SONY CORP
Form 6-K
February 20, 2013

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of February 2013
Commission File Number: 001-06439

SONY CORPORATION
(Translation of registrant's name into English)

1-7-1 KONAN, MINATO-KU, TOKYO, 108-0075, JAPAN
(Address of principal executive offices)

The registrant files annual reports under cover of Form 20-F.

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F,

Form 20-F X Form 40-F __

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934, Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-______

SIGNATURE

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.

SONY CORPORATION
(Registrant)

By: /s/ Masaru Kato
(Signature)
Masaru Kato
Executive Vice President and
Chief Financial Officer

Date: February 20, 2013

List of materials

Documents attached hereto:

i) Press Release announcing Sale of certain M3 shares held by Sony Corporation.

February 20, 2013
Sony Corporation

Sale of certain M3 shares held by Sony Corporation

Sony Corporation ("Sony") today announced that it has entered into a contract to sell 95,000 shares of its 886,908 shares of M3, Inc. ("M3"), a consolidated subsidiary of Sony, to Deutsche Securities Inc.

1. Purpose of the sale

As part of its initiative to transform its business portfolio and reorganize its assets, Sony entered into a contract of sale that it expects will result in an increase to the liquidity of the market for M3's shares and help to assure the independence and neutrality of M3's management. While following the sale, M3 will no longer be consolidated by Sony, Sony will remain a major shareholder of M3 and will continue to pursue opportunities to collaborate with M3 in the business areas, including medical.

2. Summary of M3

Trade name	M3, Inc.
Address of head office	Akasaka 1-11-44, Minato-ku, Tokyo, Japan
Name and title of representative	Itaru Tanimura, President and Representative Director
Business	Medical-related services through the use of the Internet
Stated capital	1,334 million yen
Date of establishment	September 29, 2000
Number of employees (stand-alone)	130 (as of March 31, 2012)
Number of shares issued and outstanding	1,588,854 shares (as of February 19, 2013)

3. Summary of the buyer

Trade name	Deutsche Securities Inc.
Address of head office	Sanno Park Tower, Nagatacho 2-11-1, Chiyoda-ku, Tokyo, Japan
Name and title of representative	David Hatt, President & CEO
Business	Financial instruments business
Stated capital	72,728 million yen
Date of establishment	July 21, 2005

4. Number of shares to be sold and number of shares to be held by Sony before/after the sale

Number of shares held by Sony before the sale	886,908 shares (Number of voting rights: 886,908) (Shareholding ratio: 55.8%)
Number of shares to be sold	95,000 shares (Number of voting rights: 95,000) (Shareholding ratio: 6.0%)
Number of shares to be held by Sony after the sale	791,908 shares (Number of voting rights: 791,908) (Shareholding ratio: 49.8%)

5. Schedule

Execution of a contract of sale	February 20, 2013
Closing of the sale (Expected)	February 25, 2013

6. Outlook

Although the impact of the sale continues to be evaluated, Sony expects to record a gain within operating income in connection with the sale of approximately 115 billion yen during the fourth quarter for the current fiscal year ending March 31, 2013. The gain substantially relates to the remeasurement at fair value of the remaining 791,908 M3 shares (49.8% of the issued and outstanding shares of M3) that Sony owns after the sale. Going forward, Sony expects to account for M3 as an equity method investment. As stated on February 7, 2013 in the announcement of Sony's forecast for consolidated financial results for the fiscal year ending March 31, 2013, Sony has identified certain assets for possible sale as part of an initiative to transform its business portfolio and reorganize its assets. This sale was conducted as a part of that initiative. While this sale was anticipated and the potential gain on remeasurement was taken into account at the time of the forecast, Sony is currently reevaluating the aggregate impact of this sale and other factors on the forecast.

End of document

le="line-height:120%;padding-top:8px;text-align:justify;font-size:10pt;">maintain a competitive cost structure, including manufacturing and workforce optimization, certain significant asset impairment and deconsolidation charges, certain balance sheet impacts from significant foreign exchange devaluations and other general Corporate items. The non-operating elements in Corporate primarily include interest expense, certain acquisition and divestiture gains and interest and investing income.

Total assets for the reportable segments include those assets managed by the reportable segment, primarily inventory, fixed assets and intangible assets. Other assets, primarily cash, accounts receivable, investment securities and goodwill, are included in Corporate.

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

% of Sales by Business Unit (1)

Years ended June 30	2017	2016	2015
Fabric Care	22%	22%	22%
Baby Care	14%	14%	15%
Hair Care	10%	10%	11%
Home Care	10%	10%	9%
Shave Care	9%	9%	9%

Family Care	8%	8%	8%
Oral Care	8%	8%	8%
Skin and Personal Care	8%	8%	7%
Feminine Care	6%	6%	6%
All Other	5%	5%	5%
TOTAL	100%	100%	100%

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

The Company had net sales in the U.S. of $27.3 billion, $27.0 billion and $26.8 billion for the years ended June 30, 2017, 2016 and 2015, respectively. Long-lived assets in the U.S. totaled $8.8 billion and $8.5 billion as of June 30, 2017 and 2016, respectively. Long-lived assets consists of property, plant and equipment. No other country's net sales or long-lived assets exceed 10% of the Company totals.

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 16% of consolidated net sales in 2017, and 15% of consolidated net sales in 2016 and 2015. No other customer represents more than 10% of our consolidated net sales.

Amounts in millions of dollars except per share amounts or as otherwise specified.

Global Segment Results		Net Sales	Earnings/(Loss) from Continuing Operations Before Income Taxes	Net Earnings/(Loss) from Continuing Operations	Depreciation and Amortization	Total Assets	Capital Expenditures
BEAUTY	2017	$ 11,429	$ 2,546	$ 1,914	$ 220	$ 4,184	$ 599
	2016	11,477	2,636	1,975	218	3,888	435
	2015	12,608	2,895	2,181	247	4,004	411
GROOMING	2017	6,642	1,985	1,537	433	22,759	341
	2016	6,815	2,009	1,548	451	22,819	383
	2015	7,441	2,374	1,787	540	23,090	372
HEALTH CARE	2017	7,513	1,898	1,280	209	5,194	283
	2016	7,350	1,812	1,250	204	5,139	240
	2015	7,713	1,700	1,167	202	5,212	218
FABRIC & HOME CARE	2017	20,717	4,249	2,713	513	6,886	797
	2016	20,730	4,249	2,778	531	6,919	672
	2015	22,274	4,059	2,634	547	7,155	986
BABY, FEMININE & FAMILY CARE	2017	18,252	3,868	2,503	874	9,920	1,197
	2016	18,505	4,042	2,650	886	9,863	1,261
	2015	20,247	4,317	2,938	924	10,109	1,337
CORPORATE [(1)]	2017	505	(1,289)	247	571	71,463	167
	2016	422	(1,379)	(174)	788	78,508	323
	2015	466	(4,333)	(2,420)	674	79,925	412
TOTAL COMPANY	2017	$ 65,058	$ 13,257	$ 10,194	$ 2,820	$ 120,406	$ 3,384
	2016	65,299	13,369	10,027	3,078	127,136	3,314
	2015	70,749	11,012	8,287	3,134	129,495	3,736

(1) The Corporate reportable segment includes depreciation and amortization, total assets and capital expenditures of the Beauty Brands, Batteries and Pet Care businesses prior to their divestiture.

Amounts in millions of dollars except per share amounts or as otherwise specified.

NOTE 3
SUPPLEMENTAL FINANCIAL INFORMATION

The components of property, plant and equipment were as follows:

As of June 30	2017	2016
PROPERTY, PLANT AND EQUIPMENT		
Buildings	$6,943	$6,885
Machinery and equipment	29,505	29,506
Land	765	769
Construction in progress	2,935	2,706
TOTAL PROPERTY, PLANT AND EQUIPMENT	40,148	39,866
Accumulated depreciation	(20,255)	(20,481)
PROPERTY, PLANT AND EQUIPMENT, NET	$19,893	$19,385

Selected components of current and noncurrent liabilities were as follows:

As of June 30	2017	2016
ACCRUED AND OTHER LIABILITIES - CURRENT		
Marketing and promotion	$2,792	$2,820
Compensation expenses	1,344	1,457
Restructuring reserves	277	315
Taxes payable	449	397
Legal and environmental	168	158
Other	1,994	2,302
TOTAL	$7,024	$7,449
OTHER NONCURRENT LIABILITIES		
Pension benefits	$5,487	$6,761
Other postretirement benefits	1,333	1,808
Uncertain tax positions	564	952
Other	870	804
TOTAL	$8,254	$10,325

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 incurred $5.6 billion in before-tax restructuring costs over a six year period (from fiscal 2012 through fiscal 2017), including costs incurred as part of the incremental restructuring program. The program included a non-

manufacturing overhead enrollment reduction target of approximately 25% - 30% by the end of fiscal year 2017. Through fiscal 2017, the Company reduced non-manufacturing enrollment by approximately 26%. The reductions were 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 included integration of newly acquired companies and the optimization of the supply chain and other manufacturing processes. In fiscal 2017 the Company announced specific elements of an additional multi-year productivity and cost savings plan to further reduce costs in the areas of supply chain, certain marketing activities and overhead expenses. Over the next two fiscal years (fiscal 2018 and 2019), the Company expects to incur approximately $1.2 billion total before-tax restructuring costs under the plan. This program is expected to result in meaningful additional non-manufacturing enrollment reductions, along with further optimization of the supply chain and other manufacturing processes. Restructuring costs incurred consist primarily of costs to separate employees, asset-related costs to exit facilities and other costs. The Company incurred total restructuring charges of approximately $754 and $977 for the years ended June 30, 2017 and 2016, respectively. Approximately $137 and $202 of these charges were recorded in SG&A for the years ended June 30, 2017 and 2016, respectively and approximately $593 and $718 of these charges were recorded in Cost of products sold for the years ended June 30, 2017 and 2016, respectively. The remainder of the charges were included in Net earnings from discontinued operations. Of the total costs incurred since the inception of this restructuring program, $2.5 billion were related to separations, $1.8 billion were asset-related and $1.3 billion were related to other restructuring-type costs. The following table presents restructuring activity for the years ended June 30, 2017 and 2016:

Amounts in millions	Separations	Asset-Related Costs	Other	Total
RESERVE JUNE 30, 2015	$ 362	$ —	$ 27	$ 389
Charges	262	432	283	977
Cash spent	(381)	—	(238)	(619)
Charges against assets	—	(432)	—	(432)
RESERVE JUNE 30, 2016	243	—	72	315
Charges	206	397	151	754
Cash spent (1)	(221)	—	(174)	(395)
Charges against assets	—	(397)	—	(397)
RESERVE JUNE 30, 2017	$ 228	$ —	$ 49	$ 277

(1) Includes liabilities transferred to Coty related to our Beauty Brands divestiture.

