

PROCTER & GAMBLE Co  
Form 10-Q  
January 25, 2013

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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 December 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-434

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

Ohio  
(State of Incorporation)

31-0411980  
(I.R.S. Employer Identification Number)

One Procter & Gamble Plaza, Cincinnati, Ohio  
(Address of principal executive offices)  
(513) 983-1100  
(Registrant's telephone number, including area code)

45202  
(Zip 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 2,731,651,042 shares of Common Stock outstanding as of December 31, 2012.

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## PART I. FINANCIAL INFORMATION

## Item I. Financial Statements.

The Consolidated Statements of Earnings of The Procter & Gamble Company and subsidiaries (the "Company," "Procter & Gamble," "we" or "our") for the three months and six months ended December 31, 2012 and 2011, the Statement of Comprehensive Income for the three months and six months ended December 31, 2012 and 2011, the Consolidated Balance Sheets as of December 31, 2012 and June 30, 2012, and the Consolidated Statements of Cash Flows for the six months ended December 31, 2012 and 2011 follow. In the opinion of management, these unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not necessarily be indicative of annual results.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | December 31        |          | December 31      |          |
| Amounts in millions except per share amounts                | 2012               | 2011     | 2012             | 2011     |
| Net Sales   | \$22,175           | \$21,744 | \$42,914         | \$43,274 |
| Cost of products sold                                       | 10,880             | 10,851   | 21,230           | 21,658   |
| Selling, general and administrative expense                 | 6,803              | 6,659    | 13,241           | 13,132   |
| Goodwill and Intangibles impairment charges                 | —                  | 1,554    | —                | 1,554    |
| Operating Income  | 4,492              | 2,680    | 8,443            | 6,930    |
| Interest expense  | 169                | 201      | 341              | 408      |
| Other non-operating income/(expense), net                   | 895                | 170      | 942              | 171      |
| Earnings From Continuing Operations Before Income Taxes     | 5,218              | 2,649    | 9,044            | 6,693    |
| Income taxes on continuing operations                       | 1,142              | 977      | 2,115            | 2,022    |
| Net Earnings from Continuing Operations                     | 4,076              | 1,672    | 6,929            | 4,671    |
| Net Earnings from Discontinued Operations                   | —                  | 41       | —                | 99       |
| Net Earnings  | 4,076              | 1,713    | 6,929            | 4,770    |
| Less: Net earnings attributable to noncontrolling interests | 19                 | 23       | 58               | 56       |
| Net Earnings Attributable to Procter & Gamble               | \$4,057            | \$1,690  | \$6,871          | \$4,714  |
| Basic Net Earnings per Common Share <sup>(1)</sup>          |                    |          |                  |          |
| Earnings from continuing operations                         | \$1.46             | \$0.58   | \$2.46           | \$1.63   |
| Earnings from discontinued operations                       | —                  | 0.01     | —                | 0.04     |
| Basic Net Earnings per Common Share                         | 1.46               | 0.59     | 2.46             | 1.67     |
| Diluted Net Earnings per Common Share <sup>(1)</sup>        |                    |          |                  |          |
| Earnings from continuing operations                         | 1.39               | 0.56     | 2.35             | 1.57     |
| Earnings from discontinued operations                       | —                  | 0.01     | —                | 0.03     |
| Diluted Net Earnings per Common Share                       | 1.39               | 0.57     | 2.35             | 1.60     |
| Dividends   | \$0.562            | \$0.525  | \$1.124          | \$1.050  |
| Diluted Weighted Average Common Shares Outstanding          | 2,919.1            | 2,949.7  | 2,926.1          | 2,946.5  |

(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

| Amounts in millions  | Three Months Ended<br>December 31 |          | Six Months Ended<br>December 31 |          |
|--|-----------------------------------|----------|---------------------------------|----------|
|  | 2012                              | 2011     | 2012                            | 2011     |
| NET EARNINGS   | \$4,076                           | \$ 1,713 | \$6,929                         | \$4,770  |
| OTHER COMPREHENSIVE INCOME (LOSS), NET<br>OF TAX                               |                                   |          |                                 |          |
| Financial statement translation  | 336                               | (1,654 ) | 1,747                           | (5,072 ) |
| Hedges and investment securities   | 85                                | 213      | (145 )                          | 556      |
| Defined benefit retirement plans   | 64                                | 62       | 37                              | 196      |
| TOTAL OTHER COMPREHENSIVE INCOME<br>(LOSS), NET OF TAX                         | 485                               | (1,379 ) | 1,639                           | (4,320 ) |
| TOTAL COMPREHENSIVE INCOME   | 4,561                             | 334      | 8,568                           | 450      |
| LESS TOTAL COMPREHENSIVE INCOME<br>ATTRIBUTABLE TO NONCONTROLLING<br>INTERESTS | 21                                | 19       | 69                              | 47       |
| TOTAL COMPREHENSIVE INCOME<br>ATTRIBUTABLE TO PROCTER & GAMBLE                 | \$4,540                           | \$ 315   | \$8,499                         | \$ 403   |

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

| Amounts in millions                             | December 31,<br>2012  | June 30, 2012    |
|---|-----------------------|------------------|
| <b>ASSETS</b>                                   |                       |                  |
| <b>CURRENT ASSETS</b>                           |                       |                  |
| Cash and cash equivalents                       | \$6,643               | \$4,436          |
| Accounts receivable                             | 7,183                 | 6,068            |
| Inventories                                     |                       |                  |
| Materials and supplies                          | 1,920                 | 1,740            |
| Work in process                                 | 667                   | 685              |
| Finished goods                                  | 4,632                 | 4,296            |
| Total inventories                               | 7,219                 | 6,721            |
| Deferred income taxes                           | 983                   | 1,001            |
| Prepaid expenses and other current assets       | 3,573                 | 3,684            |
| <b>TOTAL CURRENT ASSETS</b>                     | <b>25,601</b>         | <b>21,910</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>            |                       |                  |
| Buildings                                       | 7,684                 | 7,324            |
| Machinery and equipment                         | 33,762                | 32,029           |
| Land  | 901                   | 880              |
| Total property, plant and equipment             | 42,347                | 40,233           |
| Accumulated depreciation                        | (21,143)              | (19,856)         |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>        | <b>21,204</b>         | <b>20,377</b>    |
| <b>GOODWILL AND OTHER INTANGIBLE ASSETS</b>     |                       |                  |
| Goodwill  | 55,687                | 53,773           |
| Trademarks and other intangible assets, net     | 32,147                | 30,988           |
| <b>NET GOODWILL AND OTHER INTANGIBLE ASSETS</b> | <b>87,834</b>         | <b>84,761</b>    |
| <b>OTHER NONCURRENT ASSETS</b>                  | <b>5,264</b>          | <b>5,196</b>     |
| <b>TOTAL ASSETS</b>                             | <b>\$139,903</b>      | <b>\$132,244</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>     |                       |                  |
| <b>CURRENT LIABILITIES</b>                      |                       |                  |
| Accounts payable                                | \$7,157               | \$7,920          |
| Accrued and other liabilities                   | 9,254                 | 8,289            |
| Debt due within one year                        | 9,819                 | 8,698            |
| <b>TOTAL CURRENT LIABILITIES</b>                | <b>26,230</b>         | <b>24,907</b>    |
| <b>LONG-TERM DEBT</b>                           | <b>23,607</b>         | <b>21,080</b>    |
| <b>DEFERRED INCOME TAXES</b>                    | <b>10,567</b>         | <b>10,132</b>    |
| <b>OTHER NONCURRENT LIABILITIES</b>             | <b>12,176</b>         | <b>12,090</b>    |
| <b>TOTAL LIABILITIES</b>                        | <b>72,580</b>         | <b>68,209</b>    |
| <b>SHAREHOLDERS' EQUITY</b>                     |                       |                  |
| Preferred stock                                 | 1,156                 | 1,195            |
| Common stock – shares issued –                  | December 2012 4,008.8 |                  |
|   | June 2012 4,008.4     | 4,009            |
|   |                       | 4,008            |

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|   |           |           |   |
|---|-----------|-----------|---|
| Additional paid-in capital                                  | 63,204    | 63,181    |   |
| Reserve for ESOP debt retirement                            | (1,357)   | (1,357)   | ) |
| Accumulated other comprehensive income (loss)               | (7,694)   | (9,333)   | ) |
| Treasury stock  | (71,682)  | (69,604)  | ) |
| Retained earnings   | 79,045    | 75,349    |   |
| Noncontrolling interest                                     | 642       | 596       |   |
| TOTAL SHAREHOLDERS' EQUITY                                  | 67,323    | 64,035    |   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                  | \$139,903 | \$132,244 |   |
| See accompanying Notes to Consolidated Financial Statements |           |           |   |

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

| Amounts in millions  | Six Months Ended |         |
|--|------------------|---------|
|  | December 31      |         |
|  | 2012             | 2011    |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD               | \$4,436          | \$2,768 |
| OPERATING ACTIVITIES   |                  |         |
| Net earnings   | 6,929            | 4,770   |
| Depreciation and amortization                                | 1,448            | 1,456   |
| Share-based compensation expense                             | 154              | 168     |
| Deferred income taxes  | 18               | 32      |
| Gain on purchase/sale of businesses                          | (902)            | (187)   |
| Goodwill and indefinite lived intangibles impairment charges | —                | 1,554   |
| Changes in:  |                  |         |
| Accounts receivable  | (914)            | (1,079) |
| Inventories  | (324)            | (497)   |
| Accounts payable, accrued and other liabilities              | (288)            | (1,009) |
| Other operating assets and liabilities                       | 556              | 230     |
| Other  | (58)             | 57      |
| TOTAL OPERATING ACTIVITIES                                   | 6,619            | 5,495   |
| INVESTING ACTIVITIES   |                  |         |
| Capital expenditures   | (1,529)          | (1,780) |
| Proceeds from asset sales                                    | 474              | 238     |
| Acquisitions, net of cash acquired                           | (1,123)          | 2       |
| Change in investments  | (179)            | 71      |
| TOTAL INVESTING ACTIVITIES                                   | (2,357)          | (1,469) |
| FINANCING ACTIVITIES   |                  |         |
| Dividends to shareholders                                    | (3,206)          | (3,013) |
| Change in short-term debt                                    | 4,972            | 2,416   |
| Additions to long-term debt                                  | 2,239            | 1,990   |
| Reductions of long-term debt                                 | (3,749)          | (2,514) |
| Treasury stock purchases                                     | (3,984)          | (1,764) |
| Impact of stock options and other                            | 1,662            | 589     |
| TOTAL FINANCING ACTIVITIES                                   | (2,066)          | (2,296) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 11               | (84)    |
| CHANGE IN CASH AND CASH EQUIVALENTS                          | 2,207            | 1,646   |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                     | \$6,643          | \$4,414 |
| See accompanying Notes to Consolidated Financial Statements  |                  |         |

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

1. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012. The results of operations for the three-month and six-month periods ended December 31, 2012 are not necessarily indicative of annual results.

2. New Accounting Pronouncements and Policies

On July 1, 2012, the Company adopted ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income" (ASU 2011-05), as amended by ASU 2011-12, which deferred the effective date for the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity and requires entities to present the components of net earnings and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We chose to present net earnings and other comprehensive income in two separate but consecutive statements. The adoption of this guidance had no impact on our consolidated financial position, results of operations or cash flows.

