

PROCTER & GAMBLE Co
Form 10-Q
January 26, 2016

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, 2015

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

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

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 2,704,565,560 shares of Common Stock outstanding as of December 31, 2015.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended December 31		Six Months Ended December 31	
Amounts in millions except per share amounts	2015	2014	2015	2014
NET SALES	\$16,915	\$18,495	\$33,442	\$37,266
Cost of products sold	8,460	9,558	16,612	19,292
Selling, general and administrative expense	4,602	5,358	9,209	10,762
OPERATING INCOME	3,853	3,579	7,621	7,212
Interest expense	143	160	283	330
Interest income	58	34	102	65
Other non-operating income, net	35	19	17	32
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,803	3,472	7,457	6,979
Income taxes on continuing operations	898	798	1,775	1,589
NET EARNINGS FROM CONTINUING OPERATIONS	2,905	2,674	5,682	5,390
NET EARNINGS/(LOSS) FROM DISCONTINUED OPERATIONS	323	(276)	181	(972)
NET EARNINGS	3,228	2,398	5,863	4,418
Less: Net earnings attributable to noncontrolling interests	22	26	56	56
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	\$3,206	\$2,372	\$5,807	\$4,362
BASIC NET EARNINGS PER COMMON SHARE: ⁽¹⁾				
Earnings from continuing operations	\$1.04	\$0.95	\$2.02	\$1.92
Earnings/(loss) from discontinued operations	0.12	(0.10)	0.07	(0.36)
BASIC NET EARNINGS PER COMMON SHARE	1.16	0.85	2.09	1.56
DILUTED NET EARNINGS PER COMMON SHARE: ⁽¹⁾				
Earnings from continuing operations	\$1.01	\$0.92	\$1.97	\$1.85
Earnings/(loss) from discontinued operations	0.11	(0.10)	0.06	(0.34)
DILUTED NET EARNINGS PER COMMON SHARE	1.12	0.82	2.03	1.51
DIVIDENDS PER COMMON SHARE	\$0.663	\$0.644	\$1.326	\$1.287
Diluted Weighted Average Common Shares Outstanding	2,864.6	2,885.2	2,865.8	2,886.8

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

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Three Months Ended December 31		Six Months Ended December 31	
Amounts in millions	2015	2014	2015	2014
NET EARNINGS	\$3,228	\$2,398	\$5,863	\$4,418
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX				
Financial statement translation	(955	) (2,091	) (1,978	) (4,927
Unrealized gains/(losses) on hedges	252	365	210	773
Unrealized gains/(losses) on investment securities	(28	) 1	(20	) (2
Unrealized gains/(losses) on defined benefit retirement plans	143	219	234	501
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	(588	) (1,506	) (1,554	) (3,655
TOTAL COMPREHENSIVE INCOME/(LOSS)	2,640	892	4,309	763
Less: Total comprehensive income attributable to noncontrolling interests	22	(18	) 56	(6
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO PROCTER & GAMBLE	\$2,618	\$910	\$4,253	\$769

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Amounts in millions	December 31, 2015	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$9,403	\$6,836
Available-for-sale investment securities	4,874	4,767
Accounts receivable	4,721	4,568
INVENTORIES		
Materials and supplies	1,425	1,266
Work in process	533	525
Finished goods	3,167	3,188
Total inventories	5,125	4,979
Deferred income taxes	1,173	1,356
Prepaid expenses and other current assets	1,828	2,708
Assets held for sale	9,223	4,432
TOTAL CURRENT ASSETS	36,347	29,646
PROPERTY, PLANT AND EQUIPMENT, NET	18,910	19,655
GOODWILL	44,157	44,622
TRADEMARKS AND OTHER INTANGIBLE ASSETS, NET	24,495	25,010
NONCURRENT ASSETS HELD FOR SALE	—	5,204
OTHER NONCURRENT ASSETS	5,234	5,358
TOTAL ASSETS	\$129,143	\$129,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$7,717	\$8,138
Accrued and other liabilities	7,945	8,091
Liabilities held for sale	2,460	1,543
Debt due within one year	13,931	12,018
TOTAL CURRENT LIABILITIES	32,053	29,790
LONG-TERM DEBT	17,595	18,327
DEFERRED INCOME TAXES	9,257	9,179
NONCURRENT LIABILITIES HELD FOR SALE	—	717
OTHER NONCURRENT LIABILITIES	7,936	8,432
TOTAL LIABILITIES	66,841	66,445
SHAREHOLDERS' EQUITY		
Preferred stock	1,062	1,077
Common stock – shares issued –	December 2015 4,009.2	
	June 2015 4,009.2	4,009
Additional paid-in capital	63,751	63,852
Reserve for ESOP debt retirement	(1,308)	(1,320)
Accumulated other comprehensive income/(loss)	(14,334)	(12,780)
Treasury stock	(78,469)	(77,226)
Retained earnings	86,917	84,807
Noncontrolling interest	674	631
TOTAL SHAREHOLDERS' EQUITY	62,302	63,050
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$129,143	\$129,495

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended December 31	
	2015	2014
Amounts in millions		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$6,836	\$8,558
OPERATING ACTIVITIES		
Net earnings	5,863	4,418
Depreciation and amortization	1,454	1,540
Share-based compensation expense	140	151
Deferred income taxes	140	31
Gain on sale of businesses	(37	) (299
Goodwill and indefinite-lived intangible asset impairment charges	402	1,713
Changes in:		
Accounts receivable	(488	) (342
Inventories	(386	) (506
Accounts payable, accrued and other liabilities	322	243
Other operating assets and liabilities	374	(164
Other	234	283
TOTAL OPERATING ACTIVITIES	8,018	7,068
INVESTING ACTIVITIES		
Capital expenditures	(1,223	) (1,642
Proceeds from asset sales	80	3,648
Acquisitions, net of cash acquired	(186	) (112
Purchases of short-term investments	(762	) (2,106
Proceeds from sales of short-term investments	683	179
Change in other investments	(31	) (836
TOTAL INVESTING ACTIVITIES	(1,439	) (869
FINANCING ACTIVITIES		
Dividends to shareholders	(3,733	) (3,614
Change in short-term debt	2,020	352
Additions to long-term debt	1,721	1,112
Reductions of long-term debt	(2,239	) (1,911
Treasury stock purchases	(2,503	) (4,253
Impact of stock options and other	1,007	2,009
TOTAL FINANCING ACTIVITIES	(3,727	) (6,305
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(285	) (248
CHANGE IN CASH AND CASH EQUIVALENTS	2,567	(354
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$9,403	\$8,204

See accompanying Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 and the Form 8-K filed October 26, 2015 to update the Form 10-K to revise disclosures to reflect discontinued operations related to the pending sale of certain Beauty Brands businesses, which was announced by the Company on July 9, 2015. For additional details on the transaction and discontinued operations, see Note 11. In the opinion of management, the accompanying unaudited Consolidated Financial Statements of The Procter & Gamble Company and subsidiaries (the "Company," "Procter & Gamble," "P&G," "we" or "our") contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, the results of operations included in such financial statements may not necessarily be indicative of annual results.

2. New Accounting Pronouncements and Policies

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. We will adopt the standard no later than July 1, 2018. While we are currently assessing the impact of the new standard, we do not expect this new guidance to have a material impact on our Consolidated Financial Statements.

On July 1, 2015, the Company adopted ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". The guidance included new reporting and disclosure requirements for discontinued operations. For additional details on discontinued operations, see Note 11.

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

As discussed in Note 11, the Beauty Brands, Batteries and Pet Care businesses are presented as discontinued operations and are excluded from segment results for all periods presented.

Following is a summary of segment results:

		Three Months Ended December 31			Six Months Ended December 31		
		Earnings/(Loss)			Earnings/(Loss)		
		from	Net		from	Net	
		Continuing	Earnings/(Loss)		Continuing	Earnings/(Loss)	
		Operations	from		Operations	from	
		Before	Continuing		Before	Continuing	
		Income	Operations		Income	Operations	
		Taxes			Taxes		
Beauty	2015	\$2,963	\$ 774	\$ 585	\$6,004	\$ 1,596	\$ 1,209
	2014	3,297	792	607	6,740	1,642	1,246
Grooming	2015	1,806	579	441	3,480	1,078	831
	2014	2,007	713	544	3,948	1,334	1,010
Health Care	2015	1,978	564	394	3,774	1,012	712
	2014	2,088	514	369	4,099	973	691
Fabric Care and Home Care	2015	5,347	1,177	773	10,598	2,297	1,520
	2014	5,773	1,081	705	11,705	2,162	1,424
Baby, Feminine and Family Care	2015	4,710	1,037	683	9,368	2,148	1,432
	2014	5,217	1,117	760	10,539	2,319	1,585
Corporate	2015	111	(328)	) 29	218	(674)	) (22)

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Total Company	2014	113	(745	)	(311	)	235	(1,451	)	(566	)
	2015	\$16,915	\$ 3,803		\$ 2,905		\$33,442	\$ 7,457		\$ 5,682	
	2014	18,495	3,472		2,674		37,266	6,979		5,390	

Amounts in millions of dollars unless otherwise specified.

4. Goodwill and Other Intangible Assets

Goodwill is allocated by reportable segment as follows:

	Beauty	Grooming	Health Care	Fabric Care and Home Care	Baby, Feminine and Family Care	Total Company
Goodwill at June 30, 2015	\$12,704	\$19,619	\$5,876	\$1,874	\$4,549	\$44,622
Acquisitions and divestitures	(2)	—	(2)	—	—	(4)
Translation and other	(146)	(196)	(54)	(22)	(43)	(461)
Goodwill at December 31, 2015	\$12,556	\$19,423	\$5,820	\$1,852	\$4,506	\$44,157

On July 9, 2015, the Company announced the signing of a definitive agreement to divest four product categories, initially comprised of 43 of its beauty brands ("Beauty Brands"), which will be merged with Coty, Inc. The transaction includes the global salon professional hair care and color, retail hair color and cosmetics businesses and a majority of the fine fragrances business, along with select hair styling brands (see Note 11). The Beauty Brands have historically been part of the Company's Beauty reportable segment (previously named Beauty, Hair and Personal Care). In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of the Beauty Brands are presented as discontinued operations. As a result, the goodwill attributable to the Beauty Brands as of June 30, 2015 and December 31, 2015 is excluded from the preceding table and is reported as Assets held for sale in the Consolidated Balance Sheets.

In November 2014, the Company reached an agreement to divest the Batteries business via a split transaction in an exchange of a recapitalized Duracell Company for Berkshire Hathaway's (BH) shares of P&G stock (see Note 11). Based on the terms of the agreement and the value of BH's shares of P&G stock, the Company recorded a non-cash, before-tax impairment charge of \$402 (\$350 after tax) during the six months ended December 31, 2015 to reduce the carrying amount of the Batteries business net assets held for sale. This charge was recorded in discontinued operations. The final transaction value will depend on the value of BH's shares of the Company as of the closing date, which is expected to occur early in calendar year 2016.

In addition to the discontinued operations impacts, Goodwill decreased from June 30, 2015 primarily due to currency translation.

The test to evaluate goodwill for impairment is a two-step process. In the first step, we compare the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying value, we perform a second step to determine the implied fair value of the reporting unit's goodwill. The second step of the impairment analysis requires a valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the resulting implied fair value of the reporting unit's goodwill is less than its carrying value, that difference represents an impairment.

