneficiaries. A Participant’s designation of one or more Beneficiaries shall be made in writing in a manner designated by the Administrative Committee and shall not be effective until received by the Administrative Committee. If a Participant fails to properly designate a Beneficiary or if the designated beneficiaries of such Participant shall have predeceased the Participant, the Participant’s estate shall be the Beneficiary.

A Participant may change his or her Beneficiary without the consent of any Beneficiary by similar instrument in accordance with rules and procedures established by the Administrative Committee. The beneficiary designation form received and acknowledged most recently by the Administrative Committee shall control as of any date. If concurrent Beneficiaries are named without specifying the proportion of benefits due each, distribution shall be made in equal shares to those Beneficiaries.

(d) **“Claimant”** shall mean the Participant or Beneficiary or his or her representative submitting a claim for benefits under the Plan.

(e) **“Code”** shall mean the Internal Revenue Code of 1986, as amended, or as it may be amended from time to time. Furthermore, the phrase “to the extent permitted under the Code” means to the extent the action described does not cause taxation of a Participant’s Account prior to distribution of all or a portion of the Participant’s Account.

(f) **“Company”** shall mean The Procter & Gamble Company, an Ohio corporation, and any successor thereto which continues the Plan.

(g) **“Compensation”** shall mean the definition of compensation for the Plan Year announced in writing by the Administrative Committee on or before the due date for the Administrative Committee’s receipt of Participants’ Deferral Elections for such Plan Year. Unless and until superseded, the definition of compensation announced by the Administrative Committee for a Plan Year shall remain in effect for subsequent Plan Years.

(h) **“Compensation and Leadership Development Committee”** shall mean the Compensation and Leadership Development Committee of the Board of Directors, as constituted from time to time, of the Company. If the Compensation and Leadership Development Committee has delegated any of its authority under the Plan to a committee or to an individual, the term “Compensation and Leadership Development Committee” shall also include such committee or individual.

(i) **“Contributions”** shall mean Deferrals.

(j) **“Deferral Election”** shall mean the election or elections filed by the Participant with the Company to defer Compensation under the Plan.

(k) **“Deferrals”** shall mean the amounts credited to a Participant’s Account as Deferrals pursuant to the Participant’s Deferral Election.

(l) **“Disability”** shall mean the time when: (a) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expect to last for a continuous period of not less than twelve (12) months; or (b) the Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan of the Employer covering the Participant.”

For purposes of any terms or conditions of the Plan related to PST Restoration Program Contributions (including any adjustments thereon pursuant to Article 6.4), Disability shall have the meaning set forth in Form RTD -_C.

(m) **“Effective Date”** shall mean the date set forth in Section 1.3.

(n) **“Eligible Employee”** shall mean an Employee who satisfies one of the requirements for eligibility under Article 3 of the Plan.

(o) **“Employee”** shall mean any employee of the Company or a subsidiary who is expressly designated as an Employee. Any person who is not expressly designated as an Employee by the Company (or by the subsidiary of the Company for whom the person performs services) shall not be an Employee for purposes of the Plan, notwithstanding that such person may be later determined by the Internal Revenue Service or by a court of competent jurisdiction to be an employee.

(p) **“Employer”** shall mean, with respect to any Participant, the Company or, if applicable, a subsidiary of the Company (that is participating in the Plan with the consent of the Compensation and Leadership Development Committee) that employs such Participant.

(q) **“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

(r) **“Form RTD-C”** shall mean the Statement of Terms and Conditions for Restricted Stock Units on Form RTD-C or similar grant materials provided by the Company for Profit Sharing Restoration Program Restricted Stock Unit grants, as may be amended from time to time.

(s) **“Investment Option”** shall mean a security (other than stock of the Company), mutual fund, common or collective trust, insurance company pooled separate account, or other benchmark selected by the Administrative Committee pursuant to Section 6.2 for measuring the income, gain, or loss, and other charges and credits recorded for a Participant’s Account.

(t) **“Participant”** shall mean an Employee who is eligible to participate in the Plan: (i) by reason of being selected for participation pursuant to Section 3.1(a) of the Plan; or (ii) because the Employee satisfies eligibility criteria established by the Administrative Committee for participation by a class of employees pursuant to Section 3.1(b) of the Plan.

(u) **“Plan”** shall mean The Procter & Gamble Company Deferred Compensation Plan, as herein set out or as duly amended, together with any election forms executed by the Participant.

(v) **“Plan Year”** for this Plan shall mean the calendar year.

(w) **“PST Restoration Program Contributions”** shall mean the amounts credited to a Participant’s Account as Deferrals pursuant to the conversion of Restricted Stock Units under the PST Restoration Diversification Program solely for purposes of determining the value, under Article 6 of the Plan, of such Restricted Stock Units after conversion.

(x) **“PST Restoration Diversification Program”** shall mean the Company’s executive compensation program which allows certain employees to convert certain Restricted Stock Units granted to them at specified times into PST Restoration Program Contributions.