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

3. Segment Information

Following is a summary of segment results.

| Amounts in millions       |      | Three Months Ended December 31 |   |   | Six Months Ended December 31 |   |   |
|---------------------------|------|--------------------------------|---|---|------------------------------|---|---|
|                           |      | Net Sales                      | Earnings from Continuing Operations Before Income Taxes | Net Earnings from Continuing Operations | Net Sales                    | Earnings from Continuing Operations Before Income Taxes | Net Earnings from Continuing Operations |
| Beauty                    | 2012 | \$5,403                        | \$1,138   | \$877                                   | \$10,343                     | \$1,990   | \$1,535                                 |
|                           | 2011 | 5,353                          | 1,014   | 802                                     | 10,668                       | 1,942   | 1,485                                   |
| Grooming                  | 2012 | 2,119                          | 695   | 518                                     | 4,126                        | 1,329   | 984                                     |
|                           | 2011 | 2,202                          | 692   | 517                                     | 4,370                        | 1,331   | 1,003                                   |
| Health Care               | 2012 | 3,267                          | 733   | 512                                     | 6,441                        | 1,491   | 1,019                                   |
|                           | 2011 | 3,183                          | 784   | 537                                     | 6,474                        | 1,584   | 1,079                                   |
| Fabric Care and Home Care | 2012 | 7,223                          | 1,380   | 906                                     | 14,123                       | 2,749   | 1,809                                   |
|                           | 2011 | 7,037                          | 1,200   | 746                                     | 14,108                       | 2,482   | 1,564                                   |
| Baby Care and Family Care | 2012 | 4,322                          | 945   | 611                                     | 8,321                        | 1,754   | 1,123                                   |
|                           | 2011 | 4,162                          | 816   | 516                                     | 8,241                        | 1,608   | 1,010                                   |
| Corporate                 | 2012 | (159)                          | ) 327   | 652                                     | (440)                        | ) (269)   | ) 459                                   |
|                           | 2011 | (193)                          | ) (1,857)   | ) (1,446)                               | ) (587)                      | ) (2,254)   | ) (1,470)                               |
| Total                     | 2012 | \$22,175                       | \$5,218   | \$4,076                                 | \$42,914                     | \$9,044   | \$6,929                                 |
|                           | 2011 | 21,744                         | 2,649   | 1,672                                   | 43,274                       | 6,693   | 4,671                                   |



4. Goodwill and Other Intangible Assets

Goodwill as of December 31, 2012, is allocated by reportable segment as follows (amounts in millions):

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|                               | Beauty   | Grooming | Health<br>Care | Fabric Care<br>and Home<br>Care | Baby Care<br>and<br>Family<br>Care | Corporate | Total<br>Company |
|-------------------------------|----------|----------|----------------|---------------------------------|------------------------------------|-----------|------------------|
| GOODWILL at June 30, 2012     | \$16,429 | \$20,680 | \$8,339        | \$6,557                         | \$1,459                            | \$309     | \$53,773         |
| Acquisitions and divestitures | (26)     | (30)     | 580            | (7)                             | 430                                | —         | 947              |
| Translation and other         | 369      | 344      | 134            | 71                              | 49                                 | —         | 967              |
| GOODWILL at December 31, 2012 | \$16,772 | \$20,994 | \$9,053        | \$6,621                         | \$1,938                            | \$309     | \$55,687         |

In October 2012, the Company acquired our partner's interest in a joint venture in Iberia that operates in our Baby Care and Family Care and Health Care reportable segments. The acquisition price for the partner's interest was \$1.1 billion and the transaction was accounted for as a business combination. The total enterprise value of \$1.9 billion was allocated primarily to indefinite-lived intangible assets of \$0.2 billion, defined-life intangible assets of \$1 billion and goodwill of \$1 billion. These were offset somewhat by \$0.3 billion of deferred tax liabilities on the intangibles. The Company recognized a \$0.6 billion holding gain on its previously held investment, which was included in other non-operating income, net in the Consolidated Statement of Earnings. Goodwill also increased from June 30, 2012 due to currency translation across all reportable segments.

Identifiable intangible assets as of December 31, 2012, are comprised of (amounts in millions):

|   | Gross Carrying Amount | Accumulated<br>Amortization |
|---|-----------------------|-----------------------------|
| Amortizable intangible assets with determinable lives | \$9,957               | \$4,871                     |
| Intangible assets with indefinite lives               | 27,061                | —                           |
| Total identifiable intangible assets                  | \$37,018              | \$4,871                     |

Amortizable intangible assets consist principally of brands, patents, technology and customer relationships. The intangible assets with indefinite lives consist primarily of brands.

The amortization of intangible assets for the three months ended December 31, 2012 and 2011 was \$125 million and \$123 million, respectively. For the six months ended December 31, 2012 and 2011, the amortization of intangibles was \$253 million and \$251 million, respectively.

## 5. Share-Based Compensation

Pursuant to applicable accounting guidance for share-based payments, companies must recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards.

Total share-based compensation for the three months and six months ended December 31, 2012 and 2011 are summarized in the following table (amounts in millions):

|                                | Three Months Ended December 31 |      | Six Months Ended December 31 |       |
|--------------------------------|--------------------------------|------|------------------------------|-------|
|                                | 2012                           | 2011 | 2012                         | 2011  |
| Share-Based Compensation       |                                |      |                              |       |
| Stock options                  | \$62                           | \$76 | \$116                        | \$138 |
| Other share-based awards       | 13                             | 12   | 38                           | 30    |
| Total share-based compensation | \$75                           | \$88 | \$154                        | \$168 |

Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience.

#### 6. Postretirement Benefits

The Company offers various postretirement benefits to its employees.

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

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| Amounts in millions                | Pension Benefits<br>Three Months Ended<br>December 31 |        | Other Retiree Benefits<br>Three Months Ended<br>December 31 |        |
|------------------------------------|---|--------|---|--------|
|                                    | 2012  | 2011   | 2012  | 2011   |
| Service cost                       | \$76  | \$63   | \$48  | \$35   |
| Interest cost                      | 141   | 152    | 66  | 69     |
| Expected return on plan assets     | (148  | ) (142 | ) (96   | ) (108 |
| Amortization of deferred amounts   | 6   | 5      | (5  | ) (5   |
| Recognized net actuarial loss      | 53  | 26     | 50  | 24     |
| Curtailment loss                   | 2   | —      | —   | —      |
| Gross benefit cost                 | 130   | 104    | 63  | 15     |
| Dividends on ESOP preferred stock  | —   | —      | (18   | ) (18  |
| Net periodic benefit cost (credit) | \$130   | \$104  | \$45  | \$(3   |

| Amounts in millions                | Pension Benefits<br>Six Months Ended<br>December 31 |        | Other Retiree Benefits<br>Six Months Ended<br>December 31 |        |
|------------------------------------|---|--------|---|--------|
|                                    | 2012  | 2011   | 2012  | 2011   |
| Service cost                       | \$150   | \$130  | \$95  | \$71   |
| Interest cost                      | 281   | 309    | 130   | 138    |
| Expected return on plan assets     | (296  | ) (288 | ) (191  | ) (216 |
| Amortization of deferred amounts   | 9   | 11     | (10   | ) (10  |
| Recognized net actuarial loss      | 106   | 52     | 100   | 49     |
| Curtailment loss                   | 2   | —      | —   | —      |
| Gross benefit cost                 | 252   | 214    | 124   | 32     |
| Dividends on ESOP preferred stock  | —   | —      | (35   | ) (37  |
| Net periodic benefit cost (credit) | \$252   | \$214  | \$89  | \$(5   |

For the year ending June 30, 2013, the expected return on plan assets is 7.3% and 8.3% for defined benefit and other retiree benefit plans, respectively. These were reduced from 7.4% and 9.2%, respectively, in the prior year.

## 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.

For details on the Company's risk management activities and fair value measurement policies under the fair value hierarchy, refer to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

### Fair Value Hierarchy

The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The following table sets forth the Company's financial assets and liabilities as of December 31, 2012 and June 30, 2012 that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:



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| Amounts in millions                                       | Level 1       |               | Level 2       |               | Level 3       |               | Total         |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | December 2012 | June 30, 2012 | December 2012 | June 30, 2012 | December 2012 | June 30, 2012 | December 2012 | June 30, 2012 |
| Assets recorded at fair value:                            |               |               |               |               |               |               |               |               |
| Investment securities                                     | \$15          | \$9           | \$—           | \$—           | \$25          | \$24          | \$40          | \$33          |
| Derivatives relating to:                                  |               |               |               |               |               |               |               |               |
| Foreign currency hedges                                   | —             | —             | 63            | —             | —             | —             | 63            | —             |
| Other foreign currency instruments <sup>(1)</sup>         | —             | —             | 68            | 86            | —             | —             | 68            | 86            |
| Interest rates  | —             | —             | 323           | 298           | —             | —             | 323           | 298           |
| Net investment hedges                                     | —             | —             | 140           | 32            | —             | —             | 140           | 32            |
| Commodities   | —             | —             | —             | 3             | —             | —             | —             | 3             |
| Total assets recorded at fair value <sup>(2)</sup>        | 15            | 9             | 594           | 419           | 25            | 24            | 634           | 452           |
| Liabilities recorded at fair value:                       |               |               |               |               |               |               |               |               |
| Derivatives relating to:                                  |               |               |               |               |               |               |               |               |
| Foreign currency hedges                                   | —             | —             | —             | 142           | —             | —             | —             | 142           |
| Other foreign currency instruments <sup>(1)</sup>         | —             | —             | 87            | 23            | —             | —             | 87            | 23            |
| Net investment hedges                                     | —             | —             | 1             | 19            | —             | —             | 1             | 19            |
| Commodities   | —             | —             | 1             | 2             | —             | —             | 1             | 2             |
| Liabilities recorded at fair value <sup>(3)</sup>         | —             | —             | 89            | 186           | —             | —             | 89            | 186           |
| Liabilities not recorded at fair value:                   |               |               |               |               |               |               |               |               |
| Long-term debt instruments <sup>(4)</sup>                 | 23,954        | 25,829        | 3,011         | 2,119         | —             | —             | 26,965        | 27,948        |
| Total liabilities recorded and not recorded at fair value | \$23,954      | \$25,829      | \$3,100       | \$2,305       | \$—           | \$—           | \$27,054      | \$28,134      |

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

(2) Investment securities are presented in other noncurrent assets and all derivative assets are presented in prepaid expenses and other current assets or other noncurrent assets.

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

(4) Long-term debt includes the current portion (\$522 and \$4,095 as of December 31 and June 30, 2012, respectively) of debt instruments. Long term debt is not recorded at fair value on a recurring basis, but is measured at fair value for disclosure purposes. Fair values are generally estimated based on quoted market prices for identical or similar instruments.

The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter. During the three months ended September 30, 2012, the Company transferred long-term debt instruments with a fair value of \$455 million from Level 1 to Level 2. The transferred instruments represent the Company's investment in industrial development bonds which are infrequently traded in an observable market. There were no additional transfers between levels during the periods presented. Also, there was no significant activity within the Level 3 assets and liabilities during the periods presented and there were no assets or liabilities that were remeasured at fair value on a non-recurring basis for the period ended December 31, 2012.

Certain of the Company's financial instruments used in hedging transactions are governed by industry standard netting agreements with counterparties. If the Company's credit rating were to fall below the levels stipulated in the agreements, the counterparties could demand either collateralization or termination of the arrangement. The aggregate fair value of the instruments covered by these contractual features that are in a net liability position as of December 31, 2012 was \$37 million. The Company has never been required to post any collateral as a result of these

contractual features.

Disclosures about Derivative Instruments

The notional amounts and fair values of qualifying and non-qualifying financial instruments used in hedging transactions as of December 31 and June 30, 2012 are as follows:

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| Amounts in Millions  | Notional Amount      |                  | Fair Value Asset (Liability) |                  |
|--|----------------------|------------------|------------------------------|------------------|
|  | December 31,<br>2012 | June 30,<br>2012 | December 31,<br>2012         | June 30,<br>2012 |
| <b>Derivatives in Cash Flow Hedging Relationships</b>      |                      |                  |                              |                  |
| Interest rate contracts                                    | \$—                  | \$—              | \$—                          | \$—              |
| Foreign currency contracts                                 | 951                  | 831              | 63                           | (142 )           |
| <b>Total</b>   | <b>951</b>           | <b>831</b>       | <b>63</b>                    | <b>(142 )</b>    |
| <b>Derivatives in Fair Value Hedging Relationships</b>     |                      |                  |                              |                  |
| Interest rate contracts                                    | 9,150                | 10,747           | 323                          | 298              |
| <b>Derivatives in Net Investment Hedging Relationships</b> |                      |                  |                              |                  |
| Net investment hedges                                      | 1,705                | 1,768            | 139                          | 13               |
| <b>Derivatives Not Designated as Hedging Instruments</b>   |                      |                  |                              |                  |
| Foreign currency contracts                                 | 11,946               | 13,210           | (19 )                        | 63               |
| Commodity contracts  | 23                   | 125              | (1 )                         | 1                |
| <b>Total</b>   | <b>\$11,969</b>      | <b>\$13,335</b>  | <b>\$(20 )</b>               | <b>\$64</b>      |

The total notional amount of contracts outstanding at the end of the period is indicative of the level of the Company's derivative activity during the period.

| Amounts in Millions  | Amount of Gain (Loss) Recognized in<br>Accumulated OCI on Derivatives (Effective Portion) |               |
|--|---|---------------|
|  | December 31, 2012   | June 30, 2012 |
| <b>Derivatives in Cash Flow Hedging Relationships</b>      |   |               |
| Interest rate contracts                                    | \$ 9  | \$ 11         |
| Foreign currency contracts                                 | 27  | 22            |
| <b>Total</b>   | <b>\$ 36</b>  | <b>\$ 33</b>  |
| <b>Derivatives in Net Investment Hedging Relationships</b> |   |               |
| Net investment hedges                                      | \$ 86   | \$ 6          |

The effective portion of gains and losses on derivative instruments that was recognized in other comprehensive income (OCI) during the six months ended December 31, 2012 and 2011, was not material. During the next 12 months, the amount of the December 31, 2012 accumulated OCI balance that will be reclassified to earnings is expected to be immaterial.