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

Most of our goodwill reporting units are comprised of a combination of legacy and acquired businesses and as a result have fair value cushions that, at a minimum, exceed two times their underlying carrying values. Certain of our goodwill reporting units are comprised entirely of acquired businesses and as a result have fair value cushions that are not as high. While all of these wholly- acquired reporting units have fair value cushions that currently exceed 20% of the underlying carrying values, they are more susceptible to impairment risk from adverse changes in business operating plans and macroeconomic environment conditions. In addition, subsequent to June 30, 2015, the currencies from a number of countries continued to devalue relative to the U.S. dollar. This reduces the underlying cash flows used to estimate fair values and has contributed to the lower fair value cushions in these businesses. Further significant devaluation of currencies relative to the U.S. dollar could result in a decline in fair value that could trigger future

impairment charges.

Identifiable intangible assets at December 31, 2015 are comprised of:

	Gross Carrying Amount	Accumulated Amortization	
Intangible assets with determinable lives	\$7,451	\$(4,487	)
Intangible assets with indefinite lives	21,531	—	
Total identifiable intangible assets	\$28,982	\$(4,487	)

Amounts in millions of dollars unless otherwise specified.

Due to the pending divestitures of the Beauty Brands and Batteries business, intangible assets specific to these businesses are reported as Assets held for sale (see Note 11).

Intangible assets with determinable lives consist of brands, patents, technology and customer relationships. The intangible assets with indefinite lives consist of brands. The amortization expense of intangible assets for the three months ended December 31, 2015 and 2014 was \$99 and \$116, respectively. For the six months ended December 31, 2015 and 2014, the amortization expense of intangible assets was \$203 and \$235, respectively.

5. Share-Based Compensation and Postretirement Benefits

Total share-based compensation expense for the three months ended December 31, 2015 and 2014 was \$74 and \$70, respectively. Total share-based compensation expense for the six months ended December 31, 2015 and 2014 was \$140 and \$151, respectively.

The Company offers various postretirement benefits to its employees. The total net periodic benefit cost for pension benefits for the three months ended December 31, 2015 and 2014 was \$85 and \$111, respectively. The total net periodic benefit cost for pension benefits for the six months ended December 31, 2015 and 2014 was \$171 and \$228, respectively. The total net periodic benefit cost/(benefit) for other retiree benefits for the three months ended December 31, 2015 and 2014 was \$(25) and \$6, respectively. The total net periodic benefit cost/(benefit) for other retiree benefits for the six months ended December 31, 2015 and 2014 was \$(49) and \$10, respectively. The components of the total net periodic benefit cost for both pension benefits and other retiree benefits for those interim periods, on an annualized basis, do not differ materially from the amounts disclosed in the Form 8-K filed October 26, 2015 to update the Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

The disclosures above for both share-based compensation and postretirement benefits include amounts related to discontinued operations which were not material in any period presented.

6. 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.

The Company has not changed its valuation techniques used in measuring the fair value of any financial assets and liabilities during the period. The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter. There were no transfers between levels during the periods presented. Also, there was no significant activity within the Level 3 assets and liabilities during the periods presented. Except for the impairment charges related to our Batteries business (see Note 4), there were no assets or liabilities that were remeasured at fair value on a non-recurring basis for the six months ended December 31, 2015.

The following table sets forth the Company's financial assets as of December 31, 2015 and June 30, 2015 that are measured at fair value on a recurring basis during the period:

	Fair Value Asset	
	December 31, 2015	June 30, 2015
Investments		
U.S. government securities	\$3,582	\$3,495
Corporate bond securities	1,292	1,272
Other investments	30	30
Total	\$4,904	\$4,797

Investment securities are presented in Available-for-sale investment securities and Other noncurrent assets. The amortized cost of U.S. government securities with maturities less than one year was \$601 as of December 31, 2015 and \$700 as of June 30, 2015. The amortized cost of U.S. government securities with maturities between one and five years was \$2,991 as of December 31, 2015 and \$2,789 as of June 30, 2015. The amortized cost of Corporate bond securities with maturities of less than a year was \$318 as of December 31, 2015 and \$221 as of June 30, 2015. The amortized cost of Corporate bond securities with maturities between one and five years was \$978 as of December 31, 2015 and \$1,052 as of June 30, 2015. The Company's investments measured at fair value are generally classified as Level 2 within the fair value hierarchy. There are no material investment balances classified as either Level 1 or Level

3 within the fair value hierarchy. Fair values are generally estimated based upon quoted market prices for similar instruments.

The fair value of long-term debt was \$22,174 and \$23,127 as of December 31, 2015 and June 30, 2015, respectively. This includes the current portion (\$2,644 and \$2,776 as of December 31, 2015 and June 30, 2015, respectively) of debt instruments. Certain long-term debt is recorded at fair value. Certain long-term debt is not recorded at fair value on a recurring basis, but is measured

Amounts in millions of dollars unless otherwise specified.

at fair value for disclosure purposes. Long-term debt with fair value of \$2,312 and \$2,180 as of December 31, 2015 and June 30, 2015, respectively, is classified as Level 2 within the fair value hierarchy. All remaining long-term debt is classified as Level 1 within the fair value hierarchy. Fair values are generally estimated based on quoted market prices for identical or similar instruments.

The following table sets forth the notional amounts and fair values of qualifying and non-qualifying financial instruments used in hedging transactions as of December 31, 2015 and June 30, 2015:

	Notional Amount		Fair Value Asset/(Liability)	
	December 31, 2015	June 30, 2015	December 31, 2015	June 30, 2015
Derivatives in Cash Flow Hedging Relationships				
Foreign currency contracts	\$825	\$951	\$168	\$312
Derivatives in Fair Value Hedging Relationships				
Interest rate contracts	\$4,963	\$7,208	\$198	\$159
Derivatives in Net Investment Hedging Relationships				
Net investment hedges	\$412	\$537	\$(3	) \$95
Derivatives Not Designated as Hedging Instruments				
Foreign currency contracts	\$6,431	\$6,610	\$(25	) \$(55)

All derivative assets are presented in Prepaid expenses and other current assets or Other noncurrent assets. All derivative liabilities are presented in Accrued and other liabilities or Other noncurrent liabilities. The total notional amount of contracts outstanding at the end of the period is indicative of the Company's derivative activity during the period. All of the Company's derivative assets and liabilities measured at fair value are classified as Level 2 within the fair value hierarchy.

	Amount of Gain/(Loss) Recognized in AOCI on Derivatives (Effective Portion)	
	December 31, 2015	June 30, 2015
Derivatives in Cash Flow Hedging Relationships		
Interest rate contracts	\$(2	) \$(1)
Foreign currency contracts	(3	) 5
Total	\$(5	) \$4
Derivatives in Net Investment Hedging Relationships		
Net investment hedges	\$(2	) \$60

During the next 12 months, the amount of the December 31, 2015 Accumulated other comprehensive income (AOCI) balance that will be reclassified to earnings is expected to be immaterial.

Amounts in millions of dollars unless otherwise specified.

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, 2015 and 2014 are as follows:

	Amount of Gain/(Loss) Reclassified from AOCI into Earnings			
	Three Months Ended December 31		Six Months Ended December 31	
	2015	2014	2015	2014
Derivatives in Cash Flow Hedging Relationships ⁽¹⁾				
Interest rate contracts	\$1	\$1	\$3	\$3
Foreign currency contracts	8	66	(1	) 128
Total	\$9	\$67	\$2	\$131

	Amount of Gain/(Loss) Recognized in Earnings			
	Three Months Ended		Six Months Ended December	
	December 31		31	
	2015	2014	2015	2014
Derivatives in Fair Value Hedging Relationships ⁽²⁾				
Interest rate contracts	\$ (50	) \$ 60	\$ 39	\$ 83
Debt	50	(60	) (39	) (83
Total	\$—	\$—	\$—	\$—
Derivatives in Net Investment Hedging Relationships ⁽²⁾				
Net investment hedges	\$—	\$—	\$—	\$ (1
Derivatives Not Designated as Hedging Instruments ⁽³⁾				
Foreign currency contracts	\$ (158	) \$ (316	) \$ (220	) \$ (729

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

(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 foreign currency contracts not designated as hedging instruments is included in the Consolidated Statements of Earnings in SG&A. This gain or loss substantially offsets the foreign currency mark-to-market impact of the related exposure.

7. Accumulated Other Comprehensive Income/(Loss)

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

	Changes in Accumulated Other Comprehensive Income/(Loss) by Component								
	Hedges		Investment Securities		Pension and Other Retiree Benefits		Financial Statement Translation		Total
Balance at June 30, 2015	\$(2,642	)	\$6	)	\$(4,321	)	\$(5,823	)	\$(12,780
OCI before reclassifications ⁽¹⁾	211		(20	)	117		(1,978	)	(1,670
Amounts reclassified from AOCI ⁽²⁾ ⁽³⁾	(1	)	—		117		—		116
Net current period OCI	210		(20	)	234		(1,978	)	(1,554
Balance at December 31, 2015	\$(2,432	)	\$(14	)	\$(4,087	)	\$(7,801	)	\$(14,334

(1) Net of tax expense/(benefit) of \$132, \$1 and \$23 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively.

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- (2) Net of tax expense/(benefit) of \$(1), \$0 and \$44 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively.

See Note 6 for classification of gains and losses from hedges in the Consolidated Statements of Earnings. Gains and losses on investment securities are reclassified from AOCI into Other non-operating income/(loss), net. Gains and losses on pension and other retiree benefits are reclassified from AOCI into Cost of products sold and SG&A and are included in the computation of net periodic pension costs.

Amounts in millions of dollars unless otherwise specified.