Amounts in millions of dollars except per share amounts or as otherwise specified.

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Separation Costs

Employee separation charges for the years ended June 30, 2017 and 2016, related to severance packages for approximately 2,120 and 2,770 employees, respectively. For the years ended June 30, 2017 and 2016, these severance packages included approximately 380 and 920 non-manufacturing employees, respectively. The packages were predominantly voluntary and the amounts were calculated based on salary levels and past service periods. Severance costs related to voluntary separations are generally charged to earnings when the employee accepts the offer. Since its inception, the restructuring program has incurred separation charges related to approximately 19,190 employees, of which approximately 9,920 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 asset removal and termination of contracts related to supply chain optimization.

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

Years ended June 30	2017	2016	2015
Beauty	$90	$72	$63
Grooming	45	42	57
Health Care	15	26	32
Fabric & Home Care	144	250	197
Baby, Feminine & Family Care	231	225	192
Corporate [(1)]	229	362	527
Total Company	$754	$977	$1,068

(1) Corporate includes costs related to allocated overheads, including charges related to our Sales and Market Operations, Global Business Services and Corporate Functions activities and costs related to discontinued operations from our Batteries and Beauty Brands businesses.

Amounts in millions of dollars except per share amounts or as otherwise specified.

NOTE 4
GOODWILL AND INTANGIBLE ASSETS
The change in the net carrying amount of goodwill by reportable segment was as follows:

	Beauty	Grooming	Health Care	Fabric & Home Care	Baby, Feminine & Family Care	Corporate	Total Company
Balance at June 30, 2015 - Net [(1)] [(2)]	12,704	19,619	5,876	1,874	4,549	—	44,622
Acquisitions and divestitures	(2)	—	(2)	—	—	—	(4)
Translation and other	(57)	(142)	(34)	(18)	(17)	—	(268)
Balance at June 30, 2016 - Net [(1)]	12,645	19,477	5,840	1,856	4,532	—	44,350
Acquisitions and divestitures	—	—	(10)	(3)	(24)	—	(37)
Translation and other	146	150	48	4	38	—	386
Balance at June 30, 2017 - Net [(1)]	$12,791	$19,627	$5,878	$1,857	$4,546	$—	$44,699

(1) Grooming goodwill balance is net of $1.2 billion accumulated impairment losses.
(2) The Batteries goodwill at June 30, 2015, net of $2.1 billion accumulated impairment losses, was reported in Current assets held for sale in the Consolidated Balance Sheet. The Batteries business was divested in February 2016.

During fiscal 2017, the Company completed the divestiture of four product categories, comprised of 43 of its beauty brands ("Beauty Brands"). The transactions included the global salon professional hair care and color, retail hair color and cosmetics businesses and the fine fragrances business, along with select hair styling brands (see Note 13). The Beauty Brands have historically been 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. As a result, the goodwill attributable to the Beauty Brands as of June 30, 2016 and 2015 is excluded from the preceding table and is reported as Current assets held for sale in the Consolidated Balance Sheets as of June 30, 2016.

In February 2016, the Company completed the divestiture of its Batteries business to Berkshire Hathaway (BH). Prior to the transaction, the Company recorded a non-cash, before-tax impairment charge of $402 ($350 after tax) during fiscal 2016, which reflected the value of BH's shares in P&G stock as of the date of the impairment charges (see Note 13). This impairment charge as well as accumulated Batteries impairment charges totaling $2.1 billion through fiscal 2015 were included as part of discontinued operations.

The change in goodwill during fiscal 2017 and the remaining change during fiscal 2016 was primarily due to currency translation across all reportable segments.

All of the goodwill and indefinite-lived intangible asset impairment charges that are not reflected in discontinued operations are included in Corporate for segment reporting.

The goodwill and intangible asset valuations 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 and are comparable to those that would be used by other marketplace participants. However, actual events and results could differ substantially from those

used in our valuations. To the extent such factors result in a failure to achieve the level of projected cash flows used to estimate fair value, we may need to record additional non-cash impairment charges in the future.

Identifiable intangible assets were comprised of:

	2017		2016	
As of June 30	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
INTANGIBLE ASSETS WITH DETERMINABLE LIVES				

Brands	$3,094	$ (1,898)	$3,409	$ (2,032)
Patents and technology	2,617	(2,261)	2,624	(2,164)
Customer relationships	1,377	(564)	1,382	(514)
Other	239	(132)	246	(130)
TOTAL	$7,327	$ (4,855)	$7,661	$ (4,840)
INTANGIBLE ASSETS WITH INDEFINITE LIVES				
Brands	21,715	—	21,706	—
TOTAL	$29,042	$ (4,855)	$29,367	$ (4,840)

Due to the divestiture of the Beauty Brands, intangible assets specific to this business as of June 30, 2016 are reported in Current assets held for sale in accordance with the accounting principles for assets held for sale.

Amortization expense of intangible assets was as follows:

Years ended June 30	2017	2016	2015
Intangible asset amortization	$325	$388	$457

Estimated amortization expense over the next five fiscal years is as follows:

Years ending June 30	2018	2019	2020	2021	2022
Estimated amortization expense	$292	$275	$249	$201	$185

Amounts in millions of dollars except per share amounts or as otherwise specified.

NOTE 5
INCOME TAXES

Income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax assets and liabilities, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred tax assets and liabilities are established using the enacted statutory tax rates and are adjusted for any changes in such rates in the period of change.

Earnings from continuing operations before income taxes consisted of the following:

Years ended June 30	2017	2016	2015
United States	$9,031	$8,788	$8,496
International	4,226	4,581	2,516
TOTAL	$13,257	$13,369	$11,012

Income taxes on continuing operations consisted of the following:

Years ended June 30	2017	2016	2015
CURRENT TAX EXPENSE			
U.S. federal	$1,531	$1,673	$2,127
International	1,243	1,483	1,142
U.S. state and local	241	224	252
	3,015	3,380	3,521
DEFERRED TAX EXPENSE			
U.S. federal	28	33	(607)
International and other	20	(71)	(189)
	48	(38)	(796)
TOTAL TAX EXPENSE	$3,063	$3,342	$2,725

A reconciliation of the U.S. federal statutory income tax rate to our actual income tax rate on continuing operations is provided below:

Years ended June 30	2017	2016	2015
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Country mix impacts of foreign operations	(6.8)%	(9.1)%	(14.0)%
Changes in uncertain tax positions	(2.0)%	(0.5)%	(0.9)%
Excess tax benefits from the exercise of stock options	(1.3)%	— %	— %
Venezuela deconsolidation charge	— %	— %	6.6 %
Other	(1.8)%	(0.4)%	(2.0)%
EFFECTIVE INCOME TAX RATE	23.1 %	25.0 %	24.7 %

Country mix impacts of foreign operations includes the effects of foreign subsidiaries' earnings taxed at rates other than the

U.S. statutory rate, the U.S. tax impacts of non-U.S. earnings repatriation and any net impacts of intercompany transactions. Changes in uncertain tax positions represent changes in our net liability related to prior year tax positions. Excess tax benefits from the exercise of stock options reflect the impact of adopting ASU 2016-09, "Stock Compensation (Topic 718): Improvements to Employee-Share-Based Payment Accounting)."

Tax costs charged to shareholders' equity totaled $333 for the year ended June 30, 2017. This primarily relates to the impact of certain adjustments to pension obligations recorded in stockholders' equity, partially offset by the tax effects of net investment hedges. Tax benefits credited to shareholders' equity totaled $899 for the year ended June 30, 2016. This primarily relates to the impact of certain adjustments to pension obligations recorded in stockholders' equity and the impact of excess tax benefits from the exercise of stock options.

We have undistributed earnings of foreign subsidiaries of approximately $49 billion at June 30, 2017, for which deferred taxes have not been provided. Such earnings are considered indefinitely invested in the foreign subsidiaries. If such earnings were repatriated, additional tax expense may result. However, the calculation of the amount of deferred U.S. income tax on these earnings is not practicable because of the large number of assumptions necessary to compute the tax.

A reconciliation of the beginning and ending liability for uncertain tax positions is as follows:

Years ended June 30	2017	2016	2015
BEGINNING OF YEAR	$857	$1,096	$1,437
Increases in tax positions for prior years	87	124	87
Decreases in tax positions for prior years	(147)	(97)	(146)
Increases in tax positions for current year	75	97	118
Settlements with taxing authorities	(381)	(301)	(250)
Lapse in statute of limitations	(22)	(39)	(27)
Currency translation	(4)	(23)	(123)
END OF YEAR	$465	$857	$1,096

Included in the total liability for uncertain tax positions at June 30, 2017, is $284 that, depending on the ultimate resolution, could impact the effective tax rate in future periods.

The Company is present in approximately 140 taxable jurisdictions and, at any point in time, has 50-60 jurisdictional audits underway at various stages of completion. We evaluate our tax positions and establish liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law and the closing of statutes of

Amounts in millions of dollars except per share amounts or as otherwise specified.

limitation. Such adjustments are reflected in the tax provision as appropriate. We have tax years open ranging from 2008 and forward. We are generally not able to reliably estimate the ultimate settlement amounts until the close of the audit. While we do not expect material changes, it is possible that the amount of unrecognized benefit with respect to our uncertain tax positions could increase or decrease within the next 12 months. At this time, we are not able to make a reasonable estimate of the range of impact on the balance of uncertain tax positions or the impact on the effective tax rate related to these items.

We recognize the additional accrual of any possible related interest and penalties relating to the underlying uncertain tax position in income tax expense. As of June 30, 2017, 2016 and 2015, we had accrued interest of $100, $323 and $347 and accrued penalties of $20, $20 and $19, respectively, which are not included in the above table. During the fiscal years ended June 30, 2017, 2016 and 2015, we recognized $62, $2 and $15 in interest benefit/(expense) and $0, $(2) and $13 in penalties benefit/(expense), respectively. The net benefits recognized resulted primarily from the favorable resolution of tax positions for prior years.