(y) **“Retirement”** shall have the same meaning as provided under The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan as in effect on December 31, 2008.

(z) **“Scheduled In-Service Withdrawal”** shall mean a distribution of all or a portion of the Deferrals credited to a Participant’s Account in the Plan Year elected by the Participant for such distribution.

(aa) **“Separation from Service”** shall have the meaning provided under Section 409A of the Code and regulations thereto.

Article 3. Eligibility and Participation

3.1 **Eligibility**.

(a) Participation in the Plan is limited to the class of Employees who are expressly selected for Plan participation by the Compensation and Leadership Development Committee, or to those Employees at Band 6 selected for Plan participation by the Company’s Chief Human Resources Officer.

(b) In lieu of expressly selecting Employees for Plan participation, the Compensation and Leadership Development Committee may establish eligibility criteria providing for the participation of all Employees who satisfy such criteria.

(c) The Compensation and Leadership Development Committee may adopt, amend, or abolish a Participant’s selection for eligibility or eligibility criteria under Sections 3.1(a) and 3.1(b) hereof at any time, and for any reason, by resolution, which resolutions shall be attached to the copy of the Plan maintained by the Company and shall be effective as of the date specified therein, or if later, the date submitted to the Company.

3.2 Participation. A Participant shall continue to participate in the Plan with respect to amounts credited to his or her Account until: (i) the Participant ceases to satisfy any of the eligibility criteria for participation under Section 3.1, and (ii) there has been a complete distribution or forfeiture of the Participant’s Account.

Article 4. Contributions and Credits

4.1 Deferrals and Deferral Elections.

(a) A Participant may elect to make Deferrals to his or her Account for a Plan Year by timely executing and filing a Deferral Election with the Administrative Committee on or before the due date established by the Administrative Committee for the Plan Year for which the Deferral Election is being made. Except as provided in paragraphs (b), (c) and (d) of this Section 4.1, such due date shall be prior to January 1 of the Plan Year in which services for which the Compensation would otherwise be payable commence.

(b) The Administrative Committee may provide for separate Deferral Elections and due dates for the various elements of Compensation, such as base salary and bonuses. Any Deferral Election must be made prior to the period for which the element of Compensation being deferred is earned, as determined by the Administrative Committee in its sole discretion, and the Participant’s Deferral Election shall only apply to Compensation earned after the date on which it is received by the Administrative Committee. Notwithstanding the above, in the case of “performance-based compensation” (as such term is defined under Code Section 409A and regulations thereto) based upon a performance period of at least twelve (12) months, the Administrative Committee may allow elections to defer such performance-based compensation no later than the date that is six (6) months before the end of the related performance period provided that the Participant has performed services continuously from a date no later than the date upon which the performance criteria are established through a date no earlier than the date upon which the Participant makes an initial deferral election, and further provided that in no event may an election to defer performance-based compensation be made after such compensation has become both substantially certain to be paid and readily ascertainable.

(c) A Participant may elect to make PST Restoration Program Contributions at any time during the Company’s open window trading period for executives so long as such contributions are consistent with all Company policies and procedures and Form RTD - C, as amended (“Terms and Conditions”). Other than for purposes of determining the value of such contributions under Article 6 of the Plan, the Terms and Conditions shall apply to PST Restoration Program Contributions accounted for under this Plan.

(d) A Participant who first becomes eligible for participation in the Plan after January 1 of a Plan Year who wishes to make Deferrals to his or her Account for such Plan Year shall execute and file with the Administrative Committee a Deferral Election within thirty (30) days after the date on which such Participant is notified that he or she has become eligible to participate in the Plan. For this purpose, the date of the notice shall be the date of notification, regardless of when actually received by the Participant. A Participant may not, however, make a Deferral Election under this Section 4.1(c) if the Participant is already eligible to participate in another deferred compensation plan that is required under Code Section 409A to be aggregated with the Plan.

(e) Except as otherwise set forth in paragraph (c) of this Article 4.1, only one Deferral Election may be made for each element of Compensation earned in a single Plan Year (or earned over a period of more than one Plan Year). Any Participant who fails to timely execute and file a Deferral Election with the Administrative Committee for a Plan Year with respect to an element of Compensation shall not be permitted to make Deferrals for such element of Compensation for such Plan Year.

(f) A Deferral Election shall direct the Employer to reduce the Participant's Compensation (or the element thereof) by a whole percentage specified by the Participant in the Deferral Election.

(g) The amount specified by the Participant in the Deferral Election cannot reduce the Participant's current Compensation for such Plan Year below the amount necessary to satisfy any applicable taxes and withholdings required by law, as determined by the Administrative Committee.

(h) Except as otherwise provided in paragraphs (c) and (h) of this Article 4.1, a Deferral Election for Compensation shall be effective only for the Plan Year for which it is made. Once filed with the Administrative Committee, a Deferral Election shall be irrevocable.