8. Earnings Per Share

Net earnings attributable to Procter & Gamble less preferred dividends (net of related tax benefits) are divided by the weighted average number of common shares outstanding during the period to calculate basic net earnings per common share. Diluted net earnings per common share are calculated to give effect to stock options and other stock-based awards and assume conversion of preferred stock. Net earnings attributable to Procter & Gamble and common shares used to calculate basic and diluted net earnings per share were as follows:

CONSOLIDATED AMOUNTS	Three Months Ended December 31, 2015			Three Months Ended December 31, 2014		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net earnings/(loss)	\$2,905	\$ 323	\$3,228	\$2,674	\$ (276)	\$2,398
Net earnings attributable to noncontrolling interests	(22)	—	(22)	(24)	(2)	(26)
Net earnings/(loss) attributable to P&G (Diluted)	2,883	323	3,206	2,650	(278)	2,372
Preferred dividends, net of tax benefit	(64)	—	(64)	(70)	—	(70)
Net earnings/(loss) attributable to P&G available to Common Shareholders (Basic)	\$2,819	\$ 323	\$3,142	\$2,580	\$ (278)	\$2,302

SHARES IN MILLIONS

Basic weighted average common shares outstanding	2,718.9	2,718.9	2,718.9	2,705.7	2,705.7	2,705.7
Effect of dilutive securities						
Conversion of preferred shares ⁽¹⁾	104.7	104.7	104.7	109.1	109.1	109.1
Exercise of stock options and other unvested equity awards ⁽²⁾	41.0	41.0	41.0	70.4	70.4	70.4
Diluted weighted average common shares outstanding	2,864.6	2,864.6	2,864.6	2,885.2	2,885.2	2,885.2

PER SHARE AMOUNTS ⁽³⁾

Basic net earnings/(loss) per common share	\$1.04	\$ 0.12	\$1.16	\$0.95	\$ (0.10)	\$0.85
Diluted net earnings/(loss) per common share	\$1.01	\$ 0.11	\$1.12	\$0.92	\$ (0.10)	\$0.82

CONSOLIDATED AMOUNTS	Six Months Ended December 31, 2015			Six Months Ended December 31, 2014		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net earnings/(loss)	\$5,682	\$ 181	\$5,863	\$5,390	\$ (972)	\$4,418
Net earnings attributable to noncontrolling interests	(56)	—	(56)	(49)	(7)	(56)
Net earnings/(loss) attributable to P&G (Diluted)	5,626	181	5,807	5,341	(979)	4,362
Preferred dividends, net of tax benefit	(129)	—	(129)	(130)	—	(130)
Net earnings/(loss) attributable to P&G available to Common Shareholders (Basic)	\$5,497	\$ 181	\$5,678	\$5,211	\$ (979)	\$4,232

SHARES IN MILLIONS

Basic weighted average common shares outstanding	2,719.5	2,719.5	2,719.5	2,708.2	2,708.2	2,708.2
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Effect of dilutive securities						
Conversion of preferred shares ⁽¹⁾	105.2	105.2	105.2	109.7	109.7	109.7
Exercise of stock options and other unvested equity awards ⁽²⁾	41.1	41.1	41.1	68.9	68.9	68.9
Diluted weighted average common shares outstanding	2,865.8	2,865.8	2,865.8	2,886.8	2,886.8	2,886.8
PER SHARE AMOUNTS ⁽³⁾						
Basic net earnings/(loss) per common share	\$2.02	\$ 0.07	\$2.09	\$1.92	\$ (0.36)	) \$1.56
Diluted net earnings/(loss) per common share	\$1.97	\$ 0.06	\$2.03	\$1.85	\$ (0.34)	) \$1.51

Amounts in millions of dollars unless otherwise specified.

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

Outstanding stock options of approximately 48 million and less than 1 million for the three months ended December 31, 2015 and 2014, respectively, and approximately 69 million and less than 1 million for the six (2) months ended December 31, 2015 and 2014, respectively, were not included in the diluted net earnings per share calculation because the options were out of the money or to do so would have been antidilutive (i.e., the total proceeds upon exercise would have exceeded the market value of the underlying common shares).

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

9. Restructuring Program

The Company has historically incurred an ongoing annual level of restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization. Before-tax costs incurred under the ongoing program have generally ranged from \$250 to \$500 annually. In fiscal 2012, the Company initiated 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 \$5 billion in before-tax restructuring costs over a six year period (from fiscal 2012 through fiscal 2017), including costs incurred as part of the ongoing and incremental restructuring program. The program includes a non-manufacturing overhead enrollment reduction target of 25% - 30% by the end of fiscal 2017.

Through fiscal 2015, the Company reduced non-manufacturing enrollment by approximately 12,600, or approximately 21%. Through December 31, 2015, the Company reduced non-manufacturing enrollment by approximately 13,500, or approximately 23%. The reductions are enabled by the elimination of duplicate work, simplification through the use of technology and optimization of various functional and business organizations and the Company's global footprint. In addition, the plan includes integration of newly acquired companies and the optimization of the supply chain and other manufacturing processes.

Restructuring costs incurred consist primarily of costs to separate employees, asset-related costs to exit facilities and other costs. Through fiscal 2015, the Company incurred charges of approximately \$3.9 billion. Approximately \$2.0 billion of these charges were related to separations, \$954 were asset-related costs and \$944 were related to other restructuring-type costs.

For the three and six month periods ended December 31, 2015, the Company incurred total restructuring charges of approximately \$219 and \$362, respectively. For the three and six month periods ended December 31, 2015 approximately \$46 and \$89 of these charges were recorded in SG&A, respectively. For the three and six month periods ended December 31, 2015 approximately \$163 and \$253 of these charges were recorded in Cost of products sold, respectively. The remainder of the charges was included in discontinued operations. The following table presents restructuring activity for the six months ended December 31, 2015:

Six Months Ended December 31, 2015						
	Accrual Balance June 30, 2015	Charges Previously Reported (Three Months Ended September 30, 2015)	Charges for the Three Months Ended December 31, 2015	Cash Spent	Charges Against Assets	Accrual Balance December 31, 2015
Separations	\$362	\$55	\$70	\$(199)	\$—	\$288
Asset-related costs	—	50	69	—	(119)	—
Other costs	27	38	80	(86)	—	59

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Total \$389 \$143 \$219 \$(285) \$(119) \$347

Separation Costs

Employee separation charges for the three and six month periods ended December 31, 2015 relate to severance packages for approximately 860 and 1,470 employees, respectively. Separations related to non-manufacturing employees were approximately 240 and 490 employees for the three and six month periods ended December 31, 2015. The packages are predominantly voluntary and the amounts are calculated based on salary levels and past service periods. Severance costs related to voluntary separations are generally charged to earnings when the employee accepts the offer. Since its inception, the restructuring program has incurred separation charges related to approximately 15,770 employees, of which approximately 9,110 are non-manufacturing overhead personnel.

Asset-Related Costs

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

Other Costs

Other restructuring-type charges are incurred as a direct result of the restructuring program. Such charges primarily include employee relocation related to separations and office consolidations, termination of contracts related to supply chain redesign and the cost to change internal systems and processes to support the underlying organizational changes. Consistent with our historical policies for ongoing restructuring-type activities, the restructuring program charges are funded by and included within Corporate for both management and segment reporting. Accordingly, all of the charges under the program are included within the Corporate reportable segment. However, for informative purposes, the following table summarizes the total restructuring costs related to our reportable segments:

	Three Months Ended December 31, 2015	Six Months Ended December 31, 2015
Beauty	\$9	\$28
Grooming	8	16
Health Care	5	10
Fabric Care and Home Care	87	106
Baby, Feminine and Family Care	26	56
Corporate ⁽¹⁾	84	146
Total Company	\$219	\$362

Corporate includes costs related to allocated overheads, including charges related to our Sales and Market

⁽¹⁾ Operations, Global Business Services and Corporate Functions activities and costs related to discontinued operations from our Batteries and Beauty Brands businesses.

10. Commitments and Contingencies

Litigation

The Company is subject to various legal proceedings and claims arising out of our business which cover a wide range of matters such as antitrust, trade and other governmental regulations, product liability, patent and trademark, advertising, contracts, environmental, labor and employment and tax. With respect to these and other litigation and claims, while considerable uncertainty exists, in the opinion of management and our counsel, the ultimate resolution of the various lawsuits and claims will not materially affect our financial position, results of operations or cash flows. We are also subject to contingencies pursuant to environmental laws and regulations that in the future may require us to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Based on currently available information, we do not believe the ultimate resolution of environmental remediation will materially affect our financial position, results of operations or cash flows.

Income Tax Uncertainties

The Company is present in approximately 140 taxable jurisdictions and, at any point in time, has 60 – 70 jurisdictional audits underway at various stages of completion. We evaluate our tax positions and establish liabilities for uncertain

tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law and closing of statutes of limitations. Such adjustments are reflected in the tax provision as appropriate. We have tax years open ranging from 2002 and forward. We are generally not able to reliably estimate the ultimate settlement amounts until the close of the audit. Based on information currently available, we anticipate that over the next 12 month period, audit activity could be completed related to uncertain tax positions in multiple jurisdictions for which we have accrued liabilities of approximately \$300, including interest and penalties.

Additional information on the Commitments and Contingencies of the Company can be found in the Form 8-K filed October 26, 2015 to update the Annual Report on Form 10-K for the year ended June 30, 2015.

Amounts in millions of dollars unless otherwise specified.

11. Discontinued Operations

On July 9, 2015, the Company announced the signing of a definitive agreement to divest four product categories which will be merged with Coty, Inc. ("Coty"). The divestiture was initially comprised of 43 of the Company's beauty brands ("Beauty Brands"), including the global salon professional hair care and color, retail hair color, cosmetics and fine fragrance businesses, along with select hair styling brands. Subsequent to signing, two of the fine fragrance brands, Dolce & Gabbana and Christina Aguilera, were excluded from the divestiture. While the ultimate form of the transaction has not yet been decided, the Company's current preference is for a Reverse Morris Trust split-off transaction in which P&G shareholders could elect to participate in an exchange offer to exchange their P&G shares for Coty shares. The Company expects to close the transaction in the second half of calendar year 2016, pending regulatory approvals.

Coty's offer for the Beauty Brands, which was accepted by the Company, was \$12.5 billion. The final value of the transaction will be determined at closing. Based on Coty's stock price and outstanding shares and equity grants as of December 31, 2015, the value of the transaction was approximately \$13.0 billion. The value is comprised of approximately 413 million shares, or 52% of the diluted equity of the newly combined company, valued at approximately \$10.6 billion and the assumption of debt of \$2.4 billion by the entity holding the Beauty Brands immediately prior to close of the transaction. The assumed debt is expected to vary between \$3.9 billion and \$1.9 billion, depending on a \$22.06 to \$27.06 per share collar of Coty's stock based on the trading price prior to the close of the transaction, but will be subject to other contractual valuation adjustments.

The Beauty Brands were historically part of the Company's Beauty reportable segment. In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of the Beauty Brands are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. Additionally, the Beauty Brands' balance sheet positions as of December 31, 2015 and June 30, 2015 are presented as assets and liabilities held for sale in the Consolidated Balance Sheets.

In November 2014, the Company reached an agreement to divest its Batteries business to Berkshire Hathaway (BH) via a split transaction, in which the Company will exchange a recapitalized Duracell Company for BH's shares of P&G stock. As of the date the transaction was signed, BH's shares were valued at \$4.7 billion. As of December 31, 2015, this value has declined to \$4.2 billion. The Company expects to contribute approximately \$1.8 billion in cash to the Duracell Company in the pre-transaction recapitalization, subject to final working capital adjustments. The Company recorded goodwill and indefinite-lived asset impairment charges during the six months ended December 31, 2015 which reflected the total estimated proceeds from the BH transaction (see Note 4). Because the number of shares of P&G stock the Company will receive in the Batteries transaction is fixed, the total value to be received in the transaction will be based on the Company's share price as of the closing date, which is expected to occur early in calendar year 2016.

The Batteries business has historically been part of the Company's Fabric Care and Home Care reportable segment. In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of the Batteries business are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. Additionally, the Batteries balance sheet positions as of December 31, 2015 and June 30, 2015 are presented as assets and liabilities held for sale in the Consolidated Balance Sheets.

On July 31, 2014, the Company completed the divestiture of its Pet Care operations in North America, Latin America and other selected countries to Mars, Incorporated (Mars) for \$2.9 billion in an all-cash transaction. Under the terms of the agreement, Mars acquired our branded pet care products and our manufacturing sites in the United States and assumed the majority of the employees working in the Pet Care business. The European Union countries were not included in the agreement with Mars. In December 2014, the Company completed the divestiture of its Pet Care operations in Western Europe to Spectrum Brands in an all-cash transaction. Under the terms of the agreement, Spectrum Brands acquired our branded pet care products and our manufacturing site in the Netherlands and assumed the majority of the employees working in the Western Europe Pet Care business. The one-time after-tax impact of these transactions was not material.