Deferred income tax assets and liabilities were comprised of the following:

As of June 30	2017	2016
DEFERRED TAX ASSETS		
Pension and postretirement benefits	$1,775	$2,226
Loss and other carryforwards	1,516	1,077
Stock-based compensation	732	845
Unrealized loss on financial and foreign exchange transactions	259	122
Fixed assets	212	216
Accrued marketing and promotion	210	240
Advance payments	121	515
Inventory	75	61
Accrued interest and taxes	30	55
Other	709	764
Valuation allowances	(505)	(467)
TOTAL	$5,134	$5,654
DEFERRED TAX LIABILITIES		
Goodwill and other intangible assets	$9,403	$9,461
Fixed assets	1,495	1,533
Unrealized gain on financial and foreign exchange transactions	314	387
Other	26	105
TOTAL	$11,238	$11,486

Net operating loss carryforwards were $3.3 billion and $3.2 billion at June 30, 2017 and 2016, respectively. If unused, $1.1 billion will expire between 2017 and 2036. The remainder, totaling $2.2 billion at June 30, 2017, may be carried forward indefinitely.

Amounts in millions of dollars except per share amounts or as otherwise specified.

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NOTE 6
EARNINGS PER SHARE

Basic net earnings per common share are calculated by dividing Net earnings attributable to Procter & Gamble less preferred dividends (net of related tax benefits) by the weighted average number of common shares outstanding during the year. Diluted net earnings per common share are calculated on the basis of the weighted average number of common shares outstanding plus the dilutive effect of stock options and other stock-based awards (see Note 7) and the assumed conversion of preferred stock (see Note 8).

Net earnings per share were as follows:

Years ended June 30	2017			2016			2015		
CONSOLIDATED AMOUNTS	Continuing Operations	Dis-continued Operations	Total	Continuing Operations	Dis-continued Operations	Total	Continuing Operations	Dis-continued Operations	Total
Net earnings/(loss)	$10,194	$ 5,217	$15,411	$10,027	$ 577	$10,604	$8,287	$ (1,143)	$7,144
Net earnings attributable to noncontrolling interests	(85)	—	(85)	(96)	—	(96)	(98)	(10)	(108)
Net earnings/(loss) attributable to P&G (Diluted)	10,109	5,217	15,326	9,931	577	10,508	8,189	(1,153)	7,036
Preferred dividends, net of tax	(247)	—	(247)	(255)	—	(255)	(259)	—	(259)
Net earnings/(loss) attributable to P&G available to common shareholders (Basic)	$9,862	$ 5,217	$15,079	$9,676	$ 577	$10,253	$7,930	$ (1,153)	$6,777
SHARES IN MILLIONS									
Basic weighted average common shares outstanding	2,598.1	2,598.1	2,598.1	2,698.9	2,698.9	2,698.9	2,711.7	2,711.7	2,711.7
Add: Effect of dilutive securities									
Conversion of preferred shares(1)	99.3	99.3	99.3	103.9	103.9	103.9	108.6	108.6	108.6
Impact of stock options and other unvested equity awards (2)	43.0	43.0	43.0	41.6	41.6	41.6	63.3	63.3	63.3
Diluted weighted average common shares outstanding	2,740.4	2,740.4	2,740.4	2,844.4	2,844.4	2,844.4	2,883.6	2,883.6	2,883.6
PER SHARE AMOUNTS									
Basic net earnings/(loss) per common share (3)	$3.79	$ 2.01	$5.80	$3.59	$ 0.21	$3.80	$2.92	$ (0.42)	$2.50
Diluted net earnings/(loss) per common share (3)	$3.69	$ 1.90	$5.59	$3.49	$ 0.20	$3.69	$2.84	$ (0.40)	$2.44

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

(2) Weighted average outstanding stock options of approximately 20 million in 2017, 55 million in 2016 and 8 million in 2015 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/(loss) attributable to Procter & Gamble.

Amounts in millions of dollars except per share amounts or as otherwise specified.

NOTE 7
STOCK-BASED COMPENSATION

We have two primary stock-based compensation programs under which we annually grant stock option, restricted stock unit (RSU) and performance stock unit (PSU) awards to key managers and directors.

In our main long-term incentive program, key managers can elect to receive options or RSUs. All options granted vest after three years. Exercise prices on options granted have been, and continue to be, set equal to the market price of the underlying shares on the date of the grant. The stock options granted from July 1998 through August 2002 had a 15-year life and expired during fiscal year 2017. The options granted since September 2002 have a 10-year life. RSUs granted in February 2017 vest and settle in shares of common stock three years from the grant date. RSUs granted prior to February 2017 vest and settle in shares of common stock five years from the grant date.

Senior-level executives participate in an additional long-term incentive program that awards PSUs, which are paid in shares after the end of a three-year performance period. Under this program, the number of PSUs that will vest is based on the Company's performance relative to pre-established performance goals during that three year period.

In addition to these long-term incentive programs, we award RSUs to the Company's directors and make other minor stock option and RSU grants to employees for which the terms are not substantially different than our long-term incentive awards.

A total of 185 million shares of common stock were authorized for issuance under the stock-based compensation plan approved by shareholders in 2014. A total of 95 million shares remain available for grant under the 2014 plan.

The Company recognizes stock-based compensation expense based on the fair value of the awards at the date of grant. The fair value is amortized on a straight-line basis over the requisite service period. Awards to employees eligible for retirement prior to the award becoming fully vested are recognized as compensation expense from the grant date through the date the employee first becomes eligible to retire and is no longer required to provide services to earn the award. Stock-based compensation expense, which is included as part of Cost of products sold and SG&A in the Consolidated Statement of Earnings, and the related tax benefit were as follows:

Years ended June 30	2017	2016	2015
Stock options	$216	$199	$223
RSUs and PSUs	150	143	114
Total stock-based expense [(1)]	$366	$342	$337
Income tax benefit [(1)]	$111	$85	$109

[(1)] Includes amounts related to discontinued operations, which are not material in any period presented.

We utilize an industry standard lattice-based valuation model to calculate the fair value for stock options granted. Assumptions utilized in the model, which are evaluated and revised to reflect market conditions and experience, were as follows:

Years ended June 30	2017	2016	2015
Interest rate	0.8-2.6%	0.7-1.9%	0.1-2.1%
Weighted average interest rate	2.6 %	1.8 %	2.0 %
Dividend yield	3.2 %	3.2 %	3.1 %
Expected volatility	12 -16 %	15 -17 %	11 -15 %
Weighted average volatility	15 %	16 %	15 %
Expected life in years	9.6	8.3	8.3

Lattice-based option valuation models incorporate ranges of assumptions for inputs and those ranges are disclosed in the preceding table. Expected volatilities are based on a combination of historical volatility of our stock and implied volatilities of call options on our stock. We use historical data to estimate option exercise and employee termination patterns within the valuation model. The expected life of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding. The interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of options, RSUs and PSUs outstanding under the plans as of June 30, 2017 and activity during the year then ended is presented below:

Options	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Contract-ual Life in Years	Aggregate Intrinsic Value
Outstanding, beginning of year	230,397	$ 68.02		
Granted	21,425	90.70		
Exercised	(44,070)	59.11		
Canceled	(1,267)	69.76		
OUTSTANDING, END OF YEAR	206,485	$ 72.46	5.4	$ 3,109
EXERCISABLE	140,803	$ 66.71	3.9	$ 2,878

The weighted average grant-date fair value of options granted was $10.45, $8.48 and $9.38 per share in 2017, 2016 and 2015, respectively. The total intrinsic value of options exercised was $1,334, $1,388 and $1,814 in 2017, 2016 and 2015, respectively. The total grant-date fair value of options that vested during 2017, 2016 and 2015 was $246, $200 and $241, respectively. At June 30, 2017, there was $208 of compensation cost that has not yet been recognized related to stock option grants. That cost is expected to be recognized over a remaining weighted average period of 2.0 years. Cash received from options exercised was $2,630, $2,332 and $2,631 in 2017, 2016 and 2015, respectively. The actual tax

Amounts in millions of dollars except per share amounts or as otherwise specified.

benefit for the tax deductions from option exercises totaled $421, $433 and $519 in 2017, 2016 and 2015, respectively.

Other stock-based awards	RSUs Units (in thousands)	RSUs Weighted Average Grant Date Fair Value	PSUs Units (in thousands)	PSUs Weighted Average Grant Date Fair Value
Non-vested at July 1, 2016	5,274	$ 65.53	1,146	$ 75.25
Granted	1,730	89.74	623	91.03
Vested	(1,586)	66.70	(575)	77.55
Forfeited	(59)	69.21	—	—
Non-vested at June 30, 2017	5,359	$ 74.98	1,194	$ 82.40

At June 30, 2017, there was $255 of compensation cost that has not yet been recognized related to restricted stock, RSUs and PSUs. That cost is expected to be recognized over a remaining weighted average period of 2.5 years. The total grant date fair value of shares vested was $163, $97 and $79 in 2017, 2016 and 2015, respectively.

The Company settles equity issuances with treasury shares. We have no specific policy to repurchase common shares to mitigate the dilutive impact of options, RSUs and PSUs. However, we have historically made adequate discretionary purchases, based on cash availability, market trends and other factors, to offset the impacts of such activity.

NOTE 8

POSTRETIREMENT BENEFITS AND EMPLOYEE STOCK OWNERSHIP PLAN

We offer various postretirement benefits to our employees.

Defined Contribution Retirement Plans

We have defined contribution plans, which cover the majority of our U.S. employees, as well as employees in certain other countries. These plans are fully funded. We generally make contributions to participants' accounts based on individual base salaries and years of service. Total global defined contribution expense was $270, $292 and $305 in 2017, 2016 and 2015, respectively.

The primary U.S. defined contribution plan (the U.S. DC plan) comprises the majority of the expense for the Company's defined contribution plans. For the U.S. DC plan, the contribution rate is set annually. Total contributions for this plan approximated 14% of total participants' annual wages and salaries in 2017 in 2016 and 2015.

We maintain The Procter & Gamble Profit Sharing Trust (Trust) and Employee Stock Ownership Plan (ESOP) to provide a portion of the funding for the U.S. DC plan and other retiree benefits (described below). Operating details of the ESOP are provided at the end of this Note. The fair value of the ESOP Series A shares allocated to participants reduces our cash contribution required to fund the U.S. DC plan.

Defined Benefit Retirement Plans and Other Retiree Benefits

We offer defined benefit retirement pension plans to certain employees. These benefits relate primarily to local plans outside the U.S. and, to a lesser extent, plans assumed in previous acquisitions covering U.S. employees.