(i) In making a Deferral Election, the Participant consents to the Employer's withholding from his or her currently payable Compensation the amount or amounts elected and the crediting of such withheld amounts to the Participant's Account, as provided in the Plan.

4.2 Automatic Cancellation of Deferral Elections. Notwithstanding anything in the Plan to the contrary, in the event the Participant ceases to be a Participant, all of such Participant's Deferral Elections pertaining to Plan Years that have not commenced shall immediately be cancelled, and the Participant's right to make future Deferral Elections shall be suspended until the Participant again becomes a Participant.

Article 5. Vesting

With the exception of PST Restoration Program Contributions, a Participant shall at all times be one hundred percent (100%) vested in amounts credited to the Participant's Account. PST Restoration Program Contributions vest upon completion of the Forfeiture Period on the Forfeiture Date, as those terms are defined in the applicable Form RTD - C, or similar grant materials provided by the Company, as amended.

Article 6. Participant Accounts; Investment Options

6.1 Accounts. The Administrative Committee shall establish an Account for each Participant to record the Contributions, distributions, adjustments for income, gain, or loss, and other charges and credits to the Account under the Plan. All PST Restoration Program Contributions, and any adjustments for income, gain or loss, and other charges and credits to the account related to any such contributions, shall be segregated and tracked separately.

6.2 Investment Options. The Administrative Committee shall designate one or more Investment Options for measuring the income, gain, or loss, and other charges and credits recorded for a Participant's Account and may change Investment Options prospectively at any time provided that any Investment Options designated must be comparable to an investment option available under a tax-qualified defined contribution plan of the Company. Notwithstanding anything in this Plan to the contrary, an Investment Option that provides an above-market return, as defined by Item 402 of Regulation S-K of the Securities Act of 1933, may not be designated without the approval of the Compensation and Leadership Development Committee.

6.3 Participant Allocations.

(a) A Participant shall elect on his or her Deferral Election form or on such other form or by such other means as may be specified by the Administrative Committee, one or more Investment Options to which Contributions to be credited to the Participant's Account shall be allocated. A

Participant may change the allocation of future Contributions among the Investment Options and may change the allocation of his or her Account balance among the Investment Options as frequently as permitted by the Administrative Committee under rules and procedures applicable to all Participants. The Administrative Committee shall establish and may prospectively change its rules regarding the timing and frequency of Investment Option elections and may establish minimum amounts or percentages for allocating Contributions and transferring Account balances among the Investment Options.

(b) In the event a Participant fails or refuses to make an election allocating Contributions credited to his or her Account among the then available Investment Options, the Administrative Committee shall specify the Investment Option or Options to which the Participant's Account shall be allocated and notify the Participant of its selection, which notification may be the Account statements provided to the Participant.

6.4 Adjustment of Accounts. A Participant's Account balance shall be adjusted daily, based on the performance of the Investment Options selected by the Participant, as if the portion of the Participant's Account allocated to an Investment Option were actually invested in such Investment Option and adjusted for other amounts as if such other amounts were actually charged or credited to an actual Account balance of the Participant. The Administrative Committee may also charge as an expense against a Participant's Account: (i) amounts customarily charged by the sponsor of one or more Investment Options that are charged on a per-Participant or per-transaction basis and not otherwise charged as an expense of an Investment Option, and (ii) the Administrative Committee's and the Employer's own expenses and out-of-pocket fees in administering the Plan. The Administrative Committee's allocation of charges and expenses among Participant Accounts shall be final and conclusive against the Participants and all other parties.

6.5 Status of Investment Options. The Investment Options established by the Administrative Committee from time to time are for the sole purpose of providing a performance measurement for adjusting Participants' Accounts for income, gain, or loss, and other charges and credits. Notwithstanding anything in this Plan to the contrary, neither the Company nor the Administrative Committee shall be required to actually invest monies in any fund designated as an Investment Option, any decision to so invest shall remain within the discretion of the Company (subject to the approval of the Compensation and Leadership Development Committee), and any amounts so invested shall remain the property of the Company.

Article 7. Distribution of Benefits

7.1 Distribution Commencement Election.

(a) With the exception of PST Restoration Program Contributions, at the time each Deferral Election is made, the Participant may elect to receive a distribution of up to one hundred percent (100%) of the related amount deferred (including adjustments thereon pursuant to Section 6.4) upon a Separation from Service (for reasons other than death) or Disability.

(b) A Participant may instead elect to receive a Scheduled In-Service Withdrawal of up to one hundred percent (100%) of the related amount deferred (including adjustments thereon pursuant to Section 6.4); provided, however, that any Scheduled In-Service Withdrawal must occur at least one (1) year after the end of the Plan Year in which the Deferrals being distributed were credited to the Participant's Account. Scheduled In-Service Withdrawals are not available for PST Restoration Program Contributions (including any adjustments thereon pursuant to Article 6.4).

