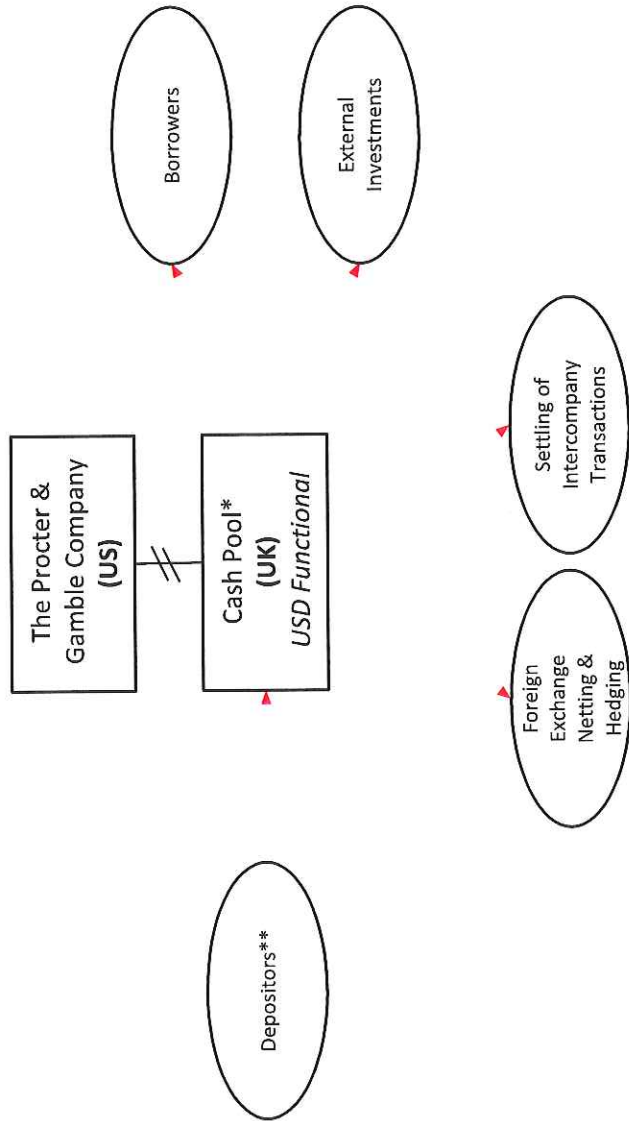


Proposed Sec. 385 Regulations

Discussion Document

June 10, 2016

P&G's Cash Pool - Overview



* - Cash Pool is Full inclusion entity under subpart F

** - Majority of Cash Pool's income paid to Depositors

P&G's Cash Pool Operations