We also provide certain other retiree benefits, primarily health care and life insurance, for the majority of our U.S. employees, who become eligible for these benefits when they meet minimum age and service requirements. Generally, the health care plans require cost sharing with retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. These benefits are primarily funded by ESOP Series B shares and certain other assets contributed by the Company.

Amounts in millions of dollars except per share amounts or as otherwise specified.

Obligation and Funded Status. The following provides a reconciliation of benefit obligations, plan assets and funded status of these defined benefit plans:

	Pension Benefits [1]		Other Retiree Benefits [2]	
Years ended June 30	2017	2016	2017	2016
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year [3]	$17,285	$15,951	$ 5,632	$ 4,904
Service cost	310	314	133	124
Interest cost	300	466	175	219
Participants' contributions	14	17	74	74
Amendments	2	8	—	(40)
Net actuarial loss/(gain)	(643)	1,927	(554)	589
Acquisitions/(divestitures) [4]	(413)	(21)	(31)	(7)
Curtailments	(132)	—	(37)	—
Special termination benefits	4	6	21	12
Currency translation and other	35	(826)	16	(14)
Benefit payments	(602)	(557)	(242)	(229)
BENEFIT OBLIGATION AT END OF YEAR [3]	$16,160	$17,285	$ 5,187	$ 5,632
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$10,269	$10,605	$3,787	$3,470
Actual return on plan assets	884	630	136	408
Acquisitions/(divestitures) [4]	(34)	(13)	—	—
Employer contributions	316	306	36	32
Participants' contributions	14	17	74	74
Currency translation and other	(18)	(719)	(4)	(8)
ESOP debt impacts [5]	—	—	44	40
Benefit payments	(602)	(557)	(242)	(229)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	$10,829	$10,269	$3,831	$3,787
Reclassification of net obligation to held for sale liabilities	—	402	—	16
FUNDED STATUS	$(5,331)	$(6,614)	$(1,356)	$(1,829)

(1) Primarily non-U.S.-based defined benefit retirement plans.

(2) Primarily U.S.-based other postretirement benefit plans.

(3) For the pension benefit plans, the benefit obligation is the projected benefit obligation. For other retiree benefit plans, the benefit obligation is the accumulated postretirement benefit obligation.

(4) For the year ended June 30, 2017, this represents the obligations and plans which were classified as held for sale at June 30, 2016.

(5) Represents the net impact of ESOP debt service requirements, which is netted against plan assets for other retiree benefits.

The underfunding of pension benefits is primarily a function of the different funding incentives that exist outside of the U.S. In certain countries, there are no legal requirements or financial incentives provided to companies to pre-fund pension obligations prior to their due date. In these instances, benefit payments are typically paid directly from the Company's cash as they become due.

	Pension Benefits		Other Retiree Benefits	
Years ended June 30	2017	2016	2017	2016
CLASSIFICATION OF NET AMOUNT RECOGNIZED				
Noncurrent assets	$196	$180	$—	$—
Current liabilities	(40)	(33)	(23)	(21)
Noncurrent liabilities	(5,487)	(6,761)	(1,333)	(1,808)

NET AMOUNT RECOGNIZED	$(5,331)	$(6,614)	$(1,356)	$(1,829)
AMOUNTS RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI)				
Net actuarial loss	$4,548	$6,088	$1,819	$2,247
Prior service cost/(credit)	245	270	(293)	(334)
NET AMOUNTS RECOGNIZED IN AOCI	$4,793	$6,358	$1,526	$1,913

Amounts in millions of dollars except per share amounts or as otherwise specified.

The accumulated benefit obligation for all defined benefit pension plans was $14,512 and $15,546 as of June 30, 2017 and 2016, respectively. Pension plans with accumulated benefit obligations in excess of plan assets and plans with projected benefit obligations in excess of plan assets consisted of the following:

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets		Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
As of June 30	2017	2016	2017	2016
Projected benefit obligation	$ 13,699	$ 15,233	$ 14,181	$ 15,853
Accumulated benefit obligation	12,276	13,587	12,630	14,149
Fair value of plan assets	8,279	8,082	8,654	8,657

Net Periodic Benefit Cost. Components of the net periodic benefit cost were as follows:

	Pension Benefits			Other Retiree Benefits		
Years ended June 30	2017	2016	2015	2017	2016	2015
AMOUNTS RECOGNIZED IN NET PERIODIC BENEFIT COST						
Service cost [1]	$310	$314	$317	$133	$124	$156
Interest cost	300	466	545	175	219	240
Expected return on plan assets	(675)	(731)	(732)	(431)	(416)	(406)
Amortization of net actuarial loss	375	265	275	122	78	105
Amortization of prior service cost/(credit)	28	29	30	(45)	(52)	(20)
Amortization of net actuarial loss/ prior service cost due to settlements and curtailments	186 [2]	—	—	16 [2]	—	—
Special termination benefits	4	6	11	21 [2]	12	23
GROSS BENEFIT COST/(CREDIT)	528	349	446	(9)	(35)	98
Dividends on ESOP preferred stock	—	—	—	(45)	(52)	(58)
NET PERIODIC BENEFIT COST/(CREDIT)	$528	$349	$446	$(54)	$(87)	$40
CHANGE IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN AOCI						
Net actuarial loss/(gain) - current year	$(852)	$2,028		$(259)	$597	
Prior service cost/(credit) - current year	2	8		—	(40)	
Amortization of net actuarial loss	(375)	(265)		(122)	(78)	
Amortization of prior service (cost)/credit	(28)	(29)		45	52	
Amortization of net actuarial loss/prior service costs due to settlements and curtailments	(186)	—		(16)	—	
Reduction in net actuarial losses resulting from curtailment	(132)	—		(37)	—	
Currency translation and other	6	(172)		2	(3)	
TOTAL CHANGE IN AOCI	(1,565)	1,570		(387)	528	
NET AMOUNTS RECOGNIZED IN PERIODIC BENEFIT COST AND AOCI	$(1,037)	$1,919		$(441)	$441	

(1) Service cost includes amounts related to discontinued operations, which are not material for any period.

(2) Amortization of net actuarial loss / prior service cost due to settlement and curtailments and $18 of the special termination benefits are included in Net earnings from discontinued operations.

Amounts expected to be amortized from AOCI into net periodic benefit cost during the year ending June 30, 2018, are as follows:

	Pension Benefits	Other Retiree Benefits
Net actuarial loss	$ 289	$ 67
Prior service cost/(credit)	28	(35)

Amounts in millions of dollars except per share amounts or as otherwise specified.

Assumptions. We determine our actuarial assumptions on an annual basis. These assumptions are weighted to reflect each country that may have an impact on the cost of providing retirement benefits. The weighted average assumptions used to determine benefit obligations recorded on the Consolidated Balance Sheets as of June 30, were as follows: (1)

	Pension Benefits		Other Retiree Benefits	
As of June 30	2017	2016	2017	2016
Discount rate	2.4 %	2.1 %	3.9 %	3.6 %
Rate of compensation increase	3.0 %	2.9 %	N/A	N/A
Health care cost trend rates assumed for next year	N/A	N/A	6.4 %	7.2 %
Rate to which the health care cost trend rate is assumed to decline (ultimate trend rate)	N/A	N/A	4.9 %	4.9 %
Year that the rate reaches the ultimate trend rate	N/A	N/A	2022	2021

(1) Determined as of end of year.

The weighted average assumptions used to determine net benefit cost recorded on the Consolidated Statement of Earnings for the years ended June 30, were as follows: (1)

	Pension Benefits			Other Retiree Benefits		
Years ended June 30	2017	2016	2015	2017	2016	2015
Discount rate	2.1%	3.1%	3.5%	3.6 %	4.5 %	4.4 %
Expected return on plan assets	6.9%	7.2%	7.2%	8.3 %	8.3 %	8.3 %
Rate of compensation increase	2.9%	3.1%	3.2%	N/A	N/A	N/A

(1) Determined as of beginning of year.

For the fiscal year 2017, the Company changed its method of determining service and interest costs for plans that make up the majority of our obligation from the single weighted average discount rate approach to specific spot rates along the yield curve, which management has concluded is a more precise estimate. Prior to this change in methodology, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. The Company has accounted for this change as a change in accounting estimate and, accordingly, has accounted for it on a prospective basis. This change does not impact the benefit obligation and did not have a material impact on fiscal year 2017 results.

Several factors are considered in developing the estimate for the long-term expected rate of return on plan assets. For the defined benefit retirement plans, these factors include historical rates of return of broad equity and bond indices and projected long-term rates of return obtained from pension investment consultants. The expected long-term rates of return for plan assets are 8 - 9% for equities and 5 - 6% for bonds. For other retiree benefit plans, the expected long-term rate of return reflects that the assets are comprised primarily of Company stock. The expected rate of return on Company stock is based on the long-term projected return of 8.5% and reflects the historical pattern of returns.

Assumed health care cost trend rates could have a significant effect on the amounts reported for the other retiree benefit plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on the total service and interest cost components	$ 74	$ (55)
Effect on the accumulated postretirement benefit obligation	950	(697)

Plan Assets. Our investment objective for defined benefit retirement plan assets is to meet the plans' benefit obligations and to improve plan self-sufficiency for future benefit obligations. The investment strategies focus on asset class diversification, liquidity to meet benefit payments and an appropriate balance of long-term investment return and risk. Target ranges for asset allocations are determined by assessing different investment risks and matching the actuarial projections of the plans' future liabilities and benefit payments with current as well as expected long-term rates of return on the assets, taking into account investment return volatility and correlations across asset classes. Plan assets are diversified across several investment managers and are generally invested in liquid funds that are selected to track broad market equity and bond indices. Investment risk is carefully controlled with plan assets rebalanced to target allocations on a periodic basis and with continual monitoring of investment managers' performance relative to the investment guidelines established with each investment manager.

Amounts in millions of dollars except per share amounts or as otherwise specified.