(c) With the exception of any PST Restoration Program Contributions, separate distribution elections may be made for each Plan Year's credited Contributions. The Participant's distribution election shall be made in writing as specified by the Administrative Committee.

(d) Notwithstanding anything to the contrary in this Article 7, a distribution payable with respect to any PST Restoration Program Contributions (including any adjustments thereon pursuant to Article 6.4) shall be made in accordance with the Terms and Conditions associated with those contributions, except that such distributions shall be payable in cash and not in the Company's common stock.

7.2 Retirement/Disability Form of Distribution Election and Time of Payment.

(a) At the time each Deferral Election is made, a Participant may elect one or both of the following forms of distribution for his or her Account distributable by reason of the Participant's Retirement or Disability: (i) a single sum distribution, or (ii) a distribution in approximately equal annual installments payable over a period of two (2) to ten (10) years. The Account balance of a Participant who fails or refuses to elect a method of distribution shall be paid in a single sum.

(b) Except as set forth in paragraph (c) of this Article 7.2, a distribution payable by reason of the Participant's Retirement or Disability shall be paid (in the case of a single sum) or commence to be paid (in the case of annual payments) as soon as practicable in the calendar year following the calendar year in which the Participant's Retirement or Disability occurs. A distribution may, however, be delayed in order to comply with Section 7.7 of the Plan.

(c) Notwithstanding anything to the contrary in this Article 7, a distribution payable with respect to any PST Restoration Program Contributions (including any adjustments thereon pursuant to Article 6.4) shall be made in accordance with the Terms and Conditions associated with those contributions, except that such distributions shall be payable in cash and not in the Company's common stock.

7.3 Death Form of Distribution Election and Time of Payment.

(a) At the time a Participant first makes a Deferral Election, the Participant may elect how to receive the undistributed portion of his or her Account in the event of death. The Participant may elect: (i) a single sum distribution, or (ii) a distribution in approximately equal annual installments payable over a period of two (2) to ten (10) years. If a Participant fails or refuses to elect a method of distribution, the undistributed portion of his or her Account shall be paid in a single sum.

(b) If a Participant dies before a complete distribution of his or her Account under the Plan has occurred, the Participant's undistributed Account balance shall commence to be distributed to his or her Beneficiary under the distribution method (for death) elected by the Participant as soon as administratively possible following receipt by the Administrative Committee of satisfactory notice and confirmation of the Participant's death.

(c) Notwithstanding anything to the contrary in this Article 7, a distribution payable with respect to any PST Restoration Program Contributions (including any adjustments thereon pursuant to Article 6.4) shall be made in accordance with the Terms and Conditions associated with those contributions, except that such distributions shall be payable in cash and not in the Company's common stock.

7. 4 Scheduled In-Service Withdrawals.

(a) A Scheduled In-Service Withdrawal shall be paid in a single sum as soon as practicable in the January of the payout year elected by the Participant to receive such Scheduled In-Service Withdrawal.

(b) If a Participant has elected a Scheduled In-Service Withdrawal for all or a portion of his or her Account, but terminates employment with all Employers for any reason other than Disability or death prior to the year specified by the Participant for such Scheduled In-Service Withdrawal to be paid, the Scheduled In-Service Withdrawal shall be paid in the year following the year employment terminates.

(c) If a Participant terminates employment with all Employers by reason of Disability or death prior to the year specified by the Participant for such Scheduled In-Service Withdrawal to be paid, the Scheduled In-Service Withdrawal distribution shall be distributed in the manner elected by the Participant for Disability or death. However, if Disability or death occurs within a Plan Year during which a Scheduled In-Service Withdrawal is still to be paid, such withdrawal shall be paid as scheduled to the Participant (or in the event of death, to the Participant's estate).

(d) Notwithstanding the above, PST Restoration Program Contributions (including any adjustments thereon pursuant to Article 6.4) are not eligible for Scheduled In-Service Withdrawals.

7.5 Termination of Employment. If a Participant has a Separation from Service prior to his or her Retirement, death, or Disability for any reason, notwithstanding any distribution election made by the Participant, the vested but undistributed portion of the Participant's Account balance shall be payable to the Participant in a single sum as soon as practicable in the calendar year following the calendar year in which such Separation from Service occurs. Any unvested amounts in the Account shall be immediately forfeited, unless otherwise agreed to in writing by the Company.

7.6 Form of Distributions. All amounts distributed to a Participant from his or her Account shall be paid in cash by the Employer or its designee.

7.7 Postponement of Distributions. Except as otherwise set forth herein, in the event of a Participant's Separation from Service for reasons other than death, there shall be no payment to the Participant for the six (6) month period following the Participant's Separation from Service (the "Postponement Period"). In addition, the Administrative Committee shall further postpone the distribution of all or part of an amount otherwise payable under Article 7 to a Participant to the extent that the distribution would not be deductible by the Employer under Section 162(m) of the Code. Once the Postponement Period has passed, a conversion or distribution that is postponed pursuant to this Article 7.7 shall be converted and/or paid as soon as it is possible to do so within the deduction limitations of Section 162(m) of the Code, but in no event will any such payment be delayed beyond the later of (a) the last day of the taxable year of the Employer in which the Postponement Period ends; or (b) the 15th day of the third month following the Postponement Period. Notwithstanding anything to the contrary in this Article 7, a distribution payable with respect to any PST Restoration Program Contributions, including any postponement thereof, shall be made in accordance with the Terms and Conditions associated with those contributions.