The Pet Care business was historically part of the Company's Health Care reportable segment. In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of the Pet Care business are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for

all periods presented.

On July 1, 2015, the Company adopted ASU 2014-08, which included new reporting and disclosure requirements for discontinued operations. The new requirements are effective for discontinued operations occurring on or after the adoption date, which includes the Beauty Brands divestiture. All other discontinued operations prior to July 1, 2015 are reported based on the previous disclosure requirements for discontinued operations, including the Batteries and Pet Care divestitures.

Amounts in millions of dollars unless otherwise specified.

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The following table summarizes total Net earnings/(loss) from discontinued operations and reconciles to the Consolidated Statements of Earnings:

	Three Months Ended December 31		Six Months Ended December 31	
	2015	2014	2015	2014
Beauty Brands	\$238	\$301	\$388	\$425
Batteries	85	(586)	(207)	(1,423)
Pet Care	—	9	—	26
Net earnings/(loss) from discontinued operations	\$323	\$(276)	\$181	\$(972)

The Beauty Brands incurred transition costs of \$18 for the six months ended December 31, 2015. On January 26, 2016, Beauty Brands drew on its Term B loan of \$1.0 billion. The proceeds will be held in restricted cash in escrow until the anticipated legal integration activities prior to close. Beauty Brands has additional debt funding commitments of \$3.5 billion.

The following table summarizes total assets and liabilities held for sale and reconciles to the Consolidated Balance Sheets:

	December 31, 2015			June 30, 2015		
	Beauty Brands	Batteries	Total	Beauty Brands	Batteries	Total
Current assets held for sale	\$6,026	\$3,197	\$9,223	\$922	\$3,510	\$4,432
Noncurrent assets held for sale	—	—	—	5,204	—	5,204
Total assets held for sale	\$6,026	\$3,197	\$9,223	\$6,126	\$3,510	\$9,636
Current liabilities held for sale	\$1,247	\$1,213	\$2,460	\$356	\$1,187	\$1,543
Noncurrent liabilities held for sale	—	—	—	717	—	717
Total liabilities held for sale	\$1,247	\$1,213	\$2,460	\$1,073	\$1,187	\$2,260

The following is selected financial information included in Net earnings/(loss) from discontinued operations for the Beauty Brands:

	Beauty Brands Three Months Ended December 31		Six Months Ended December 31	
	2015	2014	2015	2014
Net sales	\$1,404	\$1,666	\$2,623	\$3,081
Cost of products sold	443	525	828	1,000
Selling, general and administrative expense	664	773	1,311	1,568
Other non-operating income/(loss), net	(3)	—	(2)	8
Earnings from discontinued operations before income taxes	\$294	\$368	\$482	\$521
Income taxes on discontinued operations	56	67	94	96
Net earnings from discontinued operations	\$238	\$301	\$388	\$425

The following is selected financial information included in cash flows from discontinued operations for the Beauty Brands:

	Beauty Brands Six Months Ended December 31	
	2015	2014
SIGNIFICANT NON-CASH OPERATING ITEMS		
Depreciation and amortization	\$52	\$64
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	\$(35)	\$(48)

Amounts in millions of dollars unless otherwise specified.

The major components of assets and liabilities of the Beauty Brands held for sale are provided below. The assets and liabilities held for sale will evolve up to the closing date for normal operational changes as well as contractual adjustments including the assumption of debt, pension plan funding and other provisions.

	Beauty Brands		
	December 31, 2015 ⁽¹⁾	June 30, 2015	
Cash	\$ 12	\$ 9	
Accounts receivable	352	293	
Inventories	495	476	
Prepaid expenses and other assets	51	144	
Property, plant and equipment, net	586	613	(2)
Goodwill and intangible assets, net	4,443	4,513	(2)
Other noncurrent assets	87	78	(2)
Total current assets held for sale	\$6,026	\$922	
Total noncurrent assets held for sale	—	5,204	
Total assets held for sale	\$6,026	\$6,126	
Accounts payable	\$ 160	\$ 118	
Accrued and other liabilities	340	238	
Noncurrent deferred tax liabilities	365	352	(2)
Other noncurrent liabilities	382	365	(2)
Total current liabilities held for sale	\$ 1,247	\$ 356	
Total noncurrent liabilities held for sale	—	717	
Total liabilities held for sale	\$ 1,247	\$ 1,073	

The Company expects the Beauty Brands transaction to close in the second half of calendar year 2016. Therefore,

⁽¹⁾ for the period ended December 31, 2015, all assets and liabilities held for sale are reported as current assets and liabilities held for sale on the Consolidated Balance Sheets.

⁽²⁾ Amounts as of June 30, 2015 are reflected as part of the noncurrent assets and liabilities held for sale.

Amounts in millions of dollars unless otherwise specified.

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The following is selected financial information included in Net earnings/(loss) from discontinued operations for the Batteries and Pet Care businesses:

	Three Months Ended December 31				Six Months Ended December 31			
	2015	2014			2015	2014		
	Batteries	Batteries	Pet Care	Total	Batteries	Batteries	Pet Care	Total
Net sales	\$691	\$782	\$72	\$854	\$1,197	\$1,388	\$235	\$1,623
Earnings before impairment charges and income taxes	138	257	(5	) 252	231	393	14	407
Impairment charges	—	(740	)—	(740)	(402)	(1,713	)—	(1,713)
Income tax (expense)/benefit	(53	) (103	)—	(103)	(36)	(103	) (6	) (109)
Gain on sale before income taxes	—	—	13	13	—	—	205	205
Income tax (expense)/benefit on sale	—	—	1	1	—	—	(187	) (187)
Net earnings/(loss) from discontinued operations	\$85	\$(586	) \$9	\$(577)	\$(207)	\$(1,423	) \$26	\$(1,397)

The major components of current assets and current liabilities of the Batteries business held for sale were as follows:

	Batteries	
	December 31, 2015	June 30, 2015
Cash	\$28	\$25
Accounts Receivable	297	245
Inventories	306	304
Prepaid expenses and other current assets	22	28
Property, plant and equipment, net	508	496
Goodwill and intangible assets, net	2,025	2,389
Other noncurrent assets	11	23
Total current assets held for sale	\$3,197	\$3,510
Accounts payable	\$183	\$195
Accrued and other liabilities	278	194
Long-term debt	23	18
Noncurrent deferred tax liabilities	729	780
Total current liabilities held for sale	\$1,213	\$1,187

Amounts in millions of dollars unless otherwise specified.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements may appear throughout this report, including without limitation, the following sections:

"Management's Discussion and Analysis," "Risk Factors," and Notes 4, 10 and 11 to the Consolidated Financial Statements. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions, which are subject to risks and uncertainties that may cause results to differ materially from those expressed or implied in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise.

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

The purpose of Management's Discussion and Analysis (MD&A) is to provide an understanding of Procter & Gamble's financial condition, results of operations and cash flows by focusing on changes in certain key measures from year to year. 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 – Six Months Ended December 31, 2015

Economic Conditions and Uncertainties

Results of Operations – Three and Six Months Ended December 31, 2015

Business Segment Discussion – Three and Six Months Ended December 31, 2015

Liquidity and Capital Resources

Reconciliation of Measures Not Defined by U.S. GAAP

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 (Core EPS), free cash flow and adjusted free cash flow productivity. Organic sales growth is net sales growth excluding the impacts of the Venezuela deconsolidation, acquisitions, divestitures and foreign exchange from year-over-year comparisons. Core EPS is 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. Adjusted free cash flow productivity is the ratio of free cash flow to net earnings excluding impairment charges on the Batteries business. We believe these measures provide our investors with additional information about our underlying results and trends, as well as insight to some of the metrics used to evaluate management. 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

P&G is a global leader in fast-moving consumer goods, focused on providing branded consumer packaged goods of superior quality and value to our consumers around the world. Our products are sold in more than 180 countries and territories primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, distributors, e-commerce, high-frequency stores and pharmacies. We have on-the-ground operations in approximately 70 countries.

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

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

Reportable Segment	Global Business Units (Categories)	Billion Dollar Brands
Beauty	Skin and Personal Care (Antiperspirant and Deodorant, Personal Cleansing, Skin Care); Hair Care	Head & Shoulders, Olay, Pantene, SK-II
Grooming	Shave Care (Female Blades & Razors, Male Blades & Razors, Pre- and Post-Shave Products, Other Shave Care); Electronic Hair Removal	Fusion, Gillette, Mach3, Prestobarba
Health Care	Personal Health Care (Gastrointestinal, Rapid Diagnostics, Respiratory, Vitamins/Minerals/Supplements, Other Personal Health Care); Oral Care (Toothbrush, Toothpaste, Other Oral Care)	Crest, Oral-B, Vicks
Fabric Care and Home Care	Fabric Care (Laundry Additives, Fabric Enhancers, Laundry Detergents); Home Care (Air Care, Dish Care, P&G Professional, Surface Care)	Ariel, Dawn, Downy, Febreze, Gain, Tide
Baby, Feminine and Family Care	Baby Care (Baby Wipes, Diapers and Pants); Feminine Care (Adult Incontinence, Feminine Care); Family Care (Paper Towels, Tissues, Toilet Paper)	Always, Bounty, Charmin, Pampers

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The following table provides the percentage of net sales and net earnings by reportable business segment for the three and six months ended December 31, 2015 (excluding net sales and net earnings in Corporate):

	Three Months Ended December 31, 2015		Six Months Ended December 31, 2015	
	Net Sales	Net Earnings	Net Sales	Net Earnings
Beauty	17%	20%	18%	21%
Grooming	11%	15%	11%	15%
Health Care	12%	14%	11%	12%
Fabric Care and Home Care	32%	27%	32%	27%
Baby, Feminine and Family Care	28%	24%	28%	25%
Total Company	100%	100%	100%	100%

SUMMARY OF RESULTS

Following are highlights of results for the six months ended December 31, 2015 versus the six months ended December 31, 2014:

- Net sales decreased 10% versus the previous year to \$33.4 billion. Organic sales, which exclude the impacts of acquisitions and divestitures, foreign exchange and Venezuela deconsolidation, were unchanged. Organic sales increased 1% in Fabric Care and Home Care, Grooming and Health Care, decreased 2% in Baby, Feminine and Family Care, and were unchanged in Beauty.

Unit volume decreased 4% on an all-in and 3% on an organic basis. Volume decreased low single digits in Fabric Care and Home Care and Grooming. Volume decreased mid-single digits in Health Care and Baby, Feminine and Family Care and was down high single digits in Beauty.

Net earnings from continuing operations were \$5.7 billion, an increase of \$292 million, or 5% versus the prior year period. This increase was driven primarily by operating margin expansion, which more than offset the reduction in net sales.

Diluted net earnings per share from continuing operations increased 6% to \$1.97.

Net earnings attributable to Procter & Gamble were \$5.8 billion, an increase of \$1.4 billion, or 33% versus the prior year period. This was primarily driven by higher base period impairment charges in discontinued operations related to our Batteries business, as well as the increase in net earnings from continuing operations.