Our target asset allocation for the year ended June 30, 2017, and actual asset allocation by asset category as of June 30, 2017 and 2016, were as follows:

	Target Asset Allocation		Actual Asset Allocation at June 30			
			Pension Benefits		Other Retiree Benefits	
Asset Category	Pension Benefits	Other Retiree Benefits	2017	2016	2017	2016
Cash	2 %	2 %	2 %	2 %	1 %	2 %
Debt securities	57 %	3 %	53 %	55 %	4 %	4 %
Equity securities	41 %	95 %	45 %	43 %	95 %	94 %
TOTAL	100 %	100 %	100 %	100 %	100 %	100 %

The following tables set forth the fair value of the Company's plan assets as of June 30, 2017 and 2016 segregated by level within the fair value hierarchy (refer to Note 9 for further discussion on the fair value hierarchy and fair value principles). Company stock listed as Level 2 in the hierarchy represents preferred shares which are valued based on the value of Company common stock. The majority of our Level 3 pension assets are insurance contracts. Their fair values are based on their cash equivalent or models that project future cash flows and discount the future amounts to a present value using market-based observable inputs, including credit risk and interest rate curves. There was no significant activity within the Level 3 pension and other retiree benefits plan assets during the years presented. Investments valued using net asset value as a practical expedient are primarily equity and fixed income collective funds. These assets are not valued using the fair value hierarchy, but rather valued using the net asset value reported by the managers of the funds and as supported by the unit prices of actual purchase and sale transactions. For additional details on the fair value hierarchy, see Note 9.

	Pension Benefits			Other Retiree Benefits		
As of June 30	Fair Value Hierarchy Level	2017	2016	Fair Value Hierarchy Level	2017	2016
ASSETS AT FAIR VALUE						
Cash and cash equivalents	1	$134	$ 151	1	$6	$70
Company stock [1]		—	—	2	3,643	3,545
Other [2]	1, 2 & 3	165	166	1	7	—
TOTAL ASSETS IN THE FAIR VALUE HEIRARCHY		$299	$ 317		$3,656	$3,615
Investments valued at net asset value		$10,530	9,952		$175	172
TOTAL ASSETS AT FAIR VALUE		$10,829	10,269		$3,831	3,787

(1) Company stock is net of ESOP debt discussed below.

(2) The Company's other pension plan assets measured at fair value are generally classified as Level 3 within the fair value hierarchy. There are no material other pension plan asset balances classified as Level 1 or Level 2 within the fair value hierarchy.

Cash Flows. Management's best estimate of cash requirements and discretionary contributions for the defined benefit retirement plans and other retiree benefit plans for the year ending June 30, 2018, is $125 and $39, respectively. For the defined benefit retirement plans, this is comprised of $75 in expected benefit payments from the Company directly to participants of unfunded plans and $50 of expected contributions to funded plans. For other retiree benefit plans, this is comprised of $24 in expected benefit payments from the

Company directly to participants of unfunded plans and $15 of expected contributions to funded plans. Expected contributions are dependent on many variables, including the variability of the market value of the plan assets as compared to the benefit obligation and other market or regulatory conditions. In addition, we take into consideration our business investment opportunities and resulting cash requirements. Accordingly, actual funding may differ significantly from current estimates.

Amounts in millions of dollars except per share amounts or as otherwise specified.

Total benefit payments expected to be paid to participants, which include payments funded from the Company's assets and payments from the plans are as follows:

Years ending June 30	Pension Benefits	Other Retiree Benefits
EXPECTED BENEFIT PAYMENTS		
2018	$ 524	$ 198
2019	530	211
2020	539	222
2021	575	232
2022	596	242
2023 - 2027	3,221	1,334

Employee Stock Ownership Plan

We maintain the ESOP to provide funding for certain employee benefits discussed in the preceding paragraphs.

The ESOP borrowed $1.0 billion in 1989 and the proceeds were used to purchase Series A ESOP Convertible Class A Preferred Stock to fund a portion of the U.S. DC plan. Principal and interest requirements of the borrowing were paid by the Trust from dividends on the preferred shares and from advances provided by the Company. The original borrowing of $1.0 billion has been repaid in full, and advances from the Company of $62 remain outstanding at June 30, 2017. Each share is convertible at the option of the holder into one share of the Company's common stock. The dividend for the current year was equal to the common stock dividend of $2.70 per share. The liquidation value is $6.82 per share.

In 1991, the ESOP borrowed an additional $1.0 billion. The proceeds were used to purchase Series B ESOP Convertible Class A Preferred Stock to fund a portion of retiree health care benefits. These shares, net of the ESOP's debt, are considered plan assets of the other retiree benefits plan discussed above. Debt service requirements are funded by preferred stock dividends, cash contributions and advances provided by the Company, of which $770 are outstanding at June 30, 2017. Each share is convertible at the option of the holder into one share of the Company's common stock. The dividend for the current year was equal to the common stock dividend of $2.70 per share. The liquidation value is $12.96 per share.

Our ESOP accounting practices are consistent with current ESOP accounting guidance, including the permissible continuation of certain provisions from prior accounting guidance. ESOP debt, which is guaranteed by the Company, is recorded as debt (see Note 10) with an offset to the Reserve for ESOP debt retirement, which is presented within Shareholders' equity. Advances to the ESOP by the Company are recorded as an increase in the Reserve for ESOP debt retirement. Interest incurred on the ESOP debt is recorded as Interest expense. Dividends on all preferred shares, net of related tax benefits, are charged to Retained earnings.

The series A and B preferred shares of the ESOP are allocated to employees based on debt service requirements. The number of preferred shares outstanding at June 30 was as follows:

Shares in thousands	2017	2016	2015
Allocated	36,488	39,241	42,044
Unallocated	5,060	6,095	7,228
TOTAL SERIES A	41,548	45,336	49,272
Allocated	25,378	23,925	23,074
Unallocated	30,412	32,319	34,096
TOTAL SERIES B	55,790	56,244	57,170

For purposes of calculating diluted net earnings per common share, the preferred shares held by the ESOP are considered converted from inception.

NOTE 9

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. We evaluate exposures on a centralized basis to take advantage of natural exposure correlation and netting. To the extent we choose to manage volatility associated with the net exposures, we enter into various financial transactions that we account for using the applicable accounting guidance for derivative instruments and hedging activities. These financial transactions are governed by our policies covering acceptable counterparty exposure, instrument types and other hedging practices.

At inception, we formally designate and document qualifying instruments as hedges of underlying exposures. We formally assess, at inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposures. Fluctuations in the value of these instruments generally are offset by changes in the fair value or cash flows of the underlying exposures being hedged. This is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. The ineffective portion of a change in the fair value of a qualifying instrument is immediately recognized in earnings. The amount of ineffectiveness recognized was immaterial for all years presented.

Credit Risk Management

We have counterparty credit guidelines and normally enter into transactions with investment grade financial institutions, to the extent commercially viable. Counterparty exposures are monitored daily and downgrades in counterparty credit ratings are reviewed on a timely basis. We have not incurred, and do not expect to incur, material credit losses on our risk management or other financial instruments.

Substantially all of the Company's financial instruments used in hedging transactions are governed by industry standard

Amounts in millions of dollars except per share amounts or as otherwise specified.

netting and collateral agreements with counterparties. If the Company's credit rating were to fall below the levels stipulated in the agreements, the counterparties could demand either collateralization or termination of the arrangements. The aggregate fair value of the instruments covered by these contractual features that are in a net liability position as of June 30, 2017, was not material. The Company has not been required to post collateral as a result of these contractual features.

Interest Rate Risk Management

Our policy is to manage interest cost using a mixture of fixed-rate and variable-rate debt. To manage this risk in a cost-efficient manner, we enter into interest rate swaps whereby we agree to exchange with the counterparty, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional amount.

Interest rate swaps that meet specific accounting criteria are accounted for as fair value or cash flow hedges. For fair value hedges, the changes in the fair value of both the hedging instruments and the underlying debt obligations are immediately recognized in Interest expense. For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is reported in OCI and reclassified into Interest expense over the life of the underlying debt obligation. The ineffective portion for both cash flow and fair value hedges, which was not material for any year presented, was immediately recognized in Interest expense.

Foreign Currency Risk Management

We manufacture and sell our products and finance our operations in a number of countries throughout the world. As a result, we are exposed to movements in foreign currency exchange rates.

To manage the exchange rate risk primarily associated with the financing of our operations, we have historically used a combination of forward contracts, options and currency swaps. Historically, we have had currency swaps with original maturities up to five years, which were intended to offset the effect of exchange rate fluctuations on intercompany loans denominated in foreign currencies. These swaps were accounted for as cash flow hedges. The effective portion of the changes in fair value of these instruments was reported in OCI and reclassified into SG&A and Interest expense in the same period or periods during which the related hedged transactions affected earnings. The ineffective portion, which was not material for any year presented, was immediately recognized in SG&A.

The change in fair values of certain non-qualifying instruments used to manage foreign exchange exposure of intercompany financing transactions and certain balance sheet items subject to revaluation are immediately recognized in earnings, substantially offsetting the foreign currency mark-to-market impact of the related exposures.

Net Investment Hedging

We hedge certain net investment positions in foreign subsidiaries. To accomplish this, we either borrow directly in foreign currencies and designate all or a portion of the foreign

currency debt as a hedge of the applicable net investment position or we enter into foreign currency swaps that are designated as hedges of net investments. Changes in the fair value of these instruments are recognized in OCI to offset the change in the value of the net investment being hedged. The ineffective portion of these hedges, which was not material in any year presented, was immediately recognized in Interest expense.

Commodity Risk Management

Certain raw materials used in our products or production processes are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. To manage the volatility related to anticipated purchases of certain of these materials, we have historically, on a limited basis, used futures and options with maturities generally less than one year and swap contracts with maturities up to five years. As of and during the years ended June 30, 2017 and 2016, we did not have any commodity hedging activity.

Insurance

We self-insure for most insurable risks. However, we purchase insurance for Directors and Officers Liability and certain other coverage where it is required by law or by contract.

Fair Value Hierarchy

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that financial assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

When applying fair value principles in the valuation of assets and liabilities, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company has not changed its valuation techniques used in measuring the fair value of any financial assets or liabilities during the year. Our fair value estimates take into consideration the credit risk of both the Company and our counterparties.

When active market quotes are not available for financial assets and liabilities, we use industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including credit risk, interest rate curves, foreign currency rates and forward and spot prices for currencies. In circumstances where market-based observable inputs are not available, management judgment is used to develop assumptions to estimate fair value. Generally, the fair value of our Level 3 instruments is estimated as the net present value of expected future cash flows based on external inputs.

Amounts in millions of dollars except per share amounts or as otherwise specified.