7.8 Permitted Changes in Distribution Elections. To the extent permitted under the Code and by the Administrative Committee, a Participant may change his or her distribution election related to amount(s) distributable by reason of his or her Disability or death if such change is made in writing at least twelve (12) months prior to the Participant's Disability or death and only if such change will not result in taxation of amounts previously deferred. In the event that the Participant's most recent form of distribution election was made within twelve (12) months of the Participant's Disability or death, the next most recent election made by the Participant at least twelve (12) months prior to the Participant's Separation from Service by reason of Disability or death (or if none, the Participant's initial election) shall be used. Notwithstanding anything to the contrary in this Article 7, a distribution payable with respect to any PST Restoration Program Contributions, including any postponement thereof, shall be made in accordance with the Terms and Conditions associated with those contributions.

Article 8. Claims Procedures

8.1 Generally. A distribution request (also referred to herein as a claim) shall be made by filing a written request with the Administrative Committee on a form provided by the Administrative Committee, which shall be delivered to the Administrative Committee. If the claims procedure form made available by the Administrative Committee does not contain information on where to file the claim, the claim may be submitted to the human resources office at the site where the Claimant is employed.

8.2 Denied Claims. If a claim is denied in whole or in part, the Claimant shall receive a written or electronic notice explaining the denial of the claim within ninety (90) days after the Administrative Committee's receipt of the claim. If the Administrative Committee determines that for reasons beyond its control, a ninety (90) day extension of time is necessary to process the claim, the Claimant shall be notified in writing of the extension and reason for the extension within ninety (90) days after the Administrative Committee's receipt of the claim. The written extension notification shall also indicate the date by which the Administrative Committee expects to render a final decision. A notice of denial of claim shall contain the following: the specific reason or reasons for the denial; reference to the specific Plan provisions on which the denial is based; a description of any additional materials or information necessary for such Claimant to perfect the claim and an explanation of why such material or information is necessary; and a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(c) of ERISA following an adverse determination on review.

8.3 Review of Denied Claims. A Claimant may file a written request for a review of the denial of a claim within sixty (60) days after receiving written notice of the denial. The Claimant may submit written comments, documents, records, and other relevant information in support of the claim. A Claimant shall be provided, upon request and without charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim. A document, record, or other information shall be considered relevant if it: (a) was relied upon in denying the claim; (b) was submitted, considered or generated in the course of processing the claim, regardless of whether it was relied upon; (c) demonstrates compliance with the claims procedures process; or (d) constitutes a statement of Plan policy or guidance concerning the denied claim.

8.4 Decisions on Reviewed Claims. The Administrative Committee shall notify the Claimant in writing of its decision on the appeal. Such notification shall be in a form designed to be understood by the Claimant. If the claim is denied in whole or in part on appeal, the notification shall also contain: the specific reason or reasons for the denial; reference to the specific Plan provisions on which the determination is based; a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits; and a statement that the Claimant has a right to bring an action under Section 502(a) of ERISA. A document, record, or other information shall be considered relevant if it: (a) was relied upon in denying the claim; (b) was submitted, considered, or generated in the course of processing the claim, regardless of whether it was relied upon; (c) demonstrates compliance with the claims procedures process; or (d) constitutes a statement of Plan policy or guidance concerning the denied claim. Such notification shall be given by the Administrative Committee within sixty (60) days after the complete appeal is received by the Administrative Committee (or within one hundred twenty (120) days if the Administrative Committee determines special circumstances require an extension of time for considering the appeal, and if written notice of such extension and circumstances is given to the Claimant within the initial sixty (60) day period). Such written extension notice shall also indicate the date by which the Administrative Committee expects to render a decision.

8.5 Review Procedures. In reviewing a denied claim, the reviewer shall take into consideration all comments, documents, records, and other information submitted by the Claimant in support of the claim, without regard to whether such information was submitted or considered in the initial determination.

Article 9. Plan Administration

9.1 Establishment of the Administrative Committee. The Administrative Committee shall have the sole responsibility for the administration of the Plan. The Administrative Committee shall consist of at least three (3) members who shall be appointed by the Compensation and Leadership Development Committee and who may also be officers, directors, or employees of the Company or an Employer. An Administrative Committee member may resign by written notice to, or may be removed by, the Company, which shall appoint a successor to fill any vacancy on the Administrative Committee, howsoever caused. An Employee's membership on the Administrative Committee shall automatically terminate upon such Employee's termination of employment with all Employers.