The amounts of gains and losses on qualifying and non-qualifying financial instruments used in hedging transactions for the three and six months ended December 31, 2012 and 2011 are as follows:



| Amounts in Millions  | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income <sup>(1)</sup> |         |                              |         |
|--|--|---------|------------------------------|---------|
|  | Three Months Ended December 31   |         | Six Months Ended December 31 |         |
|  | 2012   | 2011    | 2012                         | 2011    |
| Derivatives in Cash Flow Hedging Relationships                     |  |         |                              |         |
| Interest rate contracts  | \$1  | \$1     | \$3                          | \$3     |
| Foreign currency contracts   | 106  | 18      | 88                           | (27)    |
| Commodity contracts  | —  | —       | —                            | 1       |
| Total  | \$107  | \$19    | \$91                         | \$(23)  |
|  |  |         |                              |         |
| Amounts in Millions  | Amount of Gain (Loss) Recognized in Income   |         |                              |         |
|  | Three Months Ended December 31   |         | Six Months Ended December 31 |         |
|  | 2012   | 2011    | 2012                         | 2011    |
| Derivatives in Fair Value Hedging Relationships <sup>(2)</sup>     |  |         |                              |         |
| Interest rate contracts  | \$(15)   | \$(19)  | \$25                         | \$112   |
| Debt   | 17   | 19      | (21)                         | (114)   |
| Total  | 2  | —       | 4                            | (2)     |
| Derivatives in Net Investment Hedging Relationships <sup>(2)</sup> |  |         |                              |         |
| Net investment hedges  | (1)  | (5)     | (1)                          | (8)     |
| Derivatives Not Designated as Hedging Instruments <sup>(3)</sup>   |  |         |                              |         |
| Foreign currency contracts <sup>(4)</sup>                          | (53)   | (410)   | 226                          | (991)   |
| Commodity contracts  | (2)  | —       | —                            | (1)     |
| Total  | \$(55)   | \$(410) | \$226                        | \$(992) |

The gain or loss on the effective portion of cash flow hedging relationships is reclassified from accumulated OCI into net income in the same period during which the related item affects earnings. Such amounts are included in the

(1) Consolidated Statements of Earnings as follows: interest rate contracts in interest expense, foreign currency contracts in selling, general and administrative expense and interest expense and commodity contracts in cost of products sold.

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

The gain or loss on contracts not designated as hedging instruments is included in the Consolidated Statements of

(3) Earnings as follows: foreign currency contracts in selling, general and administrative expense and commodity contracts in cost of products sold.

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

## 8. Restructuring Program

The Company has historically incurred an ongoing annual level of restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization. Before-tax costs incurred under the ongoing program have generally ranged from \$250 to \$500 million annually. In February and November 2012, the Company made announcements regarding an incremental restructuring program as part of a productivity and cost

savings plan to reduce costs in the areas of supply chain, research and development, marketing and overheads. The productivity and cost savings plan was designed to accelerate cost reductions by streamlining management decision making, manufacturing and other work processes in order to help fund the Company's growth strategy. The Company expects to incur in excess of \$3.5 billion in before-tax restructuring costs over a five year period (from fiscal 2012 through fiscal 2016), including costs incurred as part of the ongoing and incremental restructuring program. The Company expects to incur approximately 50% of the costs under this plan by the end of fiscal 2013, with the remainder incurred in fiscal years 2014 through 2016.

The restructuring program is being executed across the Company's centralized organization as well as across virtually all of its Marketing Development Organizations (MDO) and Global Business Units (GBU) organizations. This includes a net reduction in non-manufacturing overhead personnel of approximately 5,700 by the end of fiscal 2013. The restructuring program includes a further non-manufacturing overhead personnel reduction of approximately 2% - 4% annually from fiscal 2014 through fiscal 2016. This is being done via the elimination of duplicate work, simplification through the use of technology, and the optimization of the various functional organizations, of the number of business units and of the Company's global footprint. In addition, the plan includes integration of newly acquired companies and the optimization of the supply chain and other manufacturing processes.

Restructuring costs incurred consist primarily of costs to separate employees and asset-related costs to exit facilities. The Company is also incurring other types of costs outlined below. For the three- and six-month periods ended December 31, 2012, the Company incurred charges of \$238 million and \$592 million, respectively. For the three and six month periods ended December 31, 2012, approximately \$164 million and \$400 million of these charges were recorded in selling, general and administrative expense, respectively. The remainder is included in cost of products sold. Since the inception of this restructuring program, the Company has incurred charges of \$1.6 billion. Approximately \$918 million of these charges were related to separations, \$420 million were related to assets, and \$306 million were related to other restructuring-type costs.

The following table presents restructuring activity for the six months ended December 31, 2012:

| Amounts in millions | Accrual<br>Balance June<br>30, 2012 | Charges<br>Previously<br>Reported (Three<br>Months Ended<br>September 30,<br>2012) | Charges for the<br>Three Months<br>Ended<br>December 31,<br>2012 | For the Six Months<br>Ended December 31,<br>2012 |                              |   |
|---------------------|-------------------------------------|--|--|--|------------------------------|---|
|                     |                                     |  |  | Cash<br>Spent                                    | Charges<br>Against<br>Assets | Accrual Balance<br>December 31,<br>2012 |
| Separations         | \$316                               | \$290  | \$133  | \$346  | \$—                          | \$393                                   |
| Asset-Related Costs | —                                   | 21   | 21   | —  | 42                           | —                                       |
| Other Costs         | 27                                  | 43   | 84   | 136  | —                            | 18                                      |
| Total               | \$343                               | \$354  | \$238  | \$482  | \$42                         | \$411                                   |

#### Separation Costs

Employee separation charges for the three- and six-month periods ended December 31, 2012, relate to severance packages for approximately 650 employees and 2,450 employees, respectively. Separations related to non-manufacturing overhead personnel were approximately 360 and 2,050 for the three and six months ended December 31, 2012, respectively; these separations occurred primarily in North America and Western Europe. Severance costs related to voluntary separations are generally charged to earnings when the employee accepts the offer. Since its inception, the restructuring program has incurred separation charges related to approximately 5,750 employees, of which approximately 4,300 are non-manufacturing overhead personnel.

#### Asset-Related Costs

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

Other Costs

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

Consistent with our historical policies for ongoing restructuring-type activities, the restructuring program charges are funded by and included within Corporate for both management and segment reporting. Accordingly, 100% of the charges under the program are included within the Corporate reportable segment. However, for informative purposes, the following table summarizes the total restructuring costs related to our reportable segments.

| Amounts in millions       | Three Months Ended<br>December 31, 2012 | Six Months<br>Ended December<br>31, 2012 |
|---------------------------|---|--|
| Beauty                    | \$23                                    | \$89                                     |
| Grooming                  | 17                                      | 36                                       |
| Health Care               | 6                                       | 18                                       |
| Fabric & Home Care        | 39                                      | 70                                       |
| Baby Care and Family Care | 18                                      | 43                                       |
| Corporate <sup>(1)</sup>  | 135                                     | 336                                      |
| Total Company             | \$238                                   | \$592                                    |

<sup>(1)</sup> Corporate includes costs related to allocated overheads, including charges related to our MDO, GBS and Corporate Functions activities.

## 9. Commitments and Contingencies

### Litigation

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

As previously disclosed, the Company has had a number of antitrust matters in Europe. These matters involve a number of other consumer products companies and/or retail customers. The Company's policy is to comply with all laws and regulations, including all antitrust and competition laws, and to cooperate with investigations by relevant regulatory authorities, which the Company is doing. Competition and antitrust law inquiries often continue for several years and, if violations are found, can result in substantial fines.

In response to the actions of the regulatory authorities, the Company launched its own internal investigations into potential violations of competition laws. The Company identified violations in certain European countries and appropriate actions were taken.

Several regulatory authorities in Europe have issued separate decisions pursuant to their investigations alleging that the Company, along with several other companies, engaged in violations of competition laws in those countries. The Company has accrued the assessed fines for each of the decisions, of which all but \$16 million has been paid as of December 31, 2012. Many of those are on appeal. As a result of our initial and on-going analyses of other formal complaints, the Company has accrued liabilities for competition law violations totaling \$49 million as of December 31, 2012. While the ultimate resolution of these matters for which we have accrued liabilities may result in fines or costs in excess of the amounts reserved, we do not expect any such incremental losses to materially impact our financial statements in the period in which they are accrued and paid, respectively. The remaining authorities' investigations are in various stages of the regulatory process. For these other remaining competition law matters, we cannot reasonably estimate any additional fines to which the Company may be subject as a result of the investigations. We will continue to monitor developments for all of these investigations and will record additional charges as appropriate.

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

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

#### Income Tax Uncertainties

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The Company is present in over 150 taxable jurisdictions and, at any point in time, has 40 – 50 audits underway at various stages of completion. We evaluate our tax positions and establish liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law and closing of statutes of limitations. Such adjustments are reflected in the tax provision as appropriate. We have tax years open ranging from 2002 and forward. We are generally not able to reliably estimate the ultimate settlement amounts or timing until the close of the audit. While we do not expect material changes, it is possible that the amount of unrecognized benefit with respect to our uncertain tax positions will significantly increase or decrease within the next 12 months related to audits described above. At this time, we are not able to make a reasonable estimate of the range of impact on the balance of uncertain tax positions or the impact on the effective tax rate related to these items.

Additional information on the Commitments and Contingencies of the Company can be found in Note 10, Commitments and Contingencies, which appears in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

## 10. Discontinued Operations

In May 2012, the Company completed the divestiture of our global Snacks business to The Kellogg Company for \$2.7 billion in cash. Under the terms of the agreement, Kellogg acquired our branded snack products, manufacturing facilities in Belgium and the United States and the majority of the employees working on the Snacks business. The Company recorded an after-tax gain on the transaction of \$1.4 billion, which was included in net earnings from discontinued operations in the Consolidated Statement of Earnings for the year ended June 30, 2012.

The Snacks business had historically been part of the Company's Snacks & Pet Care reportable segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of the Snacks business are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. Additionally, as a result of this transaction the Pet Care business is included in the Fabric Care and Home Care segment.

Following is selected financial information included in net earnings from discontinued operations for the Snacks business:

| Amounts in millions                                       | Three months ended December 31 |       | Six months ended December 31 |       |
|---|--------------------------------|-------|------------------------------|-------|
|   | 2012                           | 2011  | 2012                         | 2011  |
| Net sales   | \$—                            | \$392 | \$—                          | \$777 |
| Earnings from discontinued operations before income taxes | —                              | 59    | —                            | 143   |
| Income tax expense  | —                              | 18    | —                            | 44    |
| Net earnings from discontinued operations                 | \$—                            | \$41  | \$—                          | \$99  |

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

### Forward-Looking Statements

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

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

#### Overview

#### Summary of Results

#### Economic Conditions, Challenges and Risks

#### Results of Operations – Three and Six Months Ended December 31, 2012

#### Business Segment Discussion – Three and Six Months Ended December 31, 2012

#### Financial Condition

#### Reconciliation of Non-GAAP Measures

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

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

### OVERVIEW

We are a global leader in retail goods focused on providing branded consumer packaged goods of superior quality and value to our consumers around the world. Our products are sold in more than 180 countries primarily through mass



merchandisers, grocery stores, membership club stores, drug stores, department stores, salons, high-frequency stores and distributors. We continue to expand our presence in other channels, such as perfumeries and e-commerce. We have on-the-ground operations in approximately 75 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 (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.

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

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

The following table provides the percentage of net sales and net earnings by reportable business segment for the three months ended December 31, 2012 (excludes net sales and net earnings in Corporate):

|                           | Three Months Ended December 31 |              |
|---------------------------|--------------------------------|--------------|
|                           | Net Sales                      | Net Earnings |
| Beauty                    | 24%                            | 26%          |
| Grooming                  | 10%                            | 15%          |
| Health Care               | 15%                            | 15%          |
| Fabric Care and Home Care | 32%                            | 26%          |
| Baby Care and Family Care | 19%                            | 18%          |
| Total                     | 100%                           | 100%         |

The following table provides the percentage of net sales and net earnings by reportable business segment for the six months ended December 31, 2012 (excludes net sales and net earnings in Corporate):

|                           | Six Months Ended December 31 |              |
|---------------------------|------------------------------|--------------|
|                           | Net Sales                    | Net Earnings |
| Beauty                    | 24%                          | 24%          |
| Grooming                  | 10%                          | 15%          |
| Health Care               | 15%                          | 16%          |
| Fabric Care and Home Care | 32%                          | 28%          |
| Baby Care and Family Care | 19%                          | 17%          |
| Total                     | 100%                         | 100%         |

#### SUMMARY OF RESULTS

Following are highlights of results for the six months ended December 31, 2012 versus the six months ended December 31, 2011:

• Net sales decreased 1% to \$42.9 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, were up 2%.

• Unit volume increased 1%. Volume grew mid-single digits for Baby Care and Family Care, increased low single digits for Fabric Care and Home Care, and Health Care, and declined low single digits for Beauty and Grooming.

Net earnings attributable to Procter & Gamble were \$6.9 billion, an increase of \$2.2 billion, or 46%, versus the prior year period. The increase in net earnings was primarily due to non-core items including a \$623 million holding gain resulting from P&G's purchase of the balance of its Baby Care and Feminine Care joint venture in Iberia in the current period, and

a \$1.6 billion before tax, non-cash goodwill and intangible assets impairment charge in the prior year period associated with the Appliances and Salon Professional businesses.

Diluted net earnings per share from continuing operations increased 50% to \$2.35. Diluted net earnings per share increased 47% to \$2.35. The prior year net earnings per share included \$0.03 per share from discontinued operations related to our divested Snacks business.

Core net earnings per share increased 9% to \$2.28.

Operating cash flow for the fiscal year to date increased 20% to \$6.6 billion. Free cash flow, which is operating cash flow less capital expenditures, was \$5.1 billion. Free cash flow productivity, which is the ratio of free cash flow to net earnings, was 73%.