The following table sets forth the Company's financial assets as of June 30, 2017 and 2016 that were measured at fair value on a recurring basis during the period:

As of June 30	Fair Value Asset 2017	2016
Investments:		
U.S. government securities	$6,297	$4,839
Corporate bond securities	3,271	1,407
Other investments	132	28
TOTAL	$9,700	$6,274

Investment securities are presented in Available-for-sale investment securities and Other noncurrent assets. The amortized cost of the U.S. government securities with maturities less than one year was $2,494 and $292 as of June 30, 2017 and 2016, respectively. The amortized cost of the U.S. government securities with maturities between one and five years was $3,824 and $4,513 as of June 30, 2017 and 2016, respectively. The amortized cost of corporate bond securities with maturities of less than a year was $730 and $382 as of June 30, 2017 and 2016, respectively. The amortized cost of corporate bond securities with maturities between one and five years was $2,547 and $1,018 as of June 30, 2017 and 2016, respectively. The Company's investments measured at fair value are generally classified as Level 2 within the fair value hierarchy. There are no material investment balances classified as Level 1 or Level 3 within the fair value hierarchy, or using net asset value as a practical expedient. Fair values are generally estimated based upon quoted market prices for similar instruments.

The fair value of long-term debt was $21,396 and $24,362 as of June 30, 2017 and 2016, respectively. This includes the current portion of debt instruments ($1,694 and $2,761 as of June 30, 2017 and 2016, respectively). Certain long-term debt approximates fair value. Certain long-term debt is not recorded at fair value on a recurring basis, but is measured at fair value for disclosure purposes. Long-term debt with fair value of $1,716 and $2,331 as of June 30, 2017 and 2016, 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.

Disclosures about Derivative Instruments

The notional amounts and fair values of qualifying and non-qualifying derivative instruments used in hedging transactions as of June 30, 2017 and 2016 are as follows:

As of June 30	Notional Amount		Fair Value Asset		Fair Value (Liability)	
	2017	2016	2017	2016	2017	2016
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS						
Foreign currency contracts	$—	$798	$ —	$ 94	$—	$(63)
DERIVATIVES IN FAIR VALUE HEDGING RELATIONSHIPS						
Interest rate contracts	$4,552	$4,993	$ 180	$ 371	$(2)	$—
DERIVATIVES IN NET INVESTMENT HEDGING RELATIONSHIPS						
Net investment hedges	$6,102	$3,013	$ 14	$ 28	$(177)	$(115)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS						
Foreign currency contracts	$4,969	$6,482	$ 25	$ 28	$(7)	$(38)

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 decrease in the notional balance of foreign currency cash flow hedges is reflective of the decrease in the underlying intercompany loans. The increase in the notional balance of net investment hedges primarily reflects a movement into lower yielding foreign currency swaps. The decrease in the notional balance of foreign currency contracts not designated as hedging instruments reflects changes in the level of intercompany financing 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.

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. In addition, 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 significant assets or liabilities that were re-measured at fair value on a non-recurring basis during the years ended June 30, 2017 and 2016.

Amounts in millions of dollars except per share amounts or as otherwise specified.

Years ended June 30	Amount of Gain/(Loss) Recognized in AOCI on Derivatives (Effective Portion) 2017	2016
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		
Interest rate contracts	$ (2)	$ (2)
Foreign currency contracts	—	—
TOTAL	$ (2)	$ (2)
DERIVATIVES IN NET INVESTMENT HEDGING RELATIONSHIPS		
Net investment hedges	$ (104)	$ (53)

During the next 12 months, the amount of the June 30, 2017 AOCI balance that will be reclassified to earnings is expected to be immaterial. The amounts of gains and losses included in earnings from qualifying and non-qualifying financial instruments used in hedging transactions for the years ended June 30, 2017 and 2016 were as follows:

Years ended June 30	Amount of Gain/(Loss) Reclassified from AOCI into Earnings 2017	2016
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		
Interest rate contracts	$ —	$ 3
Foreign currency contracts	69	(106)
TOTAL	$ 69	$ (103)

Years ended June 30	Amount of Gain/(Loss) Recognized in Earnings 2017	2016
DERIVATIVES IN FAIR VALUE HEDGING RELATIONSHIPS		
Interest rate contracts	$ (193)	$ 212
Debt	193	(212)
TOTAL	$ —	$ —
DERIVATIVES IN NET INVESTMENT HEDGING RELATIONSHIPS		
Net investment hedges	$ 6	$ (2)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
Foreign currency contracts [(1)]	$ 59	$ (120)

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

NOTE 10
SHORT-TERM AND LONG-TERM DEBT

As of June 30	2017	2016
DEBT DUE WITHIN ONE YEAR		
Current portion of long-term debt	$1,676	$2,760
Commercial paper	11,705	8,690
Other	173	203
TOTAL	$13,554	$11,653
Short-term weighted average interest rates [1]	0.5 %	0.2 %

[1] Short-term weighted average interest rates include the effects of interest rate swaps discussed in Note 9.

As of June 30	2017	2016
LONG-TERM DEBT		
5.13% EUR note due October 2017	1,078	1,221
1.60% USD note due November 2018	1,000	1,000
1.90% USD note due November 2019	550	550
0.28% JPY note due May 2020	894	973
4.13% EUR note due December 2020	686	666
9.36% ESOP debentures due 2017-2021 [1]	417	498
1.85% USD note due February 2021	600	600
1.70% USD note due November 2021	875	—
2.00% EUR note due November 2021	858	833
2.30% USD note due February 2022	1,000	1,000
2.00% EUR note due August 2022	1,144	1,110
3.10% USD note due August 2023	1,000	1,000
1.13% EUR note due November 2023	1,430	1,388
2.70% USD note due February 2026	600	600
2.45% USD note due November 2026	875	—
4.88% EUR note due May 2027	1,144	1,110
5.55% USD note due March 2037	1,130	1,400
Capital lease obligations	51	45
All other long-term debt	4,382	7,711
Current portion of long-term debt	(1,676)	(2,760)
TOTAL	$18,038	$18,945
Long-term weighted average interest rates [2]	2.6 %	3.1 %

[1] Debt issued by the ESOP is guaranteed by the Company and is recorded as debt of the Company, as discussed in Note 8.

[2] Long-term weighted average interest rates include the effects of interest rate swaps discussed in Note 9.

Long-term debt maturities during the next five fiscal years are as follows:

Years ending June 30	2018	2019	2020	2021	2022
Debt maturities	$1,676	$1,111	$2,010	$1,411	$2,890

The Procter & Gamble Company fully and unconditionally guarantees the registered debt and securities issued by its 100% owned finance subsidiaries.

Amounts in millions of dollars except per share amounts or as otherwise specified.

NOTE 11

ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

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

	Hedges	Investment Securities	Pension and Other Retiree Benefits	Financial Statement Translation	Total
BALANCE at JUNE 30, 2015	$(2,642)	$ 6	$(4,321)	$ (5,823)	$(12,780)
OCI before reclassifications [1]	(103)	29	(1,710)	(1,679)	(3,463)
Amounts reclassified from AOCI [2]	104	(1)	233	—	336
Net current period OCI	1	28	(1,477)	(1,679)	(3,127)
BALANCE at JUNE 30, 2016	(2,641)	34	(5,798)	(7,502)	(15,907)
OCI before reclassifications [3]	(237)	(49)	910	356	980
Amounts reclassified from AOCI [4]	(69)	(10)	491	(117)	295
Net current period OCI	(306)	(59)	1,401	239	1,275
BALANCE at JUNE 30, 2017	$(2,947)	$ (25)	$(4,397)	$ (7,263)	$(14,632)

(1) Net of tax (benefit) / expense of $6, $7 and $(708) for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively, for the period ended June 30, 2016.

(2) Net of tax (benefit) / expense of $(1), $0 and $87 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively, for the period ended June 30, 2016.

(3) Net of tax (benefit) / expense of $(186), $(6) and $360 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively, for the period ended June 30, 2017.

(4) Net of tax (benefit) / expense of $0, $0 and $191 for gains/losses on hedges, investment securities and pension and other retiree benefit items, respectively, for the period ended June 30, 2017.

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

- Hedges: see Note 9 for classification of gains and losses from hedges in the Consolidated Statements of Earnings.
- Investment securities: amounts reclassified from AOCI into Other non-operating income, net.
- Pension and other retiree benefits: amounts reclassified from AOCI into Cost of product sold, SG&A, and Net earnings from discontinued operations and included in the computation of net periodic pension cost (see Note 8 for additional details).
- Financial statement translation: amounts reclassified from AOCI into Net earnings from discontinued operations. These amounts relate to accumulated translation associated with foreign entities sold as part of the sale of the Beauty Brands business.

NOTE 12

COMMITMENTS AND CONTINGENCIES

Guarantees

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnifications (e.g., indemnification for representations and warranties and retention of previously existing environmental, tax and employee liabilities) for which terms range in duration and, in some circumstances, are not explicitly defined. The maximum obligation under some indemnifications is also not explicitly stated and, as a result, the overall amount of these obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have not made significant payments for these indemnifications. We believe that if we were to incur a loss on any of these matters, the loss would not have a material effect on our financial position, results of operations or cash flows.

In certain situations, we guarantee loans for suppliers and customers. The total amount of guarantees issued under such arrangements is not material.

Off-Balance Sheet Arrangements

We do not have off-balance sheet financing arrangements, including variable interest entities, that have a material impact on our financial statements.

Purchase Commitments and Operating Leases

We have purchase commitments for materials, supplies, services and property, plant and equipment as part of the normal course of business. Commitments made under take-or-pay obligations are as follows:

Years ending June 30	2018	2019	2020	2021	2022	Thereafter
Purchase obligations	$843	$225	$168	$ 99	$ 70	$ 202

Such amounts represent minimum commitments under take-or-pay agreements with suppliers and are in line with expected usage. These amounts include purchase commitments related to service contracts for information technology, human resources management and facilities management activities that have been outsourced to third-party suppliers. Such amounts also include arrangements with suppliers that qualify as embedded operating leases. Due to the proprietary nature

Amounts in millions of dollars except per share amounts or as otherwise specified.

of many of our materials and processes, certain supply contracts contain penalty provisions for early termination. We do not expect to incur penalty payments under these provisions that would materially affect our financial position, results of operations or cash flows.

We also lease certain property and equipment for varying periods. Future minimum rental commitments under non-cancelable operating leases, net of guaranteed sublease income, are as follows:

Years ending June 30	2018	2019	2020	2021	2022	Thereafter
Operating leases	$261	$273	$237	$194	$160	$ 368

Litigation

We are 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, patent and trademark matters, labor and employment matters and tax.

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.