9.2 Appointment and Duties of the Administrative Committee.

(a) The Administrative Committee may delegate its responsibilities hereunder to one or more persons, to serve at the Administrative Committee's discretion. The Administrative Committee or its delegatee(s) shall have such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following:

(i) To administer and enforce the Plan, including the discretionary and exclusive authority to interpret the Plan, to make all factual determinations under the Plan, and to resolve questions between the Company and Participants or Beneficiaries, including questions which relate to eligibility and distributions from the Plan, to remedy possible ambiguities, inconsistencies, or omissions, and decisions on claims which shall, subject to the claims procedures under the Plan, be conclusive and binding upon all persons hereunder, including, without limitation, Participants, other Employees of the Company, Beneficiaries, and former Participants, and their executors, administrators, conservators, or heirs;

(ii) To prescribe procedures to be followed by Participants or Beneficiaries filing applications for benefits;

(iii) To prepare and distribute, in such manner as the Administrative Committee determines to be appropriate, information explaining the Plan;

(iv) To receive from the Employer and from Participants such information as shall be necessary for the proper administration of the Plan;

(v) To furnish the Employer, upon request, such reports with respect to the administration of the Plan as are reasonable and appropriate;

(vi) To receive, review, and keep on file (as it deems convenient or proper) reports of the receipts and disbursements under the Plan;

(vii) To appoint or employ individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal counsel, and such clerical, medical, accounting, auditing, actuarial, and other services as it may require in carrying out the provisions of the Plan or in connection with any legal claim or proceeding involving the Plan, to settle, compromise, contest, prosecute, or abandon claims in favor of or against the Plan; and

(viii) To discharge all other duties set forth herein.

(b) The Administrative Committee shall have no power to add to, subtract from, or modify any of the terms of the Plan, or to change or add to any benefits provided by the Plan, or to waive or fail to apply any requirements of eligibility under the Plan. No member of the Administrative Committee shall participate in any action on any matters involving solely his or her own rights or benefits as a Participant under the Plan, and any such matters shall be determined by the Compensation and Leadership Development Committee.

9.3 Actions by the Administrative Committee. The Administrative Committee may act at a meeting or by writing without a meeting, by the vote or assent of a majority of its members. The Administrative Committee may adopt such bylaws and regulations as it deems desirable for the conduct of its affairs and the administration of the Plan. A dissenting Administrative Committee member who, within a reasonable time after he or she has knowledge of any action or failure to act by the majority, registers his or her dissent in writing delivered to the other Administrative Committee members shall not be responsible for any such action or failure to act.

9.4 Expenses of the Administrative Committee. Members of the Administrative Committee shall not receive compensation from the Plan for those services they perform as the Administrative Committee members while employed by an Employer. Any and all necessary expenses related to Plan administration shall be paid by the Company but may be charged against Plan Accounts.

9.5 Records of the Administrative Committee. The Administrative Committee shall keep a record of all of its meetings and shall keep all such books of account, records, and other data as may be necessary or desirable in its judgment for the administration of the Plan.

9.6 Information From Participant. The Administrative Committee may require a Participant to complete and file with the Administrative Committee forms approved by the Administrative Committee, and to furnish all pertinent information requested by such Administrative Committee. The Administrative Committee may rely upon all such information so furnished, including the Participant's current mailing address.

9.7 Notification of Participant's Address. Each Participant, retired Participant, and Beneficiary entitled to benefits under the Plan must file with the Administrative Committee or such other person designated by the Administrative Committee, in writing, his or her post office address and each change of post office address. Any communication, statement, or notice addressed to such a person at this latest post office address as filed with the Administrative Committee shall, on deposit in the United States mail with postage prepaid, be binding upon such person for all purposes of the Plan, and the Administrative Committee shall not be obliged to search for, or ascertain the whereabouts of, any such person.

9.8 Indemnification. Notwithstanding any provision herein to the contrary, no member of the Administrative Committee nor any individual to whom the Administrative Committee has delegated duties under this Plan shall be liable to any Participant, former Participant, designated Beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan, unless attributable to fraud or willful misconduct on the part of such member or individual. Furthermore, members of the Administrative Committee and all individuals to whom the Administrative Committee has delegated duties under this Plan shall be indemnified by the Company against any and all liabilities arising by reason of any act or failure to act made in good faith pursuant to the provisions of the Plan, including expenses reasonably incurred in the defense of any claim relating thereto.

Article 10. Amendment and Termination

The Company hereby reserves the right, by written resolution of the Compensation and Leadership Development Committee, to amend or terminate the Plan at any time, and for any reason, without the consent of any Participant. No amendment shall impair or curtail the Employer's contractual obligations to a Participant for the vested portion of the Participant's Account prior to the date of any such amendment or termination of the Plan. In addition, the Compensation and Leadership Development Committee may, by written resolution, liquidate the plan provided such liquidation is implemented in accordance with the rules of Code Section 409A.