Core net earnings per share, which excludes discontinued operations, incremental restructuring charges, prior year charges for balance sheet remeasurement related to the Venezuelan currency and charges for certain European legal matters, increased 4% to \$2.02.

Operating cash flow was \$8.0 billion. Free cash flow, which is operating cash flow less capital expenditures, was \$6.8 billion. Adjusted free cash flow productivity, which is the ratio of free cash flow to net earnings excluding impairment charges on the Batteries business, was 109%.

ECONOMIC CONDITIONS AND UNCERTAINTIES

Global Economic Conditions. Current macroeconomic factors remain dynamic, and any causes of market size contraction, such as reduced GDP in commodity-dependent economies as commodity prices decline, greater political unrest in the Middle East and Eastern Europe, further economic instability in the European Union, political instability in certain Latin American markets and economic slowdowns in Japan and China, could reduce our sales or erode our operating margin, in either case reducing our earnings.

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

could be a negative impact on our operating margin and net earnings.

Foreign Exchange. We have both translation and transaction exposure to the fluctuation of exchange rates.

Translation exposures relate to exchange rate impacts of measuring income statements of foreign subsidiaries that do not use the U.S. dollar as their functional currency. Transaction exposures relate to 1) the impact from input costs that are denominated in a currency other than the local reporting currency and 2) the revaluation of transaction-related working capital balances denominated in currencies other than the functional currency. In 2015 and 2014, the U.S. dollar has strengthened versus a number of foreign currencies leading to lower sales and earnings from these foreign exchange impacts. Certain countries experiencing significant exchange rate fluctuations, like Argentina, Brazil, Japan, Mexico and Russia have had, and could have, an additional significant impact on our sales, costs and earnings. Increased pricing in response to these fluctuations in foreign currency exchange rates may offset portions of the currency impacts, but could also have a negative impact on consumption of our products, which would affect our sales.

Government Policies. Our net earnings could be affected by changes in U.S. or foreign government tax policies. For example, the U.S. is considering corporate tax reform that may significantly impact the corporate tax rate and change the U.S. tax treatment of international earnings. Additionally, we attempt to carefully manage our debt and currency exposure in certain countries with currency exchange, import authorization and pricing controls, such as Argentina, Egypt, Nigeria and Ukraine. Changes in government policies in these areas might cause an increase or decrease in our sales, operating margin and net earnings. During fiscal 2015, the Company deconsolidated its Venezuelan subsidiaries due to evolving conditions that resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar and restricted our ability to pay dividends and satisfy certain other obligations denominated in U.S. dollars.

For information on risk factors that could impact our results, refer to Part I, Item 1A "Risk Factors" in the Company's Form 10-K for the fiscal year ended June 30, 2015.

RESULTS OF OPERATIONS – Three Months Ended December 31, 2015

The following discussion provides a review of results for the three months ended December 31, 2015 versus the three months ended December 31, 2014.

Amounts in millions, except per share amounts	Three Months Ended December 31			
	2015	2014	% Chg	
Net sales	\$16,915	\$18,495	(9	)%
Operating income	3,853	3,579	8	%
Net earnings from continuing operations	2,905	2,674	9	%
Net earnings/(loss) from discontinued operations	323	(276	)	N/A
Net earnings attributable to Procter & Gamble	3,206	2,372	35	%
Diluted net earnings per common share	1.12	0.82	37	%
Diluted net earnings per share from continuing operations	1.01	0.92	10	%
Core earnings per common share	1.04	0.95	9	%

COMPARISONS AS A % OF NET SALES	2015	2014	Basis Pt Chg
Gross margin	50.0%	48.3%	170
Selling, general & administrative expense	27.2%	29.0%	(180)
Operating margin	22.8%	19.4%	340
Earnings from continuing operations before income taxes	22.5%	18.8%	370
Net earnings from continuing operations	17.2%	14.5%	270
Net earnings attributable to Procter & Gamble	19.0%	12.8%	620
Net Sales			

Net sales decreased 9% to \$16.9 billion for the second quarter. Unit volume decreased 3%. Unfavorable foreign exchange reduced net sales by 8%. Sales growth in each business segment benefited, to varying degrees, from price increases taken with new product innovations and/or to offset the impact of currency devaluation in markets such as Russia, Brazil and Mexico. Higher pricing increased net sales by 3%. The mix impact of minor brand divestitures and the Venezuela deconsolidation reduced net sales by 1%. Volume decreased low single digits in Fabric Care and Home Care, Grooming and Health Care. Volume decreased mid-single digits in Baby, Feminine and Family Care and was

down high single digits in Beauty. Volume increased low single digits in developed regions and decreased high single digits in developing regions. Developing market volume was negatively affected by retailer actions to manage inventory levels relative to consumption trends in the markets most affected by currency devaluation (particularly Russia) and in markets where we have recently adjusted trade terms in certain sales channels (particularly China). Organic sales increased 2%, as a 2% decline in organic volume was more than offset by improved pricing and mix.

Net Sales Change Drivers 2015 vs. 2014 (Three Months Ended December 31)*

	Volume with Acquisitions & Divestitures	Volume Excluding Acquisitions & Divestitures	Foreign Exchange	Price	Mix	Other**	Net Sales Growth
Beauty	(7)%	(3)%	(7)%	4%	—%	—%	(10)%
Grooming	(2)%	(1)%	(12)%	6%	(2)%	—%	(10)%
Health Care	(3)%	(3)%	(8)%	3%	3%	—%	(5)%
Fabric Care and Home Care	(1)%	—%	(8)%	1%	1%	—%	(7)%
Baby, Feminine and Family Care	(4)%	(3)%	(7)%	3%	(1)%	(1)%	(10)%
Total Company	(3)%	(2)%	(8)%	3%	—%	(1)%	(9)%

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

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

Operating Costs

Gross margin increased 170 basis points to 50.0% of net sales for the quarter. Gross margin increased primarily due to a 170 basis point positive impact from manufacturing cost savings, a 130 basis point benefit of higher pricing and a 100 basis point benefit from lower commodity costs. These impacts were partially offset by an 80 basis point negative impact from unfavorable foreign exchange, a 50 basis point decrease due to incremental restructuring charges and a 100 basis point decline from unfavorable mix, including product mix across segments (disproportionate decline in Beauty which has higher than average gross margin) and product forms within certain businesses, and other impacts. Total SG&A decreased 14% to \$4.6 billion due to foreign exchange impacts and productivity efforts in both overhead and marketing. SG&A as a percentage of net sales decreased 180 basis points to 27.2%, due to lower foreign exchange transactional charges and the decreased spending behind productivity efforts, partially offset by the negative scale impacts from reduced sales. Marketing spending as a percentage of net sales increased 10 basis points as lower expense was offset by the negative scale impacts from reduced sales. Overhead costs as a percentage of net sales decreased 60 basis points, as 100 basis points of productivity savings in overhead spending were partially offset by wage inflation, investments in research and development and the negative scale impacts from reduced sales. Lower foreign exchange transactional charges, from revaluing receivables and payables from transactions denominated in a currency other than a local entity's functional currency, reduced SG&A as a percentage of net sales by 80 basis points.

Non-Operating Expenses and Income

Interest expense was \$143 million for the quarter, a decrease of \$17 million versus the prior year period due to lower average debt and a decrease in weighted average interest rates. Interest income was \$58 million for the quarter, an increase of \$24 million versus the prior year, due to an increase in cash, cash equivalents and investment securities. Other non-operating income increased \$16 million to \$35 million.

Income Taxes

The effective tax rate on continuing operations increased 60 basis points to 23.6%, primarily due to a less favorable impact of discrete benefits related to uncertain income tax positions (80 basis points in the current year compared to 250 basis points in the prior year) partially offset by a more favorable geographic mix of earnings.

Net Earnings from Continuing Operations

Net earnings from continuing operations increased \$231 million or 9% for the quarter. This increase was caused by the 340 basis point increase in operating income margin, driven by the decrease in SG&A as a percentage of net sales and the gross margin expansion (both discussed above), which more than offset the reduction in net sales. Foreign exchange impacts reduced net earnings by about \$300 million for the quarter due to weakening of certain key

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currencies against the U.S. dollar, primarily the currencies of Argentina, Brazil, Mexico and Russia. This impact includes both transactional charges as discussed above in Operating Costs and translational impacts from converting earnings from foreign subsidiaries to U.S. dollars. Diluted net earnings per share from continuing operations increased 10% to \$1.01 due to increased net earnings and a reduction in the weighted average number of shares outstanding.

Discontinued Operations

The net earnings from discontinued operations improved by \$599 million to \$323 million in the current period versus a net loss of \$276 million in the prior year. This was driven by a \$740 million after-tax impairment charge in the Batteries business in the base period, partially offset by a decrease in the earnings of the Beauty Brands, which are currently classified as held for sale (see Notes 4 and 11 to the Consolidated Financial Statements).

Net Earnings

Net earnings attributable to Procter & Gamble increased \$834 million or 35% to \$3.2 billion for the quarter. The increase was due to the base period impairment charge in the Batteries business in discontinued operations (discussed above) and the increase in net earnings from continuing operations. Diluted net earnings per share increased 37% to \$1.12. Core net earnings per share increased 9% to \$1.04. Core net earnings per share represents diluted net earnings per share from continuing operations excluding incremental restructuring charges related to our productivity and cost savings plans and charges related to certain European legal matters.

Foreign Currency Translation – Venezuela Impacts

There are a number of currency and other operating controls and restrictions in Venezuela, which have evolved over time and may continue to evolve in the future. These evolving conditions resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar and restricted our Venezuelan operations' ability to pay dividends and satisfy certain other obligations denominated in U.S. dollars. For accounting purposes, this resulted in a lack of control over our Venezuelan subsidiaries. Therefore, in accordance with the applicable accounting standards for consolidation, effective June 30, 2015, we deconsolidated our Venezuelan subsidiaries and began accounting for our investment in those subsidiaries using the cost method of accounting. This resulted in a write-off of all of the net assets of our Venezuela subsidiaries, along with Venezuela related assets held by other subsidiaries. Beginning with the first quarter of fiscal 2016, our financial results only include sales of finished goods to our Venezuelan subsidiaries to the extent we receive payments from Venezuela (expected to be largely through the CENCOEX exchange market). Accordingly, we no longer include the results of our Venezuelan subsidiaries' operations in our financial results.

RESULTS OF OPERATIONS – Six Months Ended December 31, 2015

The following discussion provides a review of results for the six months ended December 31, 2015 versus the six months ended December 31, 2014.