NOTE 13

DISCONTINUED OPERATIONS

On October 1, 2016, the Company completed the divestiture of four product categories to Coty, Inc. (“Coty”). The divestiture included 41 of the Company's beauty brands (“Beauty Brands”), including the global salon professional hair care and color, retail hair color, cosmetics and a majority of the fine fragrance businesses, along with select hair styling brands. The form of the divestiture transaction was a Reverse Morris Trust split-off, in which P&G shareholders were given the election to exchange their P&G shares for shares of a new corporation that held the Beauty Brands (Galleria Co.), and then immediately exchange those shares for Coty shares. The value P&G received in the transaction was $11.4 billion. The value was comprised of 105 million shares of common stock of the Company, which were tendered by shareholders of the Company and exchanged for the Galleria Co. shares, valued at approximately $9.4 billion, and the assumption of $1.9 billion of debt by Galleria Co. The shares tendered in the transaction were reflected as an addition to treasury stock and the cash received related to the debt assumed by Coty was reflected as an investing activity in the Consolidated Statement of Cash Flows. The Company recorded an after-tax gain on the final transaction of $5.3 billion, net of transaction and related costs.

Two of the fine fragrance brands, Dolce & Gabbana and Christina Aguilera, were excluded from the divestiture. These brands were subsequently divested at amounts that approximated their adjusted carrying values.

In February 2016, the Company completed the divestiture of its Batteries business to Berkshire Hathaway (BH) via a split transaction, in which the Company exchanged the Duracell Company, which the Company had infused with additional cash, to repurchase all 52.5 million shares of P&G stock owned by BH. During the fiscal year ended June 30, 2016, the Company recorded non-cash, before-tax goodwill and indefinite-lived asset impairment charges of $402 ($350 after tax), to reduce the Batteries carrying value to the total estimated proceeds based on the value of BH’s shares in P&G stock at the time of the impairment charges (see Note 4). The Company recorded an after-tax gain on the final transaction of $422 to reflect a subsequent increase in the final value of the BH’s shares in P&G stock. The total value of the transaction was $4.2 billion representing the value of the Duracell business and the cash infusion. The cash infusion of $1.7 billion was reflected as a purchase of treasury stock.

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, our manufacturing sites in the United States and the majority of the employees working in the Pet Care business. The agreement included an option for Mars to acquire the Pet Care business in several additional countries, which was also completed in fiscal 2015. 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, our manufacturing site in the Netherlands and the majority of the employees working in the Western Europe Pet Care business. The one-time after-tax impact of these transactions is not material.

In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of the Beauty Brands, Batteries and Pet Care businesses 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 are presented as assets and liabilities held for sale in the Consolidated Balance Sheet as of June 30, 2016. The Beauty Brands were historically part of the Company's Beauty reportable segment. The Batteries business was historically part of the Company's Fabric & Home Care reportable segment. The Pet Care business was historically part of the Company's Health Care reportable segment.

Amounts in millions of dollars except per share amounts or as otherwise specified.

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

Years ended June 30	2017	2016	2015
Beauty Brands	$5,217	$336	$643
Batteries	—	241	(1,835)
Pet Care	—	—	49
Net earnings/(loss) from discontinued operations	$5,217	$577	$(1,143)

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

	Beauty Brands		
Years ended June 30	2017	2016	2015
Net sales	$1,159	$4,910	$5,530
Cost of products sold	450	1,621	1,820
Selling, general and administrative expense	783	2,763	2,969
Intangible asset impairment charges	—	48	—
Interest expense	14	32	—
Interest income	—	2	2
Other non-operating income/(loss), net	16	9	91
Earnings/(loss) from discontinued operations before income taxes	$(72)	$457	$834
Income taxes on discontinued operations	46	121	191
Gain on sale of business before income taxes	$5,197	$—	$—
Income tax expense/(benefit) on sale of business	(138)[(1)]	—	—
Net earnings from discontinued operations	$5,217	$336	$643

(1) The income tax benefit of the Beauty Brands divestiture represents the reversal of underlying deferred tax balances partially offset by current tax expense related to the transaction.

For the fiscal year ended June 30, 2017, the Beauty Brands incurred transition costs of $167, after-tax, which are included in the table above. For the fiscal year ended June 30, 2016, transition costs of $112, before-tax, were incurred and are included in Net earnings/(loss) from discontinued operations.
The following is selected financial information included in cash flows from discontinued operations for the Beauty Brands:

	Beauty Brands		
Years ended June 30	2017	2016	2015
NON-CASH OPERATING ITEMS			
Depreciation and amortization	$24	$106	$125
Deferred income tax benefit	(649)	—	—
Gain on sale of businesses	5,210	8	86
Goodwill and intangible asset impairment charges	—	48	—
Net increase in accrued taxes	93	—	—
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash taxes paid	$418	$—	$—
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	$38	$114	$106

Amounts in millions of dollars except per share amounts or as otherwise specified.

The major components of assets and liabilities of the Beauty Brands held for sale are provided below.

As of June 30	Beauty Brands 2016 [1]	
Cash	$40	
Restricted cash	996	[2]
Accounts receivable	384	
Inventories	494	
Prepaid expenses and other current assets	126	
Property, plant and equipment, net	629	
Goodwill and intangible assets, net	4,411	
Other noncurrent assets	105	
Current assets held for sale	$7,185	
Accounts payable	$148	
Accrued and other liabilities	384	
Noncurrent deferred tax liabilities	370	
Long-term debt	996	[2]
Other noncurrent liabilities	445	
Current liabilities held for sale	$2,343	

(1) The Company closed the Beauty Brands transaction in October 2016. Therefore, as of June 30, 2016, all assets and liabilities held for sale were reported as current assets and liabilities held for sale on the Consolidated Balance Sheets.

(2) On January 26, 2016, Beauty Brands drew on its Term B loan of $1.0 billion. The proceeds were held in restricted cash in escrow until the legal integration activities prior to close. Beauty Brands received additional debt funding commitments with a consortium of lenders of $3.5 billion.

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

		Net Sales	Earnings Before Impairment Charges and Income Taxes	Impairment Charges	Income Tax (Expense)/Benefit	Gain/(Loss) on Sale Before Income Taxes	Income Tax (Expense)/Benefit on Sale	Net Earnings/(Loss) from Discontinued Operations
Batteries	2016	1,517	266	(402)	(45)	(288)	710 [1]	241
	2015	2,226	479	(2,174)	(140)	—	—	(1,835)
Pet Care	2016	—	—	—	—	—	—	—
	2015	251	—	—	(4)	195	(142)	49
Total	2016	1,517	266	(402)	(45)	(288)	710 [1]	241
	2015	2,477	479	(2,174)	(144)	195	(142)	(1,786)

(1) The income tax benefit of the Batteries divestiture primarily represents the reversal of underlying deferred tax balances.

Amounts in millions of dollars except per share amounts or as otherwise specified.

NOTE 14
QUARTERLY RESULTS (UNAUDITED)

Quarters Ended		Sep 30	Dec 31	Mar 31	Jun 30	Total Year
NET SALES	2016-2017	$16,518	$16,856	$15,605	$16,079	$65,058
	2015-2016	16,527	16,915	15,755	16,102	65,299
OPERATING INCOME	2016-2017	3,771	3,875	3,360	2,949	13,955
	2015-2016	3,768	3,853	3,318	2,502	13,441
GROSS MARGIN	2016-2017	51.0 %	50.8 %	49.8 %	48.4 %	50.0 %
	2015-2016	50.7 %	50.0 %	49.8 %	47.9 %	49.6 %
NET EARNINGS:						
Net earnings from continuing operations	2016-2017	$2,875	$2,561	$2,556	$2,202	$10,194
	2015-2016	2,777	2,905	2,337	2,008	10,027
Net earnings/(loss) from discontinued operations	2016-2017	(118)	5,335	—	—	5,217
	2015-2016	(142)	323	446	(50)	577
Net earnings attributable to Procter & Gamble	2016-2017	2,714	7,875	2,522	2,215	15,326
	2015-2016	2,601	3,206	2,750	1,951	10,508
DILUTED NET EARNINGS PER COMMON SHARE: [1]						
Earnings from continuing operations	2016-2017	$1.00	$0.93	$0.93	$0.82	$3.69
	2015-2016	0.96	1.01	0.81	0.71	3.49
Earnings/(loss) from discontinued operations	2016-2017	(0.04)	1.95	—	—	1.90
	2015-2016	(0.05)	0.11	0.16	(0.02)	0.20
Net earnings	2016-2017	0.96	2.88	0.93	0.82	5.59
	2015-2016	0.91	1.12	0.97	0.69	3.69

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

Amounts in millions of dollars except per share amounts or as otherwise specified.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
Not applicable.
Item 9A. 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 Annual Report on Form 10-K.
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 fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.
Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.
The Board of Directors has determined that the following members of the Audit Committee are independent and are Audit Committee financial experts as defined by SEC rules: Ms. Patricia A. Woertz (Chair) and Mr. Kenneth I. Chenault.
The information required by this item is incorporated by reference to the following sections of the 2017 Proxy Statement filed pursuant to Regulation 14A: the section entitled Election of Directors; the section entitled Corporate Governance, up to but not including the subsection entitled Service on Other Public Boards; the subsections of the Corporate Governance section entitled Code of Ethics; the subsections of the Other Matters section entitled Director Nominations for Inclusion in the 2018 Proxy Statement and entitled Shareholder Recommendations of Board Nominees and Committee Process for Recommending Board Nominees; and the section entitled Section 16(a) Beneficial Ownership Reporting Compliance. Pursuant to Instruction 3 of Item 401(b) of Regulation S-K, Executive Officers of the Registrant are reported in Part I of this report.

Item 11. Executive Compensation.
The information required by this item is incorporated by reference to the following sections of the 2017 Proxy Statement filed pursuant to Regulation 14A: the subsections of the Corporate Governance section entitled Committees of the Board and entitled Compensation Committee Interlocks and Insider Participation; and the portion beginning with the section entitled Director Compensation up to but not including the section entitled Security Ownership of Management and Certain Beneficial Owners.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table gives information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of the Company's equity compensation plans as of June 30, 2017. The table includes the following plans: The Procter & Gamble 1992 Stock Plan; The Procter & Gamble Future Shares Plan; The Procter & Gamble 2001 Stock and Incentive Compensation Plan; The Procter & Gamble 2003 Non-Employee Directors' Stock Plan; The Gillette Company 2004 Long-Term Incentive Plan; The Procter & Gamble 2009 Stock and Incentive Compensation Plan; and The Procter & Gamble 2014 Stock and Incentive Compensation Plan.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders [1]				
Options	204,743,572	$72.6124		[2]
Restricted Stock Units (RSUs)/Performance Stock Units (PSUs)	11,227,504	N/A		[2]
Equity compensation plans not approved by security holders [3]				
Options	1,886,917	56.2185		[4]
GRAND TOTAL	217,857,993	$72.4627	[5]	94,626,812

(1) Includes The Procter & Gamble 1992 Plan; The Procter & Gamble 2001 Stock and Incentive Compensation Plan; The Procter & Gamble 2003 Non-Employee Directors' Stock Plan; The Procter & Gamble 2009 Stock and Incentive Compensation Plan; and The Procter & Gamble 2014 Stock and Incentive Compensation Plan.