Article 11. Additional Provisions

11.1 No Contract. Nothing in the Plan shall be deemed to give a Participant any right to be retained in the employ of the Employer or to interfere with the Employer's right to discharge the Participant at any time, with or without cause.

11.2 Withholdings. The Employer shall withhold from any amount distributable to a Participant under the Plan any applicable actual or hypothetical federal, state, or local income or employment taxes or any other amounts required to be withheld by law or withheld pursuant to Section 11.4. In addition, the Employer may withhold from a Participant's currently payable salary, bonus, or other compensation any applicable federal, state, or local income or employment taxes that may be due upon the crediting of an amount to the Participant's Account.

11.3 Rights Not Transferable. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, alienate, or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment, or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

11.4 Offset. If, at the time payments or installments of payments are to be made hereunder, the Participant or Beneficiary or both are indebted or obligated to the Company, then such payments or installments of payments to be made to the Participant or the Beneficiary or both may, at the discretion of the Company, be reduced by the amount of the indebtedness or obligation, provided, however, that an election by the Company not to reduce any such payment or payments shall not constitute a waiver of its claim for such indebtedness or obligation or a waiver of its right to make an offset against payments in the future. Notwithstanding the above, payments or installments of payments that are payable under the Plan may not be offset against amounts otherwise owed to the Company that are otherwise due prior to the time payment is due under the Plan.

11.5 No Funding. The Plan constitutes a mere promise of the Employer to make payments in accordance with the terms of the Plan. This Plan does not give any Participant or his or her Beneficiary any interest, lien, or claim in or against any specific assets of the Employer. The Participant and his or her Beneficiary shall have only the rights of general, unsecured creditors of the Employer with respect to their rights under the Plan.

The Company may, but shall not be required to, establish a grantor trust as a funding source for its obligations under the Plan. If such a trust is so established, it shall be the intention of the Company that the trust shall constitute an unfunded arrangement for purposes of the Plan, such that the Plan shall continue to be an unfunded plan maintained for the purpose of providing deferred compensation to a select group of management or highly compensated employees under ERISA. With respect to any Participant, the assets of the trust so established shall remain subject to the claims of the creditors of that Participant's Employer in the event of the Employer's bankruptcy or insolvency.

11.6 Construction. The headings in this Plan have been inserted for convenience of reference only and are to be ignored in any construction of the provision.

11.7 Gender and Number. Except when otherwise clearly indicated by the context, when used in the Plan words in any gender shall include any other gender, and words in the singular shall include the plural, and words in the plural shall include the singular.

11.8 Severability. In the event any provision of the Plan shall be held invalid or illegal for any reason, any illegality or invalidity shall not affect the remaining parts of the Plan, but the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted, and the Company shall have the right to correct and remedy such questions of illegality or invalidity by amendment as provided by the Plan.

11.9 Governing Law. The Plan shall be regulated, construed, and administered in all respects under and by the laws of the state of Ohio, without regard to its conflict of laws provisions, except when preempted by federal law.

11.10 Voiding of Plan Provisions. If any provision under this Plan causes an amount deferred to become subject to income tax under the Code prior to the time such amount is paid to the Participant, such provision shall be deemed null and void with respect to such amount deferred and the Administrative Committee shall take whatever steps as may be required to accomplish the deferral objectives of the Plan without causing early taxation of such amount deferred and without any Employer incurring additional cost or liability.

(Back To Top)

Section 4: EX-10.3 (SUMMARY OF ADD PERSONAL BEN AVAIL TO CERTAIN OFFICERS AND NON-EMP DIRECTORS)

EXHIBIT (10-3)

Summary of Additional Personal Benefits Available to Certain Officers and Non-Employee Directors

ADDITIONAL PROGRAMS AVAILABLE TO CERTAIN OFFICERS AND
NON-EMPLOYEE DIRECTORS

I. **Certain Officer Programs**

The following is a summary of programs that are available to employees at the President level or higher ("Eligible Employees").

Financial Counseling
The Financial Counseling Program is an annual stipend program designed to address the special tax, estate, and financial planning needs of Eligible Employees. The Company provides an annual $8,500 stipend upon confirmation from each participant that a tax or financial planning service has been retained in the current calendar year.

Executive Physical
The Company will provide an annual physical offered at a Company-approved health facility in Cincinnati.

Personal Security
The Company provides personal security services such as home security systems/monitoring and secured workplace parking to the Chief Executive Officer at Company expense. In addition, the Chief Human Resources Officer may approve personal security services to other Company Employees where appropriate, again at Company expense.

Spouse and Personal Travel
The Company pays for reasonable air and ground transportation, other incidental costs plus sightseeing tours and similar activities when applicable, when spouses (or significant others) accompany employees for business purposes. Business purpose is established and approved by the Chief Human Resources Officer, for example in circumstances where there is a need to familiarize the spouse with business issues and demands facing employees, or to meet other P&G employees and spouses.