Amounts in millions, except per share amounts	Six Months Ended December 31, 2015			
	2015	2014	% Chg	
Net sales	\$33,442	\$37,266	(10	)%
Operating income	7,621	7,212	6	%
Net earnings from continuing operations	5,682	5,390	5	%
Net earnings/(loss) from discontinued operations	181	(972	)	N/A
Net earnings attributable to Procter & Gamble	5,807	4,362	33	%
Diluted net earnings per common share	2.03	1.51	34	%
Diluted net earnings per share from continuing operations	1.97	1.85	6	%
Core earnings per common share	2.02	1.94	4	%
COMPARISONS AS A % OF NET SALES	2015	2014	Basis Pt Chg	
Gross margin	50.3%	48.2%	210	
Selling, general & administrative expense	27.5%	28.9%	(140)	
Operating margin	22.8%	19.4%	340	
Earnings from continuing operations before income taxes	22.3%	18.7%	360	
Net earnings from continuing operations	17.0%	14.5%	250	
Net earnings attributable to Procter & Gamble	17.4%	11.7%	570	

Net Sales

Net sales decreased 10% to \$33.4 billion fiscal year to date. Unit volume decreased 4%. Unfavorable foreign exchange reduced net sales by 8%. Higher pricing, primarily to offset inflation and devaluation, increased net sales by 2%. The impact of favorable geographic mix increased net sales by 1% due to the disproportionate decline in developing markets, which have lower than company average selling prices. The mix impact of minor brand divestitures and the Venezuela deconsolidation reduced net sales by 1%. Volume decreased low single digits in Fabric Care and Home Care and Grooming. Volume decreased mid-single digits in Health Care and Baby, Feminine and Family Care and was down high single digits in Beauty. Volume was unchanged in developed regions and decreased high single digits in developing regions, in large part due to increased pricing, competitive activity and lower customer inventory. Organic sales were unchanged, as a 3% decline in organic volume was offset by improved pricing and mix.

Net Sales Change Drivers 2015 vs. 2014 (Six Months Ended December 31)*

	Volume with Acquisitions & Divestitures	Volume Excluding Acquisitions & Divestitures	Foreign Exchange	Price	Mix	Other**	Net Sales Growth
Beauty	(7)%	(4)%	(7)%	3%	1%	(1)%	(11)%
Grooming	(3)%	(2)%	(12)%	5%	(2)%	—%	(12)%
Health Care	(5)%	(4)%	(8)%	2%	3%	—%	(8)%
Fabric Care and Home Care	(2)%	(1)%	(9)%	1%	1%	—%	(9)%
Baby, Feminine and Family Care	(5)%	(4)%	(8)%	2%	—%	—%	(11)%
Total Company	(4)%	(3)%	(8)%	2%	1%	(1)%	(10)%

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

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

Operating Costs

Gross margin increased 210 basis points to 50.3% of net sales for the fiscal year to date period. Gross margin increased primarily due to a 170 basis point positive impact from manufacturing cost savings, a 110 basis point benefit from lower commodity costs and a 100 basis point benefit of higher pricing. These impacts were partially offset by a 70 basis point negative impact from unfavorable foreign exchange, a 60 basis point decrease due to unfavorable product mix caused by the same items discussed above for the three months ended December 31, 2015, a 20 basis point decline due to incremental restructuring activity and a 20 basis point decrease from negative scale impacts due to lower volume.

Total SG&A decreased 14% to \$9.2 billion due to foreign exchange impacts, productivity efforts in both overhead and marketing and a base period Venezuela balance sheet remeasurement charge. SG&A as a percentage of net sales decreased 140 basis points to 27.5%, due to lower net foreign exchange transactional charges and decreased spending behind productivity efforts, partially offset by the negative scale impacts from reduced sales. Marketing spending as a percentage of net sales increased 10 basis points as efficiency efforts did not keep pace with reduced sales. Overhead costs as a percentage of net sales decreased 10 basis points, as 80 basis points of productivity savings in overhead spending were partially offset by wage inflation, investments in research and development and the negative scale impacts from reduced sales. Lower foreign exchange transactional charges reduced SG&A as a percentage of net sales by 110 basis points. A Venezuelan balance sheet remeasurement charge in the base period drove 40 basis points of this decline. The balance of the reduction relates to lower transactional charges from revaluing receivables and payables from transactions denominated in a currency other than a local entity's functional currency.

Non-Operating Expenses and Income

Interest expense was \$283 million for the six month period, a decrease of \$47 million versus the prior year period due to lower average debt and a decrease in weighted average interest rates. Interest income was \$102 million for the quarter, an increase of \$37 million versus the prior year due to an increase in cash, cash equivalents and investment

securities. Other non-operating income decreased \$15 million to \$17 million due to greater gains on the sale of minor brands in the base period.

Income Taxes

The effective tax rate on continuing operations increased 100 basis points to 23.8%, primarily due to a less favorable impact of discrete benefits related to uncertain income tax positions (70 basis points in the current year compared to 150 basis points in the prior year).

Net Earnings from Continuing Operations

Net earnings from continuing operations increased \$292 million or 5% for the six month period. This increase was caused by a 340 basis point increase in operating income margin, driven by the decrease in SG&A as a percentage of net sales and the gross margin expansion (both discussed above), which more than offset the reduction in net sales. Foreign exchange impacts reduced net earnings by about \$590 million fiscal year to date due to weakening of certain key currencies against the U.S. dollar, primarily in Argentina, Brazil, Japan, Mexico and Russia. This impact includes both transactional charges as discussed above in Operating Costs and translational impacts from converting earnings from foreign subsidiaries to U.S. dollars. Diluted net earnings per share from continuing operations increased 6% to \$1.97 due to increased net earnings and a reduction in the weighted average number of shares outstanding.

Discontinued Operations

The net earnings from discontinued operations improved \$1.2 billion to \$181 million in the current period, versus a net loss of \$1.0 billion in the prior year. This was driven primarily by a \$1.3 billion reduction in after-tax impairment charges in the Batteries business (\$350 million in the current six month period compared to \$1.7 billion in the base period), which is currently classified as held for sale (see Notes 4 and 11 to the Consolidated Financial Statements).

Net Earnings

Net earnings attributable to Procter & Gamble increased \$1.4 billion or 33% to \$5.8 billion for the quarter. The increase was due to the lower impairment charge in the Batteries business in discontinued operations (discussed above) and the increase in net earnings from continuing operations. Diluted net earnings per share increased 34% to \$2.03. Core net earnings per share increased 4% to \$2.02. Core net earnings per share represents diluted net earnings per share from continuing operations excluding incremental restructuring charges in both periods related to our productivity and cost savings plans, prior year charges related to European legal matters and prior year balance sheet remeasurement costs from the Venezuelan currency.

BUSINESS SEGMENT DISCUSSION – Three and Six Months Ended December 31, 2015

The following discussion provides a review of results by reportable business segment. Analyses of the results for the three and six month periods ended December 31, 2015 are provided based on a comparison to the same three and six month periods ended December 31, 2014. The primary financial measures used to evaluate segment performance are net sales and net earnings from continuing operations. The table below provides supplemental information on net sales and net earnings from continuing operations by reportable business segment for the three and six months ended December 31, 2015 versus the comparable prior year period (dollar amounts in millions):

Three Months Ended December 31, 2015							
	Net Sales	% Change Versus Year Ago	Earnings/(Loss) from Continuing Operations Before Income Taxes	% Change Versus Year Ago	Net Earnings/(Loss) from Continuing Operations	% Change Versus Year Ago	
Beauty	\$2,963	(10)%	\$ 774	(2)%	\$ 585	(4)%	
Grooming	1,806	(10)%	579	(19)%	441	(19)%	
Health Care	1,978	(5)%	564	10 %	394	7 %	
Fabric Care and Home Care	5,347	(7)%	1,177	9 %	773	10 %	
Baby, Feminine and Family Care	4,710	(10)%	1,037	(7)%	683	(10)%	
Corporate	111	N/A	(328)	N/A	29	N/A	
Total Company	\$16,915	(9)%	\$ 3,803	10 %	\$ 2,905	9 %	
Six Months Ended December 31, 2015							
	Net Sales	% Change Versus Year Ago	Earnings/(Loss) from Continuing Operations Before Income Taxes	% Change Versus Year Ago	Net Earnings/(Loss) from Continuing Operations	% Change Versus Year Ago	
Beauty	\$6,004	(11)%	\$1,596	(3)%	\$1,209	(3)%	
Grooming	3,480	(12)%	1,078	(19)%	831	(18)%	
Health Care	3,774	(8)%	1,012	4 %	712	3 %	
Fabric Care and Home Care	10,598	(9)%	2,297	6 %	1,520	7 %	
Baby, Feminine and Family Care	9,368	(11)%	2,148	(7)%	1,432	(10)%	
Corporate	218	N/A	(674)	N/A	(22)	N/A	
Total Company	\$33,442	(10)%	\$ 7,457	7 %	\$ 5,682	5 %	

Beauty

Three months ended December 31, 2015 compared with three months ended December 31, 2014

Beauty net sales decreased 10% to \$3.0 billion during the second fiscal quarter on a 7% decrease in unit volume.

Unfavorable foreign exchange reduced net sales by 7%. Price increases had a 4% positive impact on net sales. Organic sales increased 1% on organic volume that decreased 3%. Global market share of the Beauty segment decreased 1.1 points. Volume decreased mid-single digits in developed markets. Volume was down high single digits in developing markets, in part due to minor brand divestitures, and was down low single digits on an organic basis.

Volume in Hair Care was down mid-single digits. Developed markets declined high single digits due to competitive activity while developing markets declined mid-single digits driven by lower customer inventory following trade term changes (particularly in China), increased pricing and minor brand divestitures. Global market share of the hair care category decreased more than a point.

Volume in Skin and Personal Care decreased double digits, while organic volume decreased low single digits, with the difference attributable mainly to the Camay and Zest brand divestitures in the prior year. Volume increased low single digits in developed regions due to commercial innovation and marketing-driven growth in super-premium skin. Organic volume decreased high single digits in developing regions primarily due to competitive activity. Global

market share of the skin and personal care category decreased more than a point.

Net earnings decreased 4% to \$585 million primarily due to the reduction in net sales, partially offset by a 130 basis point increase in net earnings margin due to gross margin expansion. Gross margin increased due to increased pricing and productivity savings. SG&A as a percentage of net sales was unchanged as lower spending offset the reduction in sales.

Six months ended December 31, 2015 compared with six months ended December 31, 2014

Beauty net sales decreased 11% to \$6.0 billion during the fiscal year to date on a 7% decrease in unit volume.

Unfavorable foreign exchange reduced net sales by 7%. Price increases added 3% and favorable geographic mix had a 1% positive impact on net sales due to the disproportionate decline in developing region volume, which has lower than segment-average selling prices. Organic

sales were unchanged on organic volume that decreased 4%. Global market share of the Beauty segment decreased 1.1 points. Volume decreased mid-single digits in developed markets. Volume was down high single digits in developing markets, in part due to minor brand divestitures, and was down low single digits on an organic basis.

Volume in Hair Care was down mid-single digits. Developed markets declined high single digits due to competitive activity while developing markets declined mid-single digits driven by lower customer inventory following trade term changes, increased pricing, and minor brand divestitures. Global market share of the hair care category decreased more than a point.

Volume in Skin and Personal Care decreased double digits, while organic volume decreased mid-single digits, with the difference attributable mainly to the Camay and Zest brand divestitures. Organic volume was unchanged in developed regions as commercial innovation was offset by ongoing competitive activity. Organic volume declined high single digits in developing regions primarily due to increased pricing and competitive activity. Global market share of the skin and personal care category decreased more than a point.

Net earnings decreased 3% to \$1.2 billion primarily due to the reduction in net sales, partially offset by a 170 basis point increase in net earnings margin, primarily behind gross margin expansion. Gross margin increased due to increased pricing and productivity savings. SG&A as a percentage of net sales declined slightly, as lower marketing spending from the Company's focus on efficiencies more than offset the reduction in sales.