(2) Of the plans listed in (1), only The Procter & Gamble 2014 Stock and Incentive Compensation Plan allow for future grants of securities. The maximum number of shares that may be granted under this plan is 185 million shares. Stock options and stock appreciation rights are counted on a one for one basis while full value awards (such as RSUs and PSUs) will be counted as 5 shares for each share awarded. Total shares available for future issuance under this plan is 95 million.

(3) Includes The Procter & Gamble Future Shares Plan and The Gillette Company 2004 Long-Term Incentive Plan.

(4) None of the plans listed in (3) allow for future grants of securities.

(5) Weighted average exercise price of outstanding options only.

The Procter & Gamble Future Shares Plan

On October 14, 1997, the Company's Board of Directors approved The Procter & Gamble Future Shares Plan pursuant to which options to purchase shares of the Company's common stock may be granted to employees worldwide. The purpose of this plan is to advance the interests of the Company by giving substantially all employees a stake in the Company's future growth and success and to strengthen the alignment of interests between employees and the Company's shareholders through increased ownership of shares of the Company's stock. The plan has not been submitted to shareholders for approval.

Subject to adjustment for changes in the Company's capitalization, the number of shares to be granted under the plan is not to exceed 17 million shares. Under the plan's regulations, recipients are granted options to acquire 100 shares of the Company's common stock at an exercise price equal to the average price of the Company's common stock on the date of the grant. These options vest five years after the date of grant and expire ten years following the date of grant. If a recipient leaves the employ of the Company prior to the vesting

date for a reason other than disability, retirement or special separation (as defined in the plan), then the award is forfeited.

At the time of the first grant following Board approval of the plan, each employee of the Company not eligible for an award under the 1992 Stock Plan was granted options for 100 shares. From the date of this first grant through June 30, 2003, each new employee of the Company has also received options for 100 shares. Following the grant of options on June 30, 2003, the Company suspended this part of the plan. The plan terminated on October 13, 2007.

The Gillette Company 2004 Long-Term Incentive Plan

Shareholders of The Gillette Company approved The Gillette Company 2004 Long-Term Incentive Plan on May 20, 2004, and the plan was assumed by the Company upon the merger between The Procter & Gamble Company and The Gillette Company. All options became immediately vested and exercisable on October 1, 2005 as a result of the merger. After the merger, all outstanding options became options to purchase shares of The Procter & Gamble Company subject to an exchange ratio of .975 shares of P&G stock per share of Gillette stock. Only employees previously employed by The Gillette

Company prior to October 1, 2005 are eligible to receive grants under this plan. The last grant of equity under this plan was on February 27, 2009.

The plan was designed to attract, retain and motivate employees of The Gillette Company and, until the effective date of the merger between The Gillette Company and The Procter & Gamble Company, non-employee members of the Gillette Board of Directors. Under the plan, eligible participants are: (i) granted or offered the right to purchase stock options, (ii) granted stock appreciation rights and/or (iii) granted shares of the Company's common stock or restricted stock units (and dividend equivalents). Subject to adjustment for changes in the Company's capitalization and the addition of any shares authorized but not issued or redeemed under The Gillette Company 1971 Stock Option Plan, the number of shares to be granted under the plan is not to exceed 19 million shares.

Except in the case of death of the recipient, all stock options and stock appreciation rights must expire no later than ten years from the date of grant. The exercise price for all stock options granted under the plan must be equal to or greater than the fair market value of the Company's stock on the date of grant. Any common stock awarded under the plan may be subject to restrictions on sale or transfer while the recipient is employed, as the committee administering the plan may determine.

If a recipient of a grant leaves the Company while holding an unexercised option or right: (1) any unexercisable portions immediately become void, except in the case of death, retirement, special separation (as those terms are defined in the

plan) or any grants as to which the Compensation Committee of the Board of Directors has waived the termination provisions; and (2) any exercisable portions immediately become void, except in the case of death, retirement, special separation, voluntary resignation that is not for Good Reason (as those terms are defined in the plan) or any grants as to which the Compensation Committee of the Board of Directors has waived the termination provisions.

Additional information required by this item is incorporated by reference to the 2017 Proxy Statement filed pursuant to Regulation 14A, beginning with the section entitled Security Ownership of Management and Certain Beneficial Owners and up to but not including the section entitled Section 16(a) Beneficial Ownership Reporting Compliance.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this item is incorporated by reference to the following sections of the 2017 Proxy Statement filed pursuant to Regulation 14A: the subsections of the Corporate Governance section entitled Director Independence and Review and Approval of Transactions with Related Persons.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the following section of the 2017 Proxy Statement filed pursuant to Regulation 14A: Report of the Audit Committee, which ends with the subsection entitled Services Provided by Deloitte.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

1. Financial Statements:

The following Consolidated Financial Statements of The Procter & Gamble Company and subsidiaries, management's report and the reports of the independent registered public accounting firm are incorporated by reference in Part II, Item 8 of this Form 10-K.

- Management's Report on Internal Control over Financial Reporting
- Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting
- Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements
- Consolidated Statements of Earnings - for years ended June 30, 2017, 2016 and 2015
- Consolidated Statements of Other Comprehensive Income - for years ended June 30, 2017, 2016 and 2015
- Consolidated Balance Sheets - as of June 30, 2017 and 2016

- Consolidated Statements of Shareholders' Equity - for years ended June 30, 2017, 2016 and 2015
- Consolidated Statements of Cash Flows - for years ended June 30, 2017, 2016 and 2015
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

These schedules are omitted because of the absence of the conditions under which they are required or because the information is set forth in the Consolidated Financial Statements or Notes thereto.

EXHIBITS

Exhibit (3-1) -	Amended Articles of Incorporation (as amended by shareholders at the annual meeting on October 11, 2011 and consolidated by the Board of Directors on April 8, 2016) (Incorporated by reference to Exhibit (3-1) of the Company's Annual Report on Form 10-K for the year ended June 30, 2016).
(3-2) -	Regulations (as approved by the Board of Directors on April 8, 2016, pursuant to authority granted by shareholders at the annual meeting on October 13, 2009) (Incorporated by reference to Exhibit (3-2) of the Company's Annual Report on Form 10-K for the year ended June 30, 2016).
Exhibit (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).
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(10-3) -	The Procter & Gamble Executive Group Life Insurance Policy (Incorporated by reference to Exhibit (10-3) of the Company's Annual Report on Form 10-K for the year ended June 30, 2013).*
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(10-5) -	The Procter & Gamble 1993 Non-Employee Directors' Stock Plan (as amended September 10, 2002), which was originally adopted by the shareholders at the annual meeting on October 11, 1994 (Incorporated by reference to Exhibit (10-5) of the Company's Annual Report on Form 10-K for the year ended June 30, 2013).*
(10-6) -	Summary of the Company’s Long-Term Incentive Program (Incorporated by reference to Exhibit (10-6) of the Company's Annual Report on Fork 10-K for the year ended June 30, 2016); related correspondence and terms and conditions +.*
(10-7) -	The Procter & Gamble Future Shares Plan (as adjusted for the stock split effective May 21, 2004), which was originally adopted by the Board of Directors on October 14, 1997 (Incorporated by reference to Exhibit (10-7) of the Company's Annual Report on Form 10-K for the year ended June 30, 2015).*
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(10-17) -	The Gillette Company Estate Preservation +.*
(10-18) -	The Gillette Company Deferred Compensation Plan +.*
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The Procter & Gamble Company 71

(10-20) -	The Gillette Company Deferred Compensation Plan (for salary deferrals prior to January 1, 2005) as amended through August 21, 2006 +.*
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(10-23) -	The Procter & Gamble Performance Stock Program Summary (Incorporated by reference to Exhibit (10-23) of the Company's Annual Report on Form 10-K for the year ended June 30, 2016); related correspondence and terms and conditions +.*
(10-24) -	The Procter & Gamble 2013 Non-Employee Directors' Stock Plan (Incorporated by reference to Exhibit (10-3) of the Company's Form 10-Q for the quarter ended December 31, 2013).*
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Exhibit (23) -	Consent of Independent Registered Public Accounting Firm. +
Exhibit (31) -	Rule 13a-14(a)/15d-14(a) Certifications. +
Exhibit (32) -	Section 1350 Certifications. +
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(1)	Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.
*	Compensatory plan or arrangement.
+	Filed herewith.

Item 16. Form 10-K Summary.
Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 in the city of Cincinnati, State of Ohio.

THE PROCTER & GAMBLE COMPANY

By /s/ DAVID S. TAYLOR
(David S. Taylor)
Chairman of the Board, President and Chief Executive Officer
August 7, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAVID S. TAYLOR (David S. Taylor)	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	August 7, 2017
/s/ JON R. MOELLER (Jon R. Moeller)	Vice Chairman and Chief Financial Officer (Principal Financial Officer)	August 7, 2017
/s/ VALARIE L. SHEPPARD (Valarie L. Sheppard)	Senior Vice President, Comptroller & Treasurer (Principal Accounting Officer)	August 7, 2017
/s/ FRANCIS S. BLAKE (Francis S. Blake)	Director	August 7, 2017
/s/ ANGELA F. BRALY (Angela F. Braly)	Director	August 7, 2017
/s/ AMY L. CHANG (Amy L. Chang)	Director	August 7, 2017
/s/ KENNETH I. CHENAULT (Kenneth I. Chenault)	Director	August 7, 2017
/s/ SCOTT D. COOK (Scott D. Cook)	Director	August 7, 2017
/s/ TERRY J. LUNDGREN (Terry J. Lundgren)	Director	August 7, 2017
/s/ W. JAMES MCNERNEY, JR. (W. James McNerney, Jr.)	Director	August 7, 2017
/s/ MARGARET C. WHITMAN	Director	August 7, 2017

(Margaret C. Whitman)

/s/ PATRICIA A. WOERTZ (Patricia A. Woertz)	Director	August 7, 2017
/s/ ERNESTO ZEDILLO (Ernesto Zedillo)	Director	August 7, 2017

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+	Filed herewith.