While Company aircraft is generally used for Company business only, for security reasons the Chief Executive Officer is required to use Company aircraft for all air travel, including personal travel and travel to outside board meetings. While traveling on Company aircraft, the Chief Executive may bring a limited number of guests to accompany him. If a Company aircraft flight is already scheduled for business purposes and can accommodate additional passengers, the Chief Financial Officer and the Vice Chairs of the Company may use the aircraft for personal travel and guest accompaniment including travel to outside board meetings where the other company cannot provide transportation. Outside boards typically provide some level of reimbursement to the Company for these trips. To the extent personal travel results in imputed income to the executive, the Company does not provide gross-up payments to cover the executive's personal income tax due on such imputed income.

Limited Local Transportation
To increase efficiency, Eligible Employees are provided limited local transportation within Cincinnati.

II. **Non-Employee Director Programs**

This paragraph summarizes a travel program available to spouses, significant others and family members (collectively, "Guests") who accompany non-employee directors ("Directors"). The purpose of this program is to familiarize the Guests with the business issues and demands facing the Directors and to meet other Guests.

Generally, Guests are permitted to accompany Directors to regular Board meetings and other Board activities, so long as the Director is using Company aircraft and the Guests do not cause incremental aircraft costs. In addition, Directors are encouraged to bring a Guest to two Board meetings each year. With respect to these meetings, the Guests' travel costs may be incremental and/or may involve commercial flights. The Company pays for these costs and arranges and pays for sightseeing tours and similar activities and other incidental costs for Directors and Guests, while Directors attend both regular and off-site Board meetings.

(Back To Top)

Section 5: EX-12 (COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES)

EXHIBIT 12

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended June 30					Three Months Ended September 30	
Amounts in millions, except ratio amounts	**2018**	**2017**	**2016**	**2015**	**2014**	**2018**	**2017**

EARNINGS, AS DEFINED							
Earnings from operations before income taxes after eliminating undistributed earnings of equity method investees	$ 13,285	$ 13,233	$ 13,356	$ 11,009	$ 13,492	**$ 3,920**	$ 3,732
Fixed charges (excluding capitalized interest)	676	640	778	842	928	**170**	153
TOTAL EARNINGS, AS DEFINED	$ 13,961	$ 13,873	$ 14,134	$ 11,851	$ 14,420	**$ 4,090**	$ 3,885
FIXED CHARGES, AS DEFINED							
Interest expense (including capitalized interest)	$ 560	$ 521	$ 634	$ 693	$ 789	**$ 144**	$ 128
1/3 of rental expense	111	118	144	166	174	**27**	28
TOTAL FIXED CHARGES, AS DEFINED	$ 671	$ 639	$ 778	$ 859	$ 963	**$ 171**	$ 156
RATIO OF EARNINGS TO FIXED CHARGES	20.8x	21.7x	18.2x	13.8x	15.0x	**23.9x**	24.9x

(Back To Top)

Section 6: EX-31.1 (EXHIBIT 31.1 RULE 13A-14(A)/15D-14(A) CERTIFICATION CHIEF EXECUTIVE OFFICER)

EXHIBIT 31.1

Rule 13a-14(a)/15d-14(a) Certifications

I, David S. Taylor, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of The Procter & Gamble Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

(5) The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ DAVID S. TAYLOR

(David S. Taylor)

Chairman of the Board, President and Chief Executive Officer

October 19, 2018

Date

(Back To Top)

Section 7: EX-31.2 (EXHIBIT 31.1 RULE 13A-14(A)/15D-14(A) CERTIFICATION CHIEF FINANCIAL OFFICER)

EXHIBIT 31.2

Rule 13a-14(a)/15d-14(a) Certifications

I, Jon R. Moeller, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of The Procter & Gamble Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JON R. MOELLER

(Jon R. Moeller)

Vice Chairman and Chief Financial Officer

October 19, 2018

Date

(Back To Top)

Section 8: EX-32.1 (SECTION 1350 CERTIFICATIONS CHIEF EXECUTIVE OFFICER)

EXHIBIT 32.1

Section 1350 Certifications

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Procter & Gamble Company (the “Company”) certifies to his knowledge that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2018 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of the Company.

/s/ DAVID S. TAYLOR

(David S. Taylor)

Chairman of the Board, President and Chief Executive Officer

October 19, 2018

Date

A signed original of this written statement required by Section 906 has been provided to The Procter & Gamble Company and will be retained by The Procter & Gamble Company and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)

Section 9: EX-32.2 (SECTION 1350 CERTIFICATIONS CHIEF FINANCIAL OFFICER)

EXHIBIT 32.2

Section 1350 Certifications

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Procter & Gamble Company (the “Company”) certifies to his knowledge that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2018 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of the Company.

/s/ JON R. MOELLER

(Jon R. Moeller)

Vice Chairman and Chief Financial Officer

October 19, 2018

Date

A signed original of this written statement required by Section 906 has been provided to The Procter & Gamble Company and will be retained by The Procter & Gamble Company and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)