Grooming

Three months ended December 31, 2015 compared with three months ended December 31, 2014

Grooming net sales decreased 10% to \$1.8 billion during the second fiscal quarter on a 2% decrease in unit volume. Unfavorable foreign exchange reduced net sales by 12%. Price increases in Shave Care and Electronic Hair Removal contributed 6% to net sales. Unfavorable product mix decreased net sales by 2% driven by a higher relative mix of disposable razors, which have lower than segment average selling prices, compared to system razor cartridges.

Organic sales increased 3% on organic volume that decreased 1%. Global market share of the Grooming segment decreased 1.4 points. Volume decreased low single digits in both developed and developing regions.

Shave Care volume decreased low single digits in both developed and developing regions due to competitive activity and increased pricing. Global market share of the blades and razors category decreased less than a point.

Volume in Electronic Hair Removal was unchanged as a mid-single-digit increase in developed regions from product innovation was offset by a high single-digit decline in developing regions due to competitive activity. Global market share of the electronic hair removal category decreased more than a point.

Net earnings decreased 19% to \$441 million due to the reduction in net sales and a 270 basis-point decrease in net earnings margin. Gross margin declined as the benefits of increased pricing and productivity efforts were more than offset by negative product mix due to an increase in the proportion of disposable razors versus system razors. SG&A as a percent of net sales increased as lower spending in marketing and overheads did not keep pace with the reduction in net sales.

Six months ended December 31, 2015 compared with six months ended December 31, 2014

Grooming net sales decreased 12% to \$3.5 billion during the fiscal year to date on a 3% decrease in unit volume. Unfavorable foreign exchange reduced net sales by 12%. Price increases in Shave Care and Electronic Hair Removal contributed 5% to net sales. Unfavorable product mix decreased net sales by 2% driven by a higher relative mix of disposable razors, which have lower than segment average selling prices, compared to system razor cartridges.

Organic sales increased 1% on organic volume that decreased 2%. Global market share of the Grooming segment decreased 1.4 points. Volume decreased low single digits in both developed and developing regions.

Shave Care volume decreased low single digits in both developed and developing regions due to competitive activity and increased pricing. Global market share of the blades and razors category decreased about a point.

Volume in Electronic Hair Removal was up low single digits as a high single-digit increase in developed regions from product innovation was partially offset by a mid-single-digit decrease in developing regions following increased pricing. Global market share of the electronic hair removal category decreased slightly.

Net earnings decreased 18% to \$0.8 billion due to the reduction in net sales and a 170 basis-point decrease in net earnings margin. SG&A as a percentage of net sales increased as lower spending in marketing and overheads did not keep pace with the reduction in net sales. Gross margin declined as the benefits of increased pricing and productivity efforts were more than offset by negative product mix due to an increase in the proportion of disposable razors

compared to system razors.

Health Care

Three months ended December 31, 2015 compared with three months ended December 31, 2014

Health Care net sales were down 5% to \$2.0 billion during the second fiscal quarter on a 3% decrease in unit volume. Unfavorable foreign exchange reduced net sales by 8%. Price increases in both Oral Care and Personal Health Care contributed 3% to net sales. Favorable geographic mix increased net sales 3%, driven by Oral Care volume growth in developed markets, which have higher than segment average selling prices, and a decline in developing regions, which have lower than segment average selling

prices. Organic sales increased 3% on organic volume that decreased 3%. Global market share of the Health Care segment decreased 1.0 points. Volume increased low single digits in developed regions and was down double digits in developing regions.

- Oral Care volume declined low single digits due to a double-digit decrease in developing regions caused by increased pricing, reduced customer inventory and competitive activity in China. Volume in developed regions was up mid-single digits due to innovation. Global market share of the oral care category was down a point. Volume in Personal Health Care decreased mid-single digits mainly due to a mid-single-digit decrease in developed regions driven by lower customer inventory build for the cough/cold season. Volume in developing markets decreased low single digits due to increased pricing. Global market share of the personal health care category was down about a point.

Net earnings increased 7% to \$394 million as the reduction in net sales was more than offset by a 220 basis point increase in net earnings margin. SG&A declined as a percentage of net sales primarily due to reduced marketing spending from the focus on spending efficiencies. Gross margin increased due to manufacturing cost savings and increased pricing.

Six months ended December 31, 2015 compared with six months ended December 31, 2014

Health Care net sales were down 8% to \$3.8 billion during the fiscal year to date on a 5% decrease in unit volume. Unfavorable foreign exchange reduced net sales by 8%. Price increases contributed 2% to net sales. Favorable geographic mix increased net sales 3%, primarily driven by a decline in Oral Care volume in developing regions, which have lower than segment average selling prices. Organic sales increased 1% on organic volume that decreased 4%. Global market share of the Health Care segment decreased 0.8 points. Volume was down low single digits in developed regions and was down double digits in developing regions.

Oral Care volume declined mid-single digits due to a double-digit decrease in developing regions caused by increased pricing, competitive activity and reduced customer inventory. Volume in developed regions increased low single digits from innovation. Global market share of the oral care category was down less than a point.

Volume in Personal Health Care decreased high single digits due to a high single-digit decrease in developed regions driven by competitive activity and lower levels of innovation. Volume in developing markets decreased mid-single digits due to increased pricing. Global market share of the personal health care category decreased more than half a point.

Net earnings increased 3% to \$0.7 billion as the reduction in net sales was more than offset by a 200 basis point increase in net earnings margin. SG&A declined as a percentage of net sales due to reduced marketing and overhead spending from the focus on productivity. Gross margin increased primarily due to manufacturing cost savings and increased pricing.

Fabric Care and Home Care

Three months ended December 31, 2015 compared with three months ended December 31, 2014

Fabric Care and Home Care net sales for the second fiscal quarter were down 7% to \$5.3 billion on a 1% decrease in unit volume. Unfavorable foreign exchange reduced net sales by 8%. Price increases added 1% to net sales. Favorable geographic mix increased net sales 1%, primarily driven by a decline in volume in developing regions, which have lower than segment average selling prices. Organic sales increased 2% on organic volume that was unchanged. Global market share of the Fabric Care and Home Care segment decreased 0.2 points. Volume increased mid-single digits in developed regions and was down double digits in developing regions.

Fabric Care volume declined low single digits as a double-digit decrease in developing regions driven by lower customer inventory and reduced distribution of less profitable brands were partially offset by a mid-single-digit increase in developed markets due to innovation. Global market share of the fabric care category was down less than half a point.

Home Care volume increased low single digits with a mid-single-digit increase in developed markets due to product innovation which was partially offset by a mid-single-digit decrease in developing regions following increased pricing. Global market share of the home care category was down slightly.

Net earnings increased 10% to \$773 million behind a 220 basis-point increase in net earnings margin, which more than offset the reduction in net sales. Net earnings margin increased due to gross margin expansion, partially offset by increased SG&A as a percent of net sales. Increased gross margin was driven by manufacturing cost savings and

lower commodity costs. SG&A as a percentage of net sales increased as reductions in overhead and marketing spending from efficiency efforts did not keep pace with the reduction in net sales.

Six months ended December 31, 2015 compared with six months ended December 31, 2014

Fabric Care and Home Care net sales for the fiscal year to date were down 9% to \$10.6 billion on a 2% decrease in unit volume. Unfavorable foreign exchange reduced net sales by 9%. Price increases added 1% to net sales. Favorable geographic mix increased net sales 1%, primarily driven by a decline in volume in developing regions, which have lower than segment average selling prices. Organic sales increased 1% on organic volume that decreased 1%. 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 down double digits in developing regions.

Fabric Care volume declined low single digits due to a double-digit decrease in developing regions driven by increased pricing, reduced distribution of less profitable brands and divestitures. Organic volume in developing regions decreased high single digits. Volume in developed markets increased mid-single digits due to innovation. Global market share of the fabric care category was down less than half a point.

Home Care volume was down low single digits due to a mid-single-digit decrease in developing regions following increased pricing. Volume in developed markets was unchanged as benefits from product innovation were offset by competitive activity. Global market share of the home care category was down less than half a point.

Net earnings increased 7% to \$1.5 billion behind a 220 basis-point increase in net earnings margin, which more than offset the reduction in net sales. Net earnings margin increased due to gross margin expansion, partially offset by increased SG&A as a percentage of net sales. Increased gross margin was driven by manufacturing cost savings and lower commodity costs. SG&A as a percentage of net sales increased as reductions in overhead and marketing spending from efficiency efforts did not keep pace with the reduction in net sales.

Baby, Feminine and Family Care

Three months ended December 31, 2015 compared with three months ended December 31, 2014

Baby, Feminine and Family Care net sales decreased 10% to \$4.7 billion during the second fiscal quarter on a 4% decline in unit volume. Unfavorable foreign exchange reduced net sales by 7%. Price increases in previous quarters, primarily in Baby Care, increased net sales by 3%. Unfavorable product mix decreased net sales in the segment by 1%, driven by the disproportionate decline in Baby Care volume, which has higher than segment-average selling prices. Organic sales were unchanged on organic volume that decreased 3%. Global market share of the Baby, Feminine and Family Care segment decreased 1.4 points. Volume increased low single digits in developed regions and decreased double digits in developing regions.

Volume in Baby Care was down mid-single digits caused by a double-digit decrease in developing regions following price increases in previous quarters and due to reduced customer inventory. Volume was up low single digits in developed regions due to product innovation. Global market share of the baby care category decreased more than two points, primarily attributable to developing markets.

Volume in Feminine Care declined mid-single digits while organic volume decreased low single digits with the difference attributable to the Venezuela deconsolidation. Organic volume in developing regions decreased mid-single digits due to lower customer inventory and following price increases in previous quarters. In developed regions, volume increased low single digits versus a base period where volume was low following high prior quarter shipments to support our entry into the adult incontinence category. Global market share of the feminine care category decreased less than a point.

Volume in Family Care decreased low single digits due to a double-digit decline in developing regions driven by strategic distribution decreases. Volume in developed regions increased low single digits due to increased merchandising. In the U.S., all-outlet share of the family care category remained flat.

Net earnings decreased 10% to \$683 million due to the reduction in net sales. Net earnings margin decreased 10 basis points. Gross margin increased due to higher pricing, manufacturing cost savings and lower commodity costs, partially offset by unfavorable product mix from the decline in Baby Care. Higher gross margin was offset by an increase in SG&A as a percentage of net sales, as reductions in overhead and marketing spending from efficiency efforts did not keep pace with the reduction in net sales.

Six months ended December 31, 2015 compared with six months ended December 31, 2014

Baby, Feminine and Family Care net sales decreased 11% to \$9.4 billion during the fiscal year to date on a 5% decline in unit volume. Unfavorable foreign exchange reduced net sales by 8%. Price increases in previous quarters, primarily in Baby Care, increased net sales by 2%. Organic sales declined 2% on organic volume that decreased 4%. Global market share of the Baby, Feminine and Family Care segment decreased 1.3 points. Volume was unchanged in developed regions and decreased double digits in developing regions.

Volume in Baby Care was down mid-single digits due to a double-digit decrease in developing regions caused by competitive activity, reduced customer inventory and price increases in previous quarters. Volume was up low single digits in developed regions due to product innovation. Global market share of the baby care category decreased more than two points, primarily attributable to developing markets.