#### ECONOMIC CONDITIONS, CHALLENGES AND RISKS

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

**Cost Pressures.** Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, labor costs, foreign exchange and interest rates. Therefore, our success is dependent, in part, on our continued ability to manage these fluctuations through pricing actions, cost savings projects, sourcing decisions and certain hedging transactions, as well as through consistent productivity improvements. We also must manage our debt and currency exposure, especially in certain countries with currency exchange controls, such as Venezuela, China, India, and Argentina. We need to maintain key manufacturing and supply arrangements, including sole supplier and sole manufacturing plant arrangements, and successfully manage any disruptions at Company manufacturing sites. We must implement, achieve and sustain cost improvement plans, including our outsourcing projects and those related to general overhead and workforce optimization. Successfully managing these changes, including identifying, developing and retaining key employees, is critical to our success.

**Global Economic Conditions.** Demand for our products has a correlation to global macroeconomic factors. The current macroeconomic factors remain dynamic. Economic changes, terrorist activity, political unrest and natural disasters may result in business interruption, inflation, deflation or decreased demand for our products. Our success will depend, in part, on our ability to manage continued global political and/or economic uncertainty, especially in our significant geographic markets, due to terrorist and other hostile activities or natural disasters. We could also be negatively impacted by a global, regional or national economic crisis, including sovereign risk in the event of a deterioration in the credit worthiness of or a default by local governments, resulting in a disruption of credit markets. Such events could negatively impact our ability to collect receipts due from governments, including refunds of value added taxes, create significant credit risks relative to our local customers and depository institutions, and/or negatively impact our overall liquidity.

**Regulatory Environment.** Changes in laws, regulations and the related interpretations may alter the environment in which we do business. This includes changes in environmental, competitive and product-related laws, as well as

changes in accounting standards and taxation requirements. Our ability to manage regulatory, tax and legal matters (including product liability, patent, intellectual property, competition law matters and tax policy) and to resolve pending legal matters within current estimates may impact our results.

For more information on risks that could impact our results, refer to Part II, Item 1A Risk Factors in this Form 10-Q.

## RESULTS OF OPERATIONS – Three Months Ended December 31, 2012

The following discussion provides a review of results for the three months ended December 31, 2012 versus the three months ended December 31, 2011.

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

## Consolidated Earnings Information

|   | Three Months Ended December 31 |          |       |    |
|---|--------------------------------|----------|-------|----|
|   | 2012                           | 2011     | % CHG |    |
| NET SALES   | \$22,175                       | \$21,744 | 2     | %  |
| COST OF PRODUCTS SOLD                                       | 10,880                         | 10,851   | —     | %  |
| GROSS PROFIT  | 11,295                         | 10,893   | 4     | %  |
| SELLING GENERAL & ADMINISTRATIVE EXPENSE                    | 6,803                          | 6,659    | 2     | %  |
| GOODWILL AND INTANGIBLES IMPAIRMENT CHARGES                 | —                              | 1,554    | (100) | )% |
| OPERATING INCOME  | 4,492                          | 2,680    | 68    | %  |
| TOTAL INTEREST EXPENSE                                      | 169                            | 201      | (16)  | )% |
| OTHER NON-OPERATING INCOME/(EXPENSE), NET                   | 895                            | 170      | 426   | %  |
| EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES     | 5,218                          | 2,649    | 97    | %  |
| INCOME TAXES ON CONTINUING OPERATIONS                       | 1,142                          | 977      | 17    | %  |
| NET EARNINGS FROM CONTINUING OPERATIONS                     | 4,076                          | 1,672    | 144   | %  |
| NET EARNINGS FROM DISCONTINUED OPERATIONS                   | —                              | 41       | (100) | )% |
| NET EARNINGS  | 4,076                          | 1,713    | 138   | %  |
| LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 19                             | 23       | (17)  | )% |
| NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE               | \$4,057                        | \$1,690  | 140   | %  |
| EFFECTIVE TAX RATE ON CONTINUING OPERATIONS                 | 21.9                           | % 36.9   | %     |    |
| BASIC NET EARNINGS PER COMMON SHARE (1):                    |                                |          |       |    |
| EARNINGS FROM CONTINUING OPERATIONS                         | \$ 1.46                        | \$0.58   | 152   | %  |
| EARNINGS FROM DISCONTINUED OPERATIONS                       | —                              | 0.01     | (100) | )% |
| BASIC NET EARNINGS PER COMMON SHARE                         | 1.46                           | 0.59     | 147   | %  |
| DILUTED NET EARNINGS PER COMMON SHARE (1):                  |                                |          |       |    |
| EARNINGS FROM CONTINUING OPERATIONS                         | \$ 1.39                        | \$0.56   | 148   | %  |
| EARNINGS FROM DISCONTINUED OPERATIONS                       | —                              | 0.01     | (100) | )% |
| DILUTED NET EARNINGS PER COMMON SHARE                       | \$ 1.39                        | \$0.57   | 144   | %  |
| DIVIDENDS PER COMMON SHARE                                  | \$0.562                        | \$0.525  | 7     | %  |
| AVERAGE DILUTED SHARES OUTSTANDING                          | 2,919.1                        | 2,949.7  |       |    |

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

| COMPARISONS AS A % OF NET SALES                         |      |        | Basis Pt | Chg   |
|---|------|--------|----------|-------|
| GROSS MARGIN  | 50.9 | % 50.1 | %        | 80    |
| SELLING, GENERAL & ADMINISTRATIVE EXPENSE               | 30.6 | % 30.6 | %        | —     |
| OPERATING MARGIN  | 20.3 | % 12.3 | %        | 800   |
| EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 23.5 | % 12.2 | %        | 1,130 |

|   |      |       |         |
|---|------|-------|---------|
| NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE | 18.3 | % 7.8 | % 1,050 |
|---|------|-------|---------|

## Net Sales

Net sales increased 2% to \$22.2 billion for the second quarter on unit volume that increased 2% versus the prior year period. Baby Care and Family Care grew volume mid-single digits. Fabric Care and Home Care and Health Care volume grew low single digits. Beauty volume was in line with the prior year period. Grooming volume decreased low single digits. Volume grew low single digits in both developing and developed regions. Price increases added 2% to net sales, driven by price increases across all business segments, primarily executed in prior periods to offset cost increases and devaluing developing market currencies. Unfavorable geographic and product mix reduced net sales by 1%. Unfavorable foreign exchange reduced net sales by 1%. Organic sales grew 3% driven by the unit volume increase and price increases, partially offset by negative geographic and product mix.

## Net Sales Change Drivers 2012 vs. 2011 (Three Months Ended Dec. 31)

|                           | Volume with<br>Acquisitions<br>& Divestitures | Volume<br>Excluding<br>Acquisitions<br>& Divestitures | Foreign<br>Exchange | Price | Mix  | Other* | Net Sales<br>Growth |   |
|---------------------------|---|---|---------------------|-------|------|--------|---------------------|---|
| Beauty                    | 0   | % 0   | % -1                | % 3   | % 0  | % -1   | % 1                 | % |
| Grooming                  | -2  | % 0   | % -3                | % 2   | % 0  | % -1   | % -4                | % |
| Health Care               | 3   | % 3   | % -2                | % 2   | % -1 | % 1    | % 3                 | % |
| Fabric Care and Home Care | 2   | % 2   | % 0                 | % 1   | % 0  | % 0    | % 3                 | % |
| Baby Care and Family Care | 6   | % 6   | % -1                | % 2   | % -3 | % 0    | % 4                 | % |
| TOTAL COMPANY             | 2   | % 2   | % -1                | % 2   | % -1 | % 0    | % 2                 | % |

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

\* Other includes the sales mix impact from acquisitions/divestitures and rounding impacts necessary to reconcile volume to net sales.

## Operating Costs

Gross margin expanded 80 basis points to 50.9% of net sales for the quarter. The increase in gross margin was driven by a 90 basis point impact from higher pricing and a 100 basis point impact from manufacturing cost savings. Gross margin was negatively impacted by 110 basis points from negative product mix, primarily behind disproportionate growth in mid-tier products, which have lower gross margin than the Company average. Gross margin was also reduced by 20 basis points from incremental restructuring spending in the current period.

Total selling, general and administrative expenses (SG&A) increased 2% to \$6.8 billion, behind comparable increases in both marketing and overhead spending. Marketing spending increased to support initiative activity and intervention plans. The increase in overhead spending was driven by incremental restructuring spending and higher pension and employee benefit costs, which was partially offset by savings as the result of the productivity and cost savings plan. SG&A as a percentage of net sales was consistent with the prior year period at 30.6%.

Goodwill and indefinite-lived intangible impairment charges of \$1,554 million (\$1,481 million after tax), were incurred in the prior year period. The charges related to the carrying values of goodwill in our Appliances and Salon Professional businesses and our Koleston Perfect and Wella indefinite-lived intangible assets, which are part of our Salon Professional business. Since goodwill is included in Corporate for internal management and segment reporting, the goodwill impairment charges were included in the Corporate segment. With respect to the indefinite-lived intangible assets, the underlying impairment charges were excluded from business unit earnings and included in Corporate for management reporting purposes. Accordingly, these charges were also included in Corporate for segment reporting.

## Non-Operating Costs



Interest expense was \$169 million for the quarter, down \$32 million versus the prior year period due to lower interest rates on floating rate debt. Net other non-operating income increased \$725 million due to a \$631 million holding gain resulting from P&G's purchase of the balance of our Baby Care and Feminine Care joint venture in Iberia and a \$247 million gain from the divestiture of our Italy bleach business, partially offset by a \$130 million gain in the year ago period from the PUR business divestiture.

## Income Taxes

The effective tax rate on continuing operations decreased 1,500 basis points to 21.9%. The prior year rate was increased by 1,190 basis points due to the non-deductibility of impairment charges related to our Appliances and Salon Professional businesses, while the current year rate was reduced by 310 basis points due to the tax impacts on the gains from the purchase of the balance of the Baby Care and Feminine Care joint venture in Iberia and the sale of the bleach business in Western Europe.

## Net Earnings

Net earnings from continuing operations increased \$2.4 billion or 144% to \$4.1 billion for the quarter. The increase was primarily due to the impacts of the unusual items discussed above, specifically the prior year impairment charges and the current year increase in other non-operating income from the net impact of the holding and divestiture gains, partially offset by incremental restructuring. Combined, these items drove an increase of \$2.1 billion, or 124% in earnings. Earnings also increased due to the increase in net sales and the 80 basis point gross margin expansion in the current year. Diluted net earnings per share from continuing operations increased 148% to \$1.39. The growth in diluted net earnings per share from continuing operations outpaced the growth in net earnings from continuing operations due to a reduction in the number of shares outstanding. Diluted net earnings per share from discontinued operations was \$0.01 in the prior year period (zero in the current period) from earnings of our divested snacks business. Core net earnings per share increased 12% to \$1.22. Core net earnings per share represents diluted net earnings per share from continuing operations excluding the current period holding gain on the buyout of our Iberian joint venture partner, incremental restructuring charges in both periods related to our productivity and cost savings plan, and prior year charges for impairments and European legal matters.

## Foreign Currency Translation – Venezuela Impacts

Venezuela is a highly inflationary economy under U.S. GAAP. As a result, the U.S. dollar is the functional currency for our subsidiaries in Venezuela. Any currency remeasurement adjustments for non-dollar denominated monetary assets and liabilities held by these subsidiaries and other transactional foreign exchange gains and losses are reflected in earnings.

The Venezuelan government has established one official exchange rate for qualifying dividends, and imported goods and services, which is equal to 4.3 Bolivares Fuertes to one U.S. dollar. Transactions at the official exchange rate are subject to CADIVI (Venezuela government's Foreign Exchange Administrative Commission). Our overall results in Venezuela are reflected in our Consolidated Financial Statements at the 4.3 rate, which is also expected to be applicable to dividend repatriations.

In addition to the official exchange rate, there is a parallel exchange market that is controlled by the Central Bank of Venezuela as the only legal intermediary to execute foreign exchange transactions outside of CADIVI. This is done at the SITME rate which was approximately 5.3 as of December 31, 2012. The notional amount of transactions that run through this foreign exchange rate for nonessential goods is restrictive, which for us has essentially eliminated our ability to access any foreign exchange rate other than the official CADIVI rate to pay for imported goods and/or manage our local monetary asset balances. Finally, the Venezuelan government enacted a price control law during the second half of fiscal 2012 that negatively impacted the net selling prices of certain products sold in Venezuela. The impact of this law was not significant for the quarter ended December 31, 2012.

As of December 31, 2012, we had net monetary assets denominated in local currency of approximately \$1.3 billion. This balance has increased approximately \$228 million since June 30, 2012 due to a slow-down by the government in the exchange of funds requested by us through CADIVI and an increase in the net amount of indirect value added taxes (VAT) receivable from the government from goods receipts and shipments. Approximately \$333 million of the net monetary assets denominated in local currency has been remeasured using the SITME rate because we plan to use

that amount of the net assets (largely cash) to satisfy U.S. dollar denominated liabilities that do not qualify for official rate dollars. However, as noted in the preceding paragraph, the availability of the parallel market to settle these transactions is uncertain. The remaining net monetary asset balances are currently reflected within our Consolidated Financial Statements at the 4.3 official exchange rate. Depending on the future availability of U.S. dollars at the official rate, our local U.S. dollar needs, our overall repatriation plans, the creditworthiness of the local depository institutions and other creditors and our ability to collect amounts due from customers and the government, including VAT receivables, we may have exposure for our local monetary assets. We also have devaluation exposure for the differential between the current and potential future official and parallel exchange rates.

Our ability to effectively manage sales and profit levels in Venezuela will be impacted by several factors. These include the Company's ability to mitigate the effect of the recently enacted price controls, any potential future devaluation, any further Venezuelan government price or exchange controls, economic conditions, and the availability of raw materials and utilities.

## RESULTS OF OPERATIONS – Six Months Ended December 31, 2012

The following discussion provides a review of results for the six months ended December 31, 2012 versus the six months ended December 31, 2011.

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

## Consolidated Earnings Information

|   | Six Months Ended December 31 |          |         |
|---|------------------------------|----------|---------|
|   | 2012                         | 2011     | % CHG   |
| NET SALES   | \$42,914                     | \$43,274 | (1 )%   |
| COST OF PRODUCTS SOLD                                       | 21,230                       | 21,658   | (2 )%   |
| GROSS PROFIT  | 21,684                       | 21,616   | — %     |
| SELLING GENERAL & ADMINISTRATIVE EXPENSE                    | 13,241                       | 13,132   | 1 %     |
| GOODWILL AND INTANGIBLES IMPAIRMENT CHARGES                 | —                            | 1,554    | (100 )% |
| OPERATING INCOME  | 8,443                        | 6,930    | 22 %    |
| TOTAL INTEREST EXPENSE                                      | 341                          | 408      | (16 )%  |
| OTHER NON-OPERATING INCOME/(EXPENSE), NET                   | 942                          | 171      | 451 %   |
| EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES     | 9,044                        | 6,693    | 35 %    |
| INCOME TAXES ON CONTINUING OPERATIONS                       | 2,115                        | 2,022    | 5 %     |
| NET EARNINGS FROM CONTINUING OPERATIONS                     | 6,929                        | 4,671    | 48 %    |
| NET EARNINGS FROM DISCONTINUED OPERATIONS                   | —                            | 99       | (100 )% |
| NET EARNINGS  | 6,929                        | 4,770    | 45 %    |
| LESS: NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 58                           | 56       | 4 %     |
| NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE               | \$6,871                      | \$4,714  | 46 %    |
| EFFECTIVE TAX RATE ON CONTINUING OPERATIONS                 | 23.4                         | % 30.2   | %       |
| <br>  |                              |          |         |
| BASIC NET EARNINGS PER COMMON SHARE (1):                    |                              |          |         |
| EARNINGS FROM CONTINUING OPERATIONS                         | \$2.46                       | \$1.63   | 51 %    |
| EARNINGS FROM DISCONTINUED OPERATIONS                       | —                            | 0.04     | (100 )% |
| BASIC NET EARNINGS PER COMMON SHARE                         | 2.46                         | 1.67     | 47 %    |
| DILUTED NET EARNINGS PER COMMON SHARE (1):                  |                              |          |         |
| EARNINGS FROM CONTINUING OPERATIONS                         | \$2.35                       | \$1.57   | 50 %    |
| EARNINGS FROM DISCONTINUED OPERATIONS                       | —                            | 0.03     | (100 )% |
| DILUTED NET EARNINGS PER COMMON SHARE                       | 2.35                         | 1.60     | 47 %    |
| DIVIDENDS PER COMMON SHARE                                  | \$1.124                      | \$1.050  | 7 %     |
| AVERAGE DILUTED SHARES OUTSTANDING                          | 2,926.1                      | 2,946.5  |         |

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

| COMPARISONS AS A % OF NET SALES                         |      |        | Basis Pt<br>Chg |
|---|------|--------|-----------------|
| GROSS MARGIN  | 50.5 | % 50.0 | % 50            |
| SELLING, GENERAL & ADMINISTRATIVE EXPENSE               | 30.8 | % 30.3 | % 50            |
| OPERATING MARGIN  | 19.7 | % 16.0 | % 370           |
| EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 21.1 | % 15.5 | % 560           |

|   |      |        |       |
|---|------|--------|-------|
| NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE | 16.0 | % 10.9 | % 510 |
|---|------|--------|-------|

## Net Sales

Net sales decreased 1% to \$42.9 billion fiscal year to date on unit volume that increased 1% versus the prior year period. Baby Care and Family Care grew volume mid-single digits. Fabric Care and Home Care and Health Care volume grew low single digits. Beauty and Grooming volume decreased low single digits. Volume grew low single digits in developing regions and was in line with the prior year period in developed regions. Price increases added 2% to net sales, driven by price increases across all business segments, primarily executed in prior periods to offset cost increases and devaluing developing market currencies. Unfavorable geographic and product mix reduced net sales by 1%. Unfavorable foreign exchange reduced net sales by 3%. Organic sales grew 2% driven by the unit volume growth and price increases, partially offset by negative mix.

## Net Sales Change Drivers 2012 vs. 2011 (Six Months Ended Dec. 31)

|                              | Volume with<br>Acquisitions<br>& Divestitures | Volume<br>Excluding<br>Acquisitions<br>& Divestitures | Foreign<br>Exchange | Price | Mix  | Other* | Net Sales<br>Growth |   |
|------------------------------|---|---|---------------------|-------|------|--------|---------------------|---|
| Beauty                       | -2  | % -2  | % -3                | % 3   | % 0  | % -1   | % -3                | % |
| Grooming                     | -1  | % 0   | % -5                | % 2   | % 0  | % -2   | % -6                | % |
| Health Care                  | 1   | % 1   | % -4                | % 2   | % 0  | % 0    | % -1                | % |
| Fabric Care and Home<br>Care | 1   | % 1   | % -3                | % 1   | % 1  | % 0    | % 0                 | % |
| Baby Care and Family<br>Care | 4   | % 4   | % -3                | % 2   | % -2 | % 0    | % 1                 | % |
| TOTAL COMPANY                | 1   | % 1   | % -3                | % 2   | % -1 | % 0    | % -1                | % |

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

\* Other includes the sales mix impact from acquisitions/divestitures and rounding impacts necessary to reconcile volume to net sales.

## Operating Costs

Gross margin expanded 50 basis points to 50.5% of net sales for fiscal year to date. The increase in gross margin was driven by a 100 basis point impact from higher pricing and a 100 basis point impact from manufacturing cost savings. Gross margin was negatively impacted by 100 basis points from negative product mix behind disproportionate growth in developing regions and mid-tier products, both of which have lower gross margins than the Company average. Gross margin was also reduced by 30 basis points from incremental restructuring spending in the current period and to a lesser extent higher commodity costs.

Total SG&A increased 1% to \$13.2 billion, driven by a \$275 million increase in restructuring spending, partially offset by savings as a result of the productivity and cost savings plan and a reduction in competition law fines. SG&A as a percentage of net sales increased 50 basis points to 30.8%, due to 60 basis points of incremental restructuring costs.

## Non-Operating Costs

Interest expense was \$341 million for the period, down \$67 million versus the prior year period due to lower interest rates on floating rate debt. Other non-operating income/(expense) increased \$771 million due to a \$631 million holding gain resulting from P&G's purchase of the balance of P&G's Baby Care and Feminine Care joint venture in Iberia and a \$247 million divestiture gain from our Italy bleach business, partially offset by a \$130 million divestiture gain from our PUR business in the year ago period.

## Income Taxes

The effective tax rate on continuing operations decreased 680 basis points to 23.4%. The prior year rate was increased by 480 basis points due to the non-deductibility of impairment charges related to our Appliances and Salon

Professional businesses, while the current year rate was reduced by 180 basis points due to the tax impacts on gains from the purchase of the balance of the Baby Care and Feminine Care joint venture in Iberia and the sale of the bleach business in Western Europe. The current year rate was also reduced due to the net impact of favorable discrete adjustments related to uncertain income tax positions, which netted to 170 basis points in the current period and 140 basis points in the prior year period.

## Net Earnings

Net earnings from continuing operations increased \$2.3 billion or 48% to \$6.9 billion for the fiscal year to date primarily due to the impact of the unusual items discussed above, specifically the prior year impairment charges and the current year increase in other non-operating income from the net impact of the holding and divestiture gains, partially offset by incremental restructuring. Combined, these items drove an increase of \$1.8 billion, or 38% in earnings. Earnings also increased due to the increase in net sales and the 50 basis point gross margin expansion in the current year. Diluted net earnings per share from continuing operations increased 47% to \$2.35. Diluted net earnings per share from discontinued operations was \$0.03 in the prior year period (zero in the current period), from earnings of our divested snacks business. Core net earnings per share increased 9% to \$2.28. Core net earnings per share represents diluted net earnings per share from continuing operations excluding the current period holding gain on the buyout of our Iberian joint venture partner, incremental restructuring charges in both periods related to our productivity and cost savings plan, and prior year charges for impairments and European legal matters.

## BUSINESS SEGMENT DISCUSSION – Three and Six Months Ended December 31, 2012

The following discussion provides a review of results by business segment. Analyses of the results for the three and six months ended December 31, 2012 are provided based on a comparison to the same three- and six-month periods ended December 31, 2011. 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 business segment for the three and six months ended December 31, 2012 versus the comparable prior year periods (amounts in millions):

|                           | Three Months Ended December 31, 2012 |                          |   |                          |   |                          |
|---------------------------|--------------------------------------|--------------------------|---|--------------------------|---|--------------------------|
|                           | Net Sales                            | % Change Versus Year Ago | Earnings from Continuing Operations Before Income Taxes | % Change Versus Year Ago | Net Earnings from Continuing Operations | % Change Versus Year Ago |
| Beauty                    | \$ 5,403                             | 1 %                      | 1,138   | 12 %                     | 877                                     | 9 %                      |
| Grooming                  | 2,119                                | (4) %                    | 695   | —                        | 518                                     | — %                      |
| Health Care               | 3,267                                | 3 %                      | 733   | (7) %                    | 512                                     | (5) %                    |
| Fabric Care and Home Care | 7,223                                | 3 %                      | 1,380   | 15 %                     | 906                                     | 21 %                     |
| Baby Care and Family Care | 4,322                                | 4 %                      | 945   | 16 %                     | 611                                     | 18 %                     |
| Corporate                 | (159)                                | ) N/A                    | 327   | N/A                      | 652                                     | N/A                      |
| Total Company             | 22,175                               | 2 %                      | 5,218   | 97 %                     | 4,076                                   | 144 %                    |

|                           | Six Months Ended December 31, 2012 |                          |   |                          |   |                          |
|---------------------------|------------------------------------|--------------------------|---|--------------------------|---|--------------------------|
|                           | Net Sales                          | % Change Versus Year Ago | Earnings from Continuing Operations Before Income Taxes | % Change Versus Year Ago | Net Earnings from Continuing Operations | % Change Versus Year Ago |
| Beauty                    | \$ 10,343                          | (3) %                    | \$ 1,990  | 2 %                      | \$ 1,535                                | 3 %                      |
| Grooming                  | 4,126                              | (6) %                    | 1,329   | —                        | 984                                     | (2) %                    |
| Health Care               | 6,441                              | (1) %                    | 1,491   | (6) %                    | 1,019                                   | (6) %                    |
| Fabric Care and Home Care | 14,123                             | — %                      | 2,749   | 11 %                     | 1,809                                   | 16 %                     |
| Baby Care and Family Care | 8,321                              | 1 %                      | 1,754   | 9 %                      | 1,123                                   | 11 %                     |
| Corporate                 | (440)                              | ) N/A                    | (269)   | ) N/A                    | 459                                     | N/A                      |
| Total Company             | 42,914                             | (1) %                    | 9,044   | 35 %                     | 6,929                                   | 48 %                     |



Beauty

Three months ended December 31, 2012 compared with three months ended December 31, 2011

Beauty net sales increased 1% to \$5.4 billion during the second fiscal quarter on unit volume that was consistent with the prior year period. Organic sales increased 3%. Price increases contributed 3% to net sales growth. Unfavorable foreign exchange reduced net sales by 1%. The impact of divestitures reduced net sales by 1%. Global market share of the Beauty segment decreased 0.4 points. Volume was in line with prior year period in developing markets and decreased low single digits in developed regions.

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Volume in Hair Care was in line with prior year period, decreasing low single digits in developed regions from the impacts of higher prices and competitive activity, primarily in Western Europe, and was in line with prior year period in developing markets. Global market share of the hair care category was down half a point. Volume in Beauty Care decreased low single digits due to market share declines primarily in skin care. Global market share of the facial skin care category decreased less than a point. Volume in Salon Professional decreased low single digits due to market softness in parts of the developed regions. Volume in Prestige was in line with the prior year period due to minor brand divestitures. Organic volume was up low single digits. Net earnings increased 9% to \$877 million due to higher net sales and a 130 basis point increase in net earnings margin. Net earnings margin increased due to gross margin expansion and a reduction in SG&A as a percentage of net sales. Gross margin increased due to manufacturing cost savings and higher pricing. SG&A declined, both in total and as a percentage of net sales, due to decreases in both marketing and overhead spending.

Six months ended December 31, 2012 compared with six months ended December 31, 2011

Beauty net sales decreased 3% to \$10.3 billion fiscal year to date on unit volume decline of 2%. Organic sales increased 1%. Price increases contributed 3% to net sales growth. The impact of divestitures reduced net sales by 1%. Unfavorable foreign exchange reduced net sales by 3%. Global market share of the Beauty segment decreased 0.5 points. Volume was consistent with the prior year in developing markets and decreased mid-single digits in developed regions. Volume in Hair Care decreased low single digits due to a mid-single digit decline in developed regions from the impacts of higher prices and competitive activity, partially offset by a low single-digit increase in developing markets from market growth. Global market share of the hair care category was down more than half a point. Volume in Beauty Care decreased low single digits due to market share declines primarily in skin care and cosmetics. Global market share of the facial skin care category decreased less than a point. Volume in Salon Professional was consistent with the prior year due to initiative activity, primarily in developing regions, offset by market contraction in developed regions. Volume in Prestige decreased low single digits due to minor brand divestitures and to a base period comparison that grew behind several initiatives in developed markets, partially offset by market growth and initiative activity in developing markets. Net earnings increased 3% to \$1.5 billion, as lower net sales were more than offset by a 90 basis point increase in net earnings margin. Net earnings margin increased due to gross margin expansion and a reduction in SG&A as a percentage of net sales. Gross margin increased due to manufacturing cost savings and higher pricing. SG&A declined, both in total and a percentage of net sales, primarily due to a decrease in overhead spending.

## Grooming

Three months ended December 31, 2012 compared with three months ended December 31, 2011

Grooming net sales decreased 4% to \$2.1 billion during the second fiscal quarter on a 2% decrease in unit volume. Organic sales were up 2% on organic volume that was in line with the prior year period. Price increases contributed 2% to net sales growth. The impact of divestitures reduced net sales by 1%. Unfavorable foreign exchange reduced net sales by 3%. Global market share of the Grooming segment decreased 0.1 points. Volume decreased low single digits in developing regions and decreased mid-single digits in developed regions, in both cases largely due to the sale of the Braun household appliances business in the prior quarter. Shave Care volume was in line with the prior year period, as low single-digit growth in developing regions primarily behind market growth, was offset by a low single-digit decrease in developed regions, primarily due to market contraction in Western Europe. Global market share of the blades and razors category was up slightly. Volume in Appliances decreased double digits due to the sale of the Braun household appliances business. Organic volume was consistent with the prior year, as growth in North America was offset by a decline in Western Europe. Global market share of the appliances category was down a point. Net earnings was in line with the prior year period at \$518 million, as lower net sales was offset by a 100 basis point increase in net earnings margin. Net earnings margin increased due to gross margin expansion, partially offset by an increase in SG&A as a percentage of net sales. Gross margin increased primarily due to pricing and manufacturing cost savings. SG&A as a percentage of net sales increased primarily due to the negative scale impacts of the decrease in net sales.

Six months ended December 31, 2012 compared with six months ended December 31, 2011

Grooming net sales decreased 6% to \$4.1 billion fiscal year to date on a 1% decrease in unit volume. Organic sales were up 2% on organic volume that was in line with the prior year period. Price increases contributed 2% to net sales growth. The impact of divestitures reduced net sales by 2%. Unfavorable foreign exchange reduced net sales by 5%. Global market share of the Grooming segment was unchanged. Volume grew low single digits in developing regions and decreased mid-single digits in developed regions. Shave Care volume grew low single digits due to a low single-digit growth in developing regions, primarily behind market growth, partially offset by a low single-digit decrease in developed regions primarily due to market contraction in Western Europe. Global market share of the blades and razors category was up slightly. Volume in Appliances decreased double digits due to the sale of the Braun household appliances business, competitive activity, and market contraction. Organic volume declined mid-single digits. Global market share of the appliances category decreased more than half a point. Net earnings decreased 2% to \$984 million due to lower net sales partially offset by a 90-basis point increase in net earnings margin. Net earnings margin

increased due to gross margin expansion and a reduction in SG&A as a percentage of net sales. Gross margin increased primarily due to pricing and manufacturing cost savings. SG&A as a percentage of net sales declined primarily due to reduced overhead costs.

#### Health Care

Three months ended December 31, 2012 compared with three months ended December 31, 2011

Health Care net sales increased 3% to \$3.3 billion during the second fiscal quarter on a 3% increase in unit volume. Organic sales were up 4%. Price increases contributed 2% to net sales growth. Unfavorable geographic mix decreased net sales by 1%. Unfavorable foreign exchange reduced net sales by 2%. The impact of acquisitions and divestitures increased net sales by 1%. Global market share of the Health Care segment decreased 0.3 points. Volume increased high single digits in developing regions, while developed regions decreased low single digits. Oral Care volume increased mid-single digits due to double digit growth in developing regions behind market expansion and market growth. Global market share of the oral care category was down less than half a point. Volume in Personal Health Care was in line with the prior year period, as the impacts of market growth were offset by lower shipments of Prilosec OTC in North America. Volume from the addition of the PGT Healthcare partnership and New Chapter VMS (Vitamins/Minerals/Supplements) acquisition offset the impact from the divestiture of the PuR business. Volume in Feminine Care increased low single digits due to mid-single digit growth in developing markets behind market growth and product innovation, and a low single digit increase in developed regions due to initiative activity. Global market share of the feminine care category was down more than half a point. Net earnings decreased 5% to \$512 million due to a 120-basis point decrease in net earnings margin partially offset by an increase in net sales. Net earnings margin declined primarily due to reduced gross margin. Gross margin declined due to increased commodity costs and supply chain investments, partially offset by higher pricing and manufacturing cost savings.

Six months ended December 31, 2012 compared with six months ended December 31, 2011

Health Care net sales decreased 1% to \$6.4 billion fiscal year to date on a 1% increase in unit volume. Organic sales were up 3%. Price increases contributed 2% to net sales growth. Unfavorable foreign exchange reduced net sales by 4%. Global market share of the Health Care segment decreased 0.3 points. Volume increased mid-single digits in developing regions and declined low single digits in developed regions. Oral Care volume increased low single digits due to market expansion and market growth in developing regions, partially offset by lower volume in North America from competitive activity and in China from competitive pricing and promotion. Global market share of the oral care category was down half a point. Volume in Personal Health Care increased low single digits due to net acquisition and divestiture activity (the addition of the PGT Healthcare partnership and New Chapter VMS and the divestiture of the PuR business). Organic volume decreased low single digits primarily due to lower shipments of Prilosec OTC in North America. Volume in Feminine Care increased low single digits due to a mid-single digit growth in developing markets behind market growth and product innovation, partially offset by a low single digit decrease in developed regions due to increased promotional activity from competition. Global market share of the feminine care category was down half a point. Net earnings decreased 6% to \$1.0 billion due to lower net sales and an 80-basis point decrease in net earnings margin. Net earnings margin declined primarily due to reduced gross margin. Gross margin declined due to increased commodity costs and supply chain investments, partially offset by higher pricing and manufacturing cost savings.

#### Fabric Care and Home Care

Three months ended December 31, 2012 compared with three months ended December 31, 2011

Fabric Care and Home Care net sales increased 3% to \$7.2 billion during the second fiscal quarter on a 2% increase in unit volume. Organic sales were up 3%. Price increases contributed 1% to net sales growth. Global market share of the Fabric Care and Home Care segment decreased 0.3 points. Volume increased low single digits in developed regions and was in line with the prior year period in developing regions. Fabric Care volume increased low single digits due to a low single digit volume increase in developed regions driven by initiative activity and marketing

interventions. Global market share of the fabric care category decreased more than half a point. Home Care volume increased mid-single digits driven by a mid-single-digit increase in developed markets, due to marketing and pricing interventions and a low single-digit increase in developing markets behind innovation and distribution expansion. Global market share of the home care category was unchanged. Batteries volume increased low single digits due to market growth and geographic expansion in developing regions and from consumption in North America due to Hurricane Sandy, partially offset by market contraction in Western Europe. Global market share of the batteries category increased about half a point. Pet Care volume decreased low single digits due to competitive activity, primarily from increased promotional spending in North America. Net earnings increased 21% to \$906 million due to the increase in net sales and a 190-basis point increase in net earnings margin. Net earnings margin increased due to gross margin expansion and lower overhead spending. Gross margin increased due to higher pricing and manufacturing cost savings, partially offset by higher commodity costs.

Six months ended December 31, 2012 compared with six months ended December 31, 2011

Fabric Care and Home Care net sales were in line with the prior year period at \$14.1 billion fiscal year to date on a 1% increase in unit volume. Organic sales were up 3%. Price increases contributed 1% to net sales growth. Mix increased net sales by 1% due to favorable product mix. Unfavorable foreign exchange reduced net sales by 3%. Global market share of the Fabric Care and Home Care segment decreased 0.3 points. Volume increased low single digits in both developing and developed regions. Fabric Care volume increased low single digits due to a low single digit increase in developed regions driven by initiative activity and marketing interventions. Global market share of the fabric care category decreased more than half a point. Home Care volume increased low single digits driven by a mid single-digit increase in developing markets, behind innovation and distribution expansion, and a low single-digit increase in developed markets due to growth on Febreze and pricing interventions in North America. Global market share of the home care category was unchanged. Batteries volume was in line with the prior year period due to low single digit increase in developing regions from market growth and geographic expansion, partially offset by a low single digit decrease in developed markets due to market contraction and share losses, primarily behind higher pricing to improve the margin structure in Western Europe. Global market share of the batteries category was unchanged. Pet Care volume decreased low single digits primarily due to competitive activity and increased promotional spending in developed markets. Net earnings increased 16% to \$1.8 billion due to a 170-basis point increase in net earnings margin. Net earnings margin increased mainly due to gross margin expansion. Gross margin increased due to higher pricing and manufacturing cost savings, partially offset by higher commodity costs.

#### Baby Care and Family Care

Three months ended December 31, 2012 compared with three months ended December 31, 2011

Baby Care and Family Care net sales increased 4% to \$4.3 billion during the second fiscal quarter on 6% volume growth. Organic sales were up 5%. Pricing added 2% to net sales growth. Mix reduced net sales by 3% due to product mix and disproportionate growth of developing markets, which have lower than segment average selling prices. Unfavorable foreign exchange decreased net sales by 1%. Global market share of the Baby Care and Family Care segment decreased 0.5 points. Volume increased mid-single digits in developed regions and high single digits in developing regions. Volume in Baby Care increased mid-single digits due to a high single digit increase in developing regions from market growth, distribution expansion and initiative activity. Global market share of the baby care category decreased more than half a point. Volume in Family Care increased high single digits due to initiative activity on Charmin and Bounty. In the U.S., all-outlet share of the family care category was unchanged. Net earnings increased 18% to \$611 million due the increase in sales and a 180-basis point increase in net earnings margin. Net earnings margin increased primarily due to a higher gross margin. The increase in gross margin was driven by the impact of higher pricing and manufacturing and commodity cost savings, partially offset by unfavorable product and geographic mix.

Six months ended December 31, 2012 compared with six months ended December 31, 2011

Baby Care and Family Care net sales increased 1% to \$8.3 billion fiscal year to date on 4% volume growth. Organic sales were up 4%. Pricing added 2% to net sales growth. Mix reduced net sales by 2% due to product mix and disproportionate growth of developing markets, which have lower than segment average selling prices. Unfavorable foreign exchange decreased net sales by 3%. Global market share of the Baby Care and Family Care segment decreased 0.4 points. Volume increased low single digits in developed regions and mid-single digits in developing regions. Volume in Baby Care increased low single digits as a high single digit increase in developing regions due to market growth, distribution expansion and initiative activity, was partially offset by a low single digit decrease in developed regions due to market contraction and competitive promotional activity. Global market share of the baby care category decreased more than half a point. Volume in Family Care increased high single digits primarily due to initiative activity on Charmin and Bounty. In the U.S., all-outlet share of the family care category was unchanged. Net earnings increased 11% to \$1.1 billion due to the increase in net sales and a 120-basis point increase in net earnings margin. Net earnings margin increased primarily due to a higher gross margin. The increase in gross margin was driven by the impact of higher pricing and manufacturing and commodity cost savings, partially offset by unfavorable

product and geographic mix.

## CORPORATE

Corporate includes certain operating and non-operating activities not allocated to specific business units. These include: the incidental businesses managed at the corporate level; financing and investing activities; other general corporate items; the historical results of certain divested brands and categories; certain restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization; and certain significant impairment charges. Corporate also includes reconciling items to adjust the accounting policies used in the segments to U.S. GAAP. The most significant reconciling items include income taxes (to adjust from statutory rates that are reflected in the segments to the overall Company effective tax rate), noncontrolling interest adjustments for subsidiaries where we do not have 100% ownership and adjustments for unconsolidated

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entities (to eliminate net sales, cost of products sold and SG&A for entities that are consolidated in the segments but accounted for using the equity method for U.S. GAAP). Since certain unconsolidated entities and less than 100%-owned subsidiaries are managed as integral parts of the Company, they are accounted for similar to a wholly-owned subsidiary for management and segment purposes. This means our segment results recognize 100% of each income statement component through before-tax earnings in the segments, with eliminations for unconsolidated entities and noncontrolling interests in Corporate. In determining segment net earnings, we apply the statutory tax rates (with adjustments to arrive at the Company's effective tax rate in Corporate). We also eliminate the share of earnings applicable to other ownership interests.

Corporate net sales primarily reflect the adjustment to eliminate the net sales of unconsolidated entities included in business segment results. Accordingly, Corporate net sales are generally a negative balance. Negative net sales in Corporate decreased by \$34 million in the second fiscal quarter and decreased \$147 million fiscal year to date due to smaller adjustments required to eliminate reduced sales of the unconsolidated entities. Net Corporate earnings increased \$2.1 billion in the second fiscal quarter and \$1.9 billion fiscal year to date primarily due to the net after tax goodwill and intangible asset impairment charges of \$1.5 billion in the prior year, along with the net after tax holding gain in the current year related to the buyout of our Iberian joint venture partner. Additional discussion of the items impacting net earnings in Corporate are included in the Results of Operations section.

#### Productivity and Cost Savings Plan

In February and November 2012, the Company made announcements related to 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.

As part of this plan, the Company expects to incur in excess of \$3.5 billion in before-tax restructuring costs over a five-year period (from fiscal 2012 through fiscal 2016). Approximately 50% of the costs are expected to be incurred by the end of fiscal 2013 and the remainder in fiscal years 2014 through 2016. Savings generated from the restructuring costs are difficult to estimate, given the nature of the activities, the corollary benefits achieved, the timing of the execution and the degree of reinvestment. Overall, the costs are expected to deliver in excess of \$2 billion in before-tax annual savings. The before tax savings in the current year are expected to be approximately \$700 million - \$1 billion.

Restructuring accruals of \$411 million as of December 31, 2012, are classified as current liabilities. Approximately 85% of the restructuring charges incurred during fiscal 2013 either have been or will be settled with cash. Consistent with our historical policies for ongoing restructuring-type activities, the resulting charges will be funded by and included within Corporate for segment reporting.

Refer to Note 8 in our Consolidated Financial Statements for more details on the restructuring program.

#### FINANCIAL CONDITION

##### Operating Activities

We generated \$6.6 billion of cash from operating activities for the fiscal year to date, an increase of \$1.1 billion versus the prior year. Net earnings, adjusted for non-cash items (depreciation and amortization, stock based compensation, deferred income taxes, and gain on sale of businesses), generated \$7.6 billion of operating cash flow. This was partially offset by working capital increases. On a year-to-date basis, the net of accounts receivable, inventory, and accounts payable, accrued and other liabilities consumed \$1.5 billion of cash. Accounts receivable used \$914 million of cash primarily due to increased sales later in the quarter. Inventory consumed \$324 million of cash, mainly to



support product initiatives. Accounts payable, accrued and other liabilities consumed \$288 million of cash due to the payment of prior-year accruals, partially offset by the accrual of marketing expenses.

#### Investing Activities

Cash used for investing activities was \$2.4 billion for the fiscal year to date, an increase of \$888 million versus the prior year period. Capital expenditures consumed \$1.5 billion or 3.6% of net sales, as compared to \$1.8 billion in the prior year period. Net acquisitions and divestitures consumed \$649 million mainly due to the buyout of our Baby Care and Feminine Care Iberian joint venture partner, partially offset by the sale of the household appliances business and Italy bleach business.

## Financing Activities

Our financing activities consumed net cash of \$2.1 billion. We used \$4.0 billion for treasury stock purchases and \$3.2 billion for dividends and partially funded these cash outlays through a \$3.5 billion net increase in debt. Cash consumed by financing activities decreased \$230 million versus the prior year period primarily due to an increase in net debt and increased proceeds from the exercise of stock options, partially offset by an increase in treasury stock purchases.

As of December 31, 2012, our current liabilities exceeded current assets by \$629 million. We have short- and long-term debt to fund discretionary items such as acquisitions and share repurchase programs. 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 NON-GAAP MEASURES

Our discussion of financial results includes several measures not defined by U.S. GAAP. We believe these measures provide our investors with additional information about the underlying results and trends of the Company, as well as insight to some of the metrics used to evaluate management. When used in MD&A, we have provided the comparable GAAP measure in the discussion.

**Organic Sales Growth:** Organic sales growth is a non-GAAP measure of sales growth excluding the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. We believe this provides investors with a more complete understanding of underlying sales trends by providing sales growth on a consistent basis. Organic sales is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation.

The reconciliation of reported sales growth to organic sales for the three and six months ended December 31, 2012:

| October - December 2012   | Net Sales Growth | Foreign Exchange Impact | Acquisition/Divestiture Impact* | Organic Sales Growth |   |
|---------------------------|------------------|-------------------------|---------------------------------|----------------------|---|
| Beauty                    | 1                | % 1                     | % 1                             | % 3                  | % |
| Grooming                  | (4)              | )% 3                    | % 3                             | % 2                  | % |
| Health Care               | 3                | % 2                     | % (1)                           | )% 4                 | % |
| Fabric Care and Home Care | 3                | % —                     | % —                             | % 3                  | % |
| Baby Care and Family Care | 4                | % 1                     | % —                             | % 5                  | % |
| Total P&G                 | 2                | % 1                     | % —                             | % 3                  | % |

\* Acquisition/Divestiture Impacts includes rounding impacts necessary to reconcile net sales to organic sales.

| July - December 2012      | Net Sales Growth | Foreign Exchange Impact | Acquisition/Divestiture Impact* | Organic Sales Growth |   |
|---------------------------|------------------|-------------------------|---------------------------------|----------------------|---|
| Beauty                    | (3)              | )% 3                    | % 1                             | % 1                  | % |
| Grooming                  | (6)              | )% 5                    | % 3                             | % 2                  | % |
| Health Care               | (1)              | )% 4                    | % —                             | % 3                  | % |
| Fabric Care and Home Care | —                | % 3                     | % —                             | % 3                  | % |

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|                           |    |      |     |     |   |
|---------------------------|----|------|-----|-----|---|
| Baby Care and Family Care | 1  | % 3  | % — | % 4 | % |
| Total P&G                 | (1 | )% 3 | % — | % 2 | % |

\* Acquisition/Divestiture Impacts includes rounding impacts necessary to reconcile net sales to organic sales.

Core EPS. This is a measure of the Company's diluted net earnings per share from continuing operations excluding certain items that are not judged to be part of the Company's sustainable results or trends. This includes current year and prior year charges related to incremental restructuring charges due to increased focus on productivity and cost savings, current and prior year charges related to pending European legal matters, the current year holding gain on the buy-out of our Iberian joint venture partner and the prior year impairment charges related to our Appliances and Salon Professional businesses. We do not view these items to be part of our sustainable results. We believe the Core EPS measure provides an important perspective of underlying business trends and results and provides a more comparable measure of year-on-year earnings per share growth. Core EPS is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation. The table below provides a reconciliation of reported diluted net earnings per share from continuing operations to Core EPS:

|  |        |   |        |
|--|--------|---|--------|
| Three months ended December 31                         | 2012   |   | 2011   |
| Diluted Net Earnings Per Share - Continuing Operations | \$1.39 |   | \$0.56 |
| Gain on buyout of Iberian JV                           | (0.21  | ) | —      |
| Impairment Charges                                     | —      |   | 0.50   |
| Incremental Restructuring Charges                      | 0.05   |   | 0.01   |
| Charges for Pending European Legal Matters             | —      |   | 0.02   |
| Rounding   | (0.01  | ) | —      |
| CORE EPS   | \$1.22 |   | \$1.09 |
| Core EPS Growth  | 12     |   | %      |
| Six months ended December 31                           | 2012   |   | 2011   |
| Diluted Net Earnings Per Share - Continuing Operations | \$2.35 |   | \$1.57 |
| Gain on buyout of Iberian JV                           | (0.21  | ) | —      |
| Impairment Charges                                     | —      |   | 0.50   |
| Incremental Restructuring Charges                      | 0.13   |   | 0.01   |
| Charges for Pending European Legal Matters             | 0.01   |   | 0.02   |
| CORE EPS   | \$2.28 |   | \$2.10 |
| Core EPS Growth  | 9      |   | %      |

Note - All reconciling items are presented net of tax. Tax effects are calculated consistent with the nature of the underlying transaction. There was no tax impact on EPS due to the charges for pending European legal matters.

Free Cash Flow: Free cash flow is defined as operating cash flow less capital spending. We view free cash flow as an important measure because it is one factor in determining the amount of cash available for dividends and discretionary investment. Free cash flow is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation.

Free Cash Flow Productivity: Free cash flow productivity is defined as the ratio of free cash flow to net earnings. The Company's long-term target is to generate free cash flow at or above 90% of net earnings. Free cash flow productivity is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation. The reconciliation of free cash flow and free cash flow productivity is provided below (amounts in millions):

|               | Operating<br>Cash Flow | Capital Spending | Free Cash Flow | Net Earnings | Free Cash Flow<br>Productivity |
|---------------|------------------------|------------------|----------------|--------------|--------------------------------|
| Jul - Dec '12 | \$6,619                | \$(1,529         | ) 5,090        | \$6,929      | 73%                            |

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, 2012. Additional information can be found in Note 5 - Risk Management Activities and Fair Value Measurements, of the Company's Form 10-K for the fiscal year ended June 30, 2012 .

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company's Chairman of the Board, President and Chief Executive Officer, Robert A. McDonald, and the Company's 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. McDonald 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. McDonald 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 December 31, 2012 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.

As previously reported, the Company has had a number of antitrust cases in Europe. The Company's policy is to comply with all laws and regulations, including all antitrust and competition laws, and to cooperate with the relevant regulatory authorities, which the Company is doing. In response to the actions of the regulatory authorities, the Company launched its own internal investigations into potential violations of competition laws. The Company identified violations in certain European countries and appropriate actions were taken.

As a result of certain investigations that were previously disclosed, several authorities issued separate complaints alleging that the Company, along with several other companies, engaged in violations of competition laws in the past. The Company resolved several of these matters prior to the most recent quarter.

The Company has antitrust matters at various stages of the regulatory process in various countries, including Belgium, France, Germany and Greece. Other countries have issued decisions, some of which are on appeal. All of these matters involve a number of other consumer products companies and/or retail customers. Competition and antitrust violations often continue for several years and, if violations are found, can result in substantial fines. No non-monetary sanctions are being sought in these matters.

For certain of the remaining matters listed above, we have established accruals for potential fines and we do not expect any significant incremental fines or costs in excess of amounts accrued for these matters. For other remaining matters, we cannot reasonably estimate any fines to which the Company may be subject as a result of the

investigations. Please refer to the Company's Risk Factors in Part II, Item 1A of this Form 10-Q for additional information.

Item 1A. Risk Factors.

We discuss our expectations regarding future performance, events and outcomes, such as our business outlook and objectives in this Form 10-Q, the Annual Report on Form 10-K, other quarterly reports, press releases and other written and oral communications. All statements, except for historical and present factual information, are “forward-looking statements” and are based on financial data and business plans available only as of the time the statements are made, which may become out of date

or incomplete. We assume no obligation to update any forward-looking statements as a result of new information, future events, or other factors. Forward-looking statements are inherently uncertain, and investors must recognize that events could significantly differ from our expectations.

The following discussion of “risk factors” identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with MD&A and the consolidated financial statements and related notes incorporated by reference into this report. The following discussion of risks is not all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our expectations. These factors could cause our future results to differ from those in the forward-looking statements and from historical trends.

A material change in consumer demand for our products could have a significant impact on our business.

We are a consumer products company and rely on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to consumers. This is dependent on a number of factors including our ability to develop effective sales, advertising and marketing programs. We expect to achieve our financial targets, in part, by shifting our portfolio towards faster growing, higher margin businesses and by focusing on the most profitable businesses, biggest innovations and most important emerging markets. We also expect to achieve our financial targets, in part, by achieving disproportionate growth in developing regions. If demand for our products and/or market growth rates in either developed or developing markets falls substantially below expected levels or our market share declines significantly in these businesses, our volume, and consequently our results, could be negatively impacted. This could occur due to, among other things, unforeseen negative economic or political events, changes in consumer trends and habits, or negative consumer responses to pricing actions.

The ability to achieve our business objectives is dependent on how well we can compete with our local and global competitors in new and existing markets and channels.

The consumer products industry is highly competitive. Across all of our categories, we compete against a wide variety of global and local competitors. As a result, there are ongoing competitive pressures in the environments in which we operate, as well as challenges in maintaining profit margins. This includes, among other things, increasing competition from mid- and lower-tier value products in both developed and developing markets. To address these challenges, we must be able to successfully respond to competitive factors, including pricing, promotional incentives and trade terms. In addition, the emergence of new sales channels, such as sales made through the Internet directly to consumers, may affect customer and consumer preferences, as well as market dynamics. Failure to effectively compete in these new channels could negatively impact results.

Our ability to meet our growth targets depends on successful product and operations innovation and our ability to successfully respond to competitive innovation.

Achieving our business results depends, in part, on the successful development, introduction and marketing of new products and improvements to our equipment and manufacturing processes. Successful innovation depends on our ability to correctly anticipate customer and consumer acceptance, to obtain and maintain necessary intellectual property protections, and to avoid infringing the intellectual property rights of others. We must also be able to successfully respond to technological advances by and intellectual property rights granted to competition, and failure to do so could compromise our competitive position and impact our results.

Our businesses face cost fluctuations and pressures which could affect our business results.

Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, labor costs, energy costs, pension and healthcare costs, foreign exchange and interest rates. Therefore, our success is dependent, in part, on our continued ability to forecast and manage these fluctuations through pricing actions, cost savings projects (including outsourcing projects) and sourcing decisions, while maintaining and improving margins and market share. In addition, our financial projections include cost savings described in our announced productivity plan. Failure to deliver these savings could adversely impact our results.

There are risks inherent in global manufacturing which could negatively impact our business results.

In the manufacturing and general overhead areas, we need to maintain key manufacturing and supply arrangements, including any key sole supplier and sole manufacturing plant arrangements, to achieve our targets on cost. While we

have business continuity and contingency plans for key manufacturing sites and the supply of raw materials, it may be impracticable to have a sufficient alternative source, particularly when the input materials are in limited supply. Any significant disruption of

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manufacturing, such as labor disputes, loss or impairment of key manufacturing sites, natural disasters, acts of war or terrorism, and other external factors over which we have no control, could interrupt product supply and, if not remedied, have an adverse impact on our business.

We face risks associated with having significant international operations.

We are a global company, with manufacturing operations in more than 40 countries, and a significant portion of our revenue is outside the U.S. Our international operations are subject to a number of risks, including, but not limited to: compliance with U.S. laws affecting operations outside of the United States, such as the Foreign Corrupt Practices Act;

- compliance with a variety of local regulations and laws;

- changes in tax laws and the interpretation of those laws;

- sudden changes in foreign currency exchange controls;

- discriminatory or conflicting fiscal policies;

- difficulties enforcing intellectual property and contractual rights in certain jurisdictions;

- greater risk of uncollectible accounts and longer collection cycles;

- effective and immediate implementation of control environment processes across our diverse operations and employee base; and

- imposition of more or new tariffs, quotas, trade barriers and similar restrictions on our sales outside the United States.

We have sizable businesses and maintain local currency cash balances in a number of foreign countries with exchange controls, including, but not limited to, Venezuela, China and India. In addition, some countries where we have businesses, such as Argentina, have introduced import restrictions. Our results of operations and/or financial condition could be adversely impacted if we are unable to successfully manage these and other risks of international operations in an increasingly volatile environment.

Fluctuations in exchange rates may have an adverse impact on our business results or financial condition.

We hold assets and incur liabilities, earn revenues and pay expenses in a variety of currencies other than the U.S. dollar. Because our consolidated financial statements are presented in U.S. dollars, the financial statements of our subsidiaries outside the United States are translated into U.S. dollars. Our operations outside of the U.S. generate a significant portion of our net revenue. Fluctuations in exchange rates may therefore adversely impact our business results or financial condition. See also the Results of Operations and Cash Flow, Financial Condition and Liquidity sections of the MD&A and Note 7 to our Consolidated Financial Statements, Risk Management Activities and Fair Value Measurements.

We face risks related to changes in the global and political economic environment, including the global capital and credit markets.

Our business is impacted by global economic conditions, which have recently been volatile. Our products are sold in more than 180 countries around the world. If the global economy experiences significant disruptions, our business could be negatively impacted by reduced demand for our products related to: a slow-down in the general economy; supplier, vendor or customer disruptions resulting from tighter credit markets; and/or temporary interruptions in our ability to conduct day-to-day transactions through our financial intermediaries involving the payment to or collection of funds from our customers, vendors and suppliers.

Our objective is to maintain credit ratings that provide us with ready access to global capital and credit markets. Any downgrade of our current credit ratings by a credit rating agency could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us.

We could also be negatively impacted by political issues or crises in individual countries or regions, including sovereign risk related to a deterioration in the credit worthiness or a default by local governments. For example, we could be adversely impacted by continued instability in the banking and governmental sectors of certain countries in the European Union or the dynamics associated with the debt ceiling debate in the United States.

Consequently, our success will depend, in part, on our ability to manage continued global and/or economic uncertainty, especially in our significant geographical markets, as well as any political or economic disruption. These risks could negatively impact our overall liquidity and financing and borrowing costs, as well as our ability to collect receipts due from governments, including refunds of value added taxes, and/or create significant credit risks relative to

our local customers and depository institutions.

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If the reputation of the Company or one or more of our brands erodes significantly, it could have a material impact on our financial results.

The Company's reputation is the foundation of our relationships with key stakeholders and other constituencies, such as customers and suppliers. In addition, many of our brands have worldwide recognition. This recognition is the result of the large investments we have made in our products over many years. The quality and safety of our products is critical to our business. Our Company also devotes significant time and resources to programs designed to protect and preserve our reputation, such as social responsibility and environmental sustainability. If we are unable to effectively manage real or perceived issues, including concerns about safety, quality, efficacy, or similar matters, these issues could negatively impact sentiments toward the Company or our products, our ability to operate freely could be impaired, and our financial results could suffer. Our financial success is directly dependent on the success of our brands, and the success of these brands can suffer if our marketing plans or product initiatives do not have the desired impact on a brand's image or its ability to attract consumers. Our results could also be negatively impacted if one of our brands suffers a substantial impediment to its reputation due to a significant product recall, product-related litigation, allegations of product tampering, or the distribution and sale of counterfeit products. In addition, given the association of our individual products with the Company, an issue with one of our products could negatively affect the reputation of our other products, or the Company as a whole, thereby potentially hurting results.

Our ability to successfully manage ongoing organizational change could impact our business results.

We have executed a number of significant business and organizational changes including acquisitions, divestitures and workforce optimization projects to support our growth strategies. We expect these types of changes, which may include many staffing adjustments as well as employee departures, to continue for the foreseeable future. Successfully managing these changes, including retention of particularly key employees, is critical to our business success. Further, ongoing business and organizational changes are likely to result in more reliance on third parties for various services, and that reliance may increase reputational, operational, and compliance risks, including the risk of corruption. We are generally a build-from-within company, and our success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. This includes developing organization capabilities in key growth markets where the depth of skilled employees is limited and competition for these resources is intense. Finally, our financial targets assume a consistent level of productivity improvement. If we are unable to deliver expected productivity improvements, while continuing to invest in business growth, our financial results could be adversely impacted.

Our ability to successfully manage ongoing acquisition, joint venture, and divestiture activities could impact our business results.

As a company that manages a portfolio of consumer brands, our ongoing business model involves a certain level of acquisition, joint venture and divestiture activities. We must be able to successfully manage the impacts of these activities, while at the same time delivering against our business objectives. Specifically, our financial results could be adversely impacted if: 1) we are not able to deliver the expected cost and growth synergies associated with our acquisitions and joint ventures, 2) changes in the cash flows or other market-based assumptions cause the value of acquired assets to fall below book value, or 3) we are unable to offset the dilutive impacts from the loss of revenue associated with divested brands. Additionally, joint ventures inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational, and/or compliance risks associated with each joint venture we enter into.

Our business is subject to changes in legislation, regulation and enforcement, and our ability to manage and resolve pending legal matters in the United States and abroad.

Changes in laws, regulations and related interpretations, including changes in accounting standards, taxation requirements and increased enforcement actions and penalties may alter the environment in which we do business. As a U.S. based multinational company we are subject to tax regulations in the United States and multiple foreign jurisdictions, some of which are interdependent. For example, certain income that is earned and taxed in countries outside the United States is not taxed in the United States, provided those earnings are indefinitely reinvested outside the United States. If these or other tax regulations should change, our financial results could be impacted.

In addition, our ability to manage regulatory, environmental, tax and legal matters (including product liability, patent, and other intellectual property matters), and to resolve pending legal matters without significant liability may materially impact our results of operations and financial position. Furthermore, if pending legal matters, including the competition law and antitrust investigations described in Note 9 of our Consolidated Financial Statements, Commitments and Contingencies, result in fines or costs in excess of the amounts accrued to date, that could materially impact our results of operations and financial position.

There are increasing calls in the United States from members of leadership in both major U.S. political parties for “comprehensive tax reform” which may significantly change the income tax rules that are applicable to U.S. domiciled corporations, such as P&G. It is very difficult to assess whether the overall effect of such potential legislation would be cumulatively positive or negative for P&G's earnings and cash flows.

A material change in customer relationships or in customer demand for our products could have a significant impact on our business.

We sell most of our products via retail customers, which consist of mass merchandisers, grocery stores, club stores, drug stores and high-frequency stores. Our success is dependent on our ability to successfully manage relationships with our retail trade customers. This includes our ability to offer trade terms that are acceptable to our customers and are aligned with our pricing and profitability targets. Our business could suffer if we cannot reach agreement with a key customer based on our trade terms and principles. Our business would be negatively impacted if a key customer were to significantly reduce the range or inventory level of our products.

Consolidation among our retail customers could create significant cost and margin pressure and lead to more complex work across broader geographic boundaries for both us and our key retailers. This would be particularly challenging if major customers are addressing local trade pressures, local law and regulation changes, or financial distress.

A failure of one or more key information technology systems, networks, processes, associated sites or service providers could have a material adverse impact on our business or reputation.

We rely extensively on information technology (IT) systems, networks, and services, including internet sites, data hosting and processing facilities and tools, and other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or their vendors, to assist in conducting our business. The various uses of these IT systems, networks, and services include, but are not limited to:

- ordering and managing materials from suppliers;
- converting materials to finished products;
- shipping product to customers;
- marketing and selling products to consumers;
- collecting and storing customer, consumer, employee, investor, and other stakeholder information and personal data;
- processing transactions;
- summarizing and reporting results of operations;
- hosting, processing, and sharing confidential and proprietary research, business plans, and financial information;
- complying with regulatory, legal or tax requirements;
- providing data security; and
- handling other processes necessary to manage our business.

Increased IT security threats and more sophisticated computer crime, including advanced persistent threats, pose a potential risk to the security of our IT systems, networks, and services, as well as the confidentiality, availability, and integrity of our data. If the IT systems, networks, or service providers we rely upon fail to function properly, or if we suffer a loss or disclosure of business or stakeholder information, due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our business continuity plans do not effectively address these failures on a timely basis, we may suffer interruptions in our ability to manage operations and reputational, competitive and/or business harm, which may adversely impact our results of operations and/or financial condition.

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

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period                 | Total Number of Shares Purchased<br>(1) | Average Price Paid per Share<br>(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 (\$ in billions) (3) |
|------------------------|---|-------------------------------------|--|--|
| 10/1/2012 - 10/31/2012 | 7,279,685                               | \$68.68                             | 7,279,685  |  |
| 11/1/2012 - 11/30/2012 | 3,631,398                               | \$68.83                             | 3,631,398  | See Note 3   |
| 12/1/2012 - 12/31/2012 | 9,285,360                               | \$70.01                             | 9,285,360  |  |

- The total number of shares purchased was 20,196,443 for the quarter. All transactions were made in the open market or pursuant to prepaid forward agreements with large financial institutions. Under these agreements, the Company prepays large financial institutions to deliver shares at future dates in exchange for a discount. 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 is calculated on a settlement basis and excludes commission.
- On January 25, 2013, the Company stated that fiscal year 2012-13 share repurchases to reduce Company shares outstanding are estimated to be \$5 billion to \$6 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 is expected to be financed by issuing a combination of long-term and short-term debt.

Item 6. Exhibits

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- 3-1 Amended Articles of Incorporation (as amended by shareholders at the annual meeting on October 11, 2011) (Incorporated by reference to Exhibit (3-1) of the Company's Form 10-Q for the quarter ended September 30, 2011).
- 3-2 Regulations (as amended by the Board of Directors effective January 16, 2012 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-Q for the quarter ended December 31, 2011.)
- 10-1 The Procter & Gamble 2009 Stock and Incentive Compensation Plan (incorporated by reference to Exhibit (10-3) of the Company's Form 10-Q for the quarter ended December 31, 2011) and the Regulations of the Compensation and Leadership Development Committee for The Procter & Gamble 2009 Stock and Incentive Plan The Procter & Gamble 2001 Stock and Incentive Compensation Plan, The Procter & Gamble 1992 Stock Plan, The Procter & Gamble 1992 Stock Plan (Belgian version), The Gillette Company 2004 Long-Term Incentive Plan, and The Gillette Company 1971 Stock Option Plan.\*
- 10-2 The Procter & Gamble 2009 Stock and Incentive Compensation Plan - Additional Terms and Conditions\*
- 10-3 Company's Forms of Separation Agreement and Release\*
- 10-4 Short Term Achievement Reward Program - Related Correspondence and Terms and Conditions\*
- 11 Computation of Earnings per Share.
- 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 <sup>(1)</sup> XBRL Instance Document
- 101.SCH <sup>(1)</sup> XBRL Taxonomy Extension Schema Document
- 101.CAL <sup>(1)</sup> XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF <sup>(1)</sup> XBRL Taxonomy Definition Linkbase Document

101.LAB <sup>(1)</sup> XBRL Taxonomy Extension Label Linkbase Document

101.PRE <sup>(1)</sup> XBRL Taxonomy Extension Presentation Linkbase Document

(1) XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

\* Compensatory plan or arrangement

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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

January 25, 2013

Date

/s/ VALARIE L. SHEPPARD

(Valarie L. Sheppard)

Senior Vice President and Comptroller

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EXHIBIT INDEX

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