Volume in Feminine Care declined mid-single digits with a double-digit decrease in developing regions due to customer inventory reductions, previous year price increases and the Venezuela deconsolidation. Volume in developed regions declined low single digits due to competitive activity, mainly in Japan. Global market share of the feminine care category decreased half a point.

Volume in Family Care decreased mid-single digits with a low single-digit decrease in developed regions and a double-digit decline in developing regions, both due to decreased distribution. In the U.S., all-outlet share of the family care category remained flat.

Net earnings decreased 10% to \$1.4 billion due to the reduction in net sales, partially offset by a 20 basis point increase in the net earnings margin. A higher gross margin driven by increased pricing, manufacturing cost savings and lower commodity costs was partially offset by an increase in SG&A as a percentage of net sales, as reductions in overhead and marketing spending from efficiency efforts did not keep pace with the reduction in net sales.

Corporate

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

Corporate net sales decreased \$2 million during the second fiscal quarter and \$17 million fiscal year to date. Corporate net earnings from continuing operations improved approximately \$340 million in the second fiscal quarter and \$544 million fiscal year to date due mainly to currency impacts (the Venezuelan balance sheet remeasurement charge in the fiscal year to date base period, along with decreased foreign exchange transactional charges in the current period). Additional discussion of these items impacting net earnings in Corporate are included in the Results of Operations section.

Productivity and Cost Savings Plan

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

As part of this plan, which has been expanded since its inception, the Company expects to incur in excess of \$5 billion in before-tax restructuring costs over a six-year period (from fiscal 2012 through fiscal 2017). Approximately 85% of the estimated costs have been incurred through December 2015. Savings generated from the restructuring costs are difficult to estimate, given the nature of the activities, the corollary benefits achieved (e.g., enrollment reduction achieved via normal attrition), the timing of the execution and the degree of reinvestment. Overall, the costs and other non-manufacturing enrollment reductions are expected to deliver approximately \$3 billion in annual gross savings (before-tax). The cumulative before-tax savings as of the current year are estimated at approximately \$2.2 to \$2.5 billion. Consistent with our historical policies for ongoing restructuring-type activities, the resulting charges are funded by and included within Corporate for segment reporting.

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

LIQUIDITY & CAPITAL RESOURCES

Operating Activities

We generated \$8.0 billion of cash from operating activities fiscal year to date, an increase of \$1.0 billion versus the prior year. Net earnings, adjusted for non-cash items (depreciation and amortization, share-based compensation, deferred income taxes, gain on sale of businesses and goodwill and indefinite-lived intangible impairment charges), generated \$8.0 billion of operating cash flow. Working capital and other impacts generated \$56 million of cash in the period. Accounts receivable used \$488 million of cash due to seasonality in certain businesses and sales mix.

Inventory consumed \$386 million of cash, mainly due to production to support product initiatives. Accounts payable, accrued and other liabilities generated \$322 million of cash primarily due to an increase in accrued marketing based on timing of marketing spend and an increase in taxes payable due to the timing of estimated payments, slightly offset by a decrease in trade payables due to reduced overhead spending. All other operating assets and liabilities generated \$608 million of cash primarily due the reduction of prepaid marketing balances.

Investing Activities

Cash used by investing activities was \$1.4 billion fiscal year to date, primarily due to capital expenditures of \$1.2 billion, or 3.7% of net sales. We used \$762 million for purchases of short-term investments, partially offset by cash generated from proceeds of short-term investments of \$683 million.

Financing Activities

Our financing activities consumed net cash of \$3.7 billion fiscal year to date. We used \$2.5 billion for treasury stock purchases, \$3.7 billion for dividends. Cash generated from net debt issuances was \$1.5 billion. Cash from the exercise of stock options generated \$1.0 billion of cash.

As of December 31, 2015, our current assets exceeded current liabilities by \$4.3 billion. Excluding assets and liabilities of the Batteries and Beauty businesses held for sale, current liabilities exceeded current assets by \$2.5 billion. We have short- and long-term debt to meet our financing needs. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We have strong short- and long-term debt ratings that have enabled and should continue to enable us to refinance our debt as it becomes due at favorable rates in commercial paper and bond markets. In addition, we have agreements with a diverse group of financial institutions that, if needed, should provide sufficient credit funding to meet short-term financing requirements.

RECONCILIATION OF MEASURES NOT DEFINED BY U.S. GAAP

In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP measures used in the MD&A and the reconciliation to the most closely related GAAP measure. We believe that these measures provide useful perspective of underlying business results and trends and provide a more comparable measure of year-on-year results. These measures are also used to evaluate senior management and are a factor in determining their at-risk compensation. These non-GAAP measures are not intended to be considered by the user in place of the related GAAP measure, but rather as supplemental information to more fully understand our business results. When a non-GAAP measure is used in MD&A, we have provided the comparable GAAP measure in the discussion. These non-GAAP measures may not be the same as similar measures used by other companies due to possible differences in method and in the items or events being adjusted.

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

- charges for incremental restructuring due to increased focus on productivity and cost savings,
- charges for European legal matters, and
- charges for balance sheet impacts from the devaluation of the foreign currency exchange rate in Venezuela prior to deconsolidation.

We do not view these items to be part of our sustainable results.

Organic sales growth: Organic sales growth is a non-GAAP measure of sales growth excluding the impacts of the Venezuela deconsolidation, 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.

Core EPS or Core net earnings per share: Core EPS is a measure of the Company's diluted net earnings per share from continuing operations adjusted as indicated.

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 used in determining the amount of cash available for dividends and discretionary investment.

Adjusted free cash flow productivity: Adjusted free cash flow productivity is defined as the ratio of free cash flow to net earnings excluding impairment charges on the batteries business. The Company's long-term target is to generate annual adjusted free cash flow at or above 90 percent of net earnings.

Organic sales growth:

Three Months Ended December 31, 2015	Net Sales Growth	Foreign Exchange Impact	Acquisition/Divestiture Impact*	Organic Sales Growth
Beauty	(10)%	7%	4%	1%
Grooming	(10)%	12%	1%	3%
Health Care	(5)%	8%	—%	3%
Fabric Care and Home Care	(7)%	8%	1%	2%
Baby, Feminine and Family Care	(10)%	7%	3%	—%

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Total Company	(9)%	8%	3%	2%
Six Months Ended December 31, 2015	Net Sales Growth	Foreign Exchange Impact	Acquisition/Divestiture Impact*	Organic Sales Growth
Beauty	(11)%	7%	4%	—%
Grooming	(12)%	12%	1%	1%
Health Care	(8)%	8%	1%	1%
Fabric Care and Home Care	(9)%	9%	1%	1%
Baby, Feminine and Family Care	(11)%	8%	1%	(2)%
Total Company	(10)%	8%	2%	—%

* Acquisition/Divestiture Impact also includes the Venezuela deconsolidation, the mix impacts of acquisitions and divestitures and rounding impacts necessary to reconcile net sales to organic sales.

Core EPS or Core net earnings per share:

	Three Months Ended December 31		Six Months Ended December 31	
	2015	2014	2015	2014
Diluted net earnings per share from continuing operations	\$ 1.01	\$ 0.92	\$ 1.97	\$ 1.85
Incremental restructuring charges	0.03	0.02	0.05	0.04
Charges for European legal matters	—	0.01	—	0.01
Venezuela Balance Sheet Remeasurement	—	—	—	0.04
CORE EPS	\$ 1.04	\$ 0.95	\$ 2.02	\$ 1.94
Core EPS growth	9	%	4	%

Note - All reconciling items are presented net of tax. Tax effects are calculated consistent with the nature of the underlying transaction.

Free cash flow: (dollar amounts in millions)

Fiscal Year-to-Date, December 31, 2015

Operating Cash Flow	Capital Spending	Free Cash Flow
\$8,018	\$(1,223)	\$6,795

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

Fiscal Year-to-Date, December 31, 2015

Net Earnings	Impairment Charges	Net Earnings Excluding Impairment Charges on Batteries	Adjusted Free Cash Flow Productivity
\$5,863	\$350	\$6,213	109%

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, 2015. Additional information can be found in Note 6 - Risk Management Activities and Fair Value Measurements of the Consolidated Financial Statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's President and Chief Executive Officer, David S. Taylor, 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. Taylor and Moeller have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including Messrs. Taylor

and Moeller, to allow their timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For information on Risk Factors, please refer to Part I, Item 1A "Risk Factors" in the Company's Form 10-K for the fiscal year ended June 30, 2015.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value of Shares That May Yet Be Purchased Under our Share Repurchase Program (\$ in billions) (3)
10/01/2015 - 10/31/2015	4,703,353	\$74.41	4,703,353	(3)
11/01/2015 - 11/30/2015	7,590,897	\$75.75	7,590,897	(3)
12/01/2015 - 12/31/2015	13,742,206	\$78.23	13,742,206	(3)
Total	26,036,456	\$76.82	26,036,456	

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

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

On July 30, 2015, the Company stated that in fiscal year 2016 the Company plans to reduce Company shares outstanding by approximately \$8 to \$9 billion, through a combination of share repurchase and shares that will be exchanged in the Duracell transaction, notwithstanding any purchases under the Company's compensation and benefit plans. Purchases may be made in the open market and/or private transactions and purchases may be increased, decreased or discontinued at any time without prior notice. The share repurchases are authorized pursuant to a resolution issued by the Company's Board of Directors and are expected to be financed by a combination of operating cash flows and issuance of long-term and short-term debt.

Item 6. Exhibits

- 3-1 Amended Articles of Incorporation (as amended by shareholders at the annual meeting on October 11, 2011) (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 approved by the Board of Directors on June 9, 2015, 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 September 30, 2015)

- 4-1 Indenture, dated as of September 3, 2009, between the Company and Deutsche Bank Trust Company Americas, as Trustee (Incorporated by reference to Exhibit (4-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 2015)

- 10-1 The Procter & Gamble 2014 Stock and Incentive Compensation Plan - Related Correspondence*

- 12 Computation of Ratio of Earnings to Fixed Charges

- 31.1 Rule 13a-14(a)/15d-14(a) Certification – Chief Executive Officer

- 31.2 Rule 13a-14(a)/15d-14(a) Certification – Chief Financial Officer

- 32.1 Section 1350 Certifications – Chief Executive Officer

- 32.2 Section 1350 Certifications – Chief Financial Officer

- 101.INS ⁽¹⁾ XBRL Instance Document

- 101.SCH ⁽¹⁾ XBRL Taxonomy Extension Schema Document

- 101.CAL ⁽¹⁾ XBRL Taxonomy Extension Calculation Linkbase Document

- 101.DEF ⁽¹⁾ XBRL Taxonomy Definition Linkbase Document

- 101.LAB ⁽¹⁾ XBRL Taxonomy Extension Label Linkbase Document

- 101.PRE ⁽¹⁾ XBRL Taxonomy Extension Presentation Linkbase Document

* Compensatory plan or arrangement

⁽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.

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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 26, 2016
Date

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

EXHIBIT INDEX

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101.CAL ⁽¹⁾	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF ⁽¹⁾	XBRL Taxonomy Definition Linkbase Document
101.LAB ⁽¹⁾	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽¹⁾	XBRL Taxonomy Extension Presentation Linkbase Document
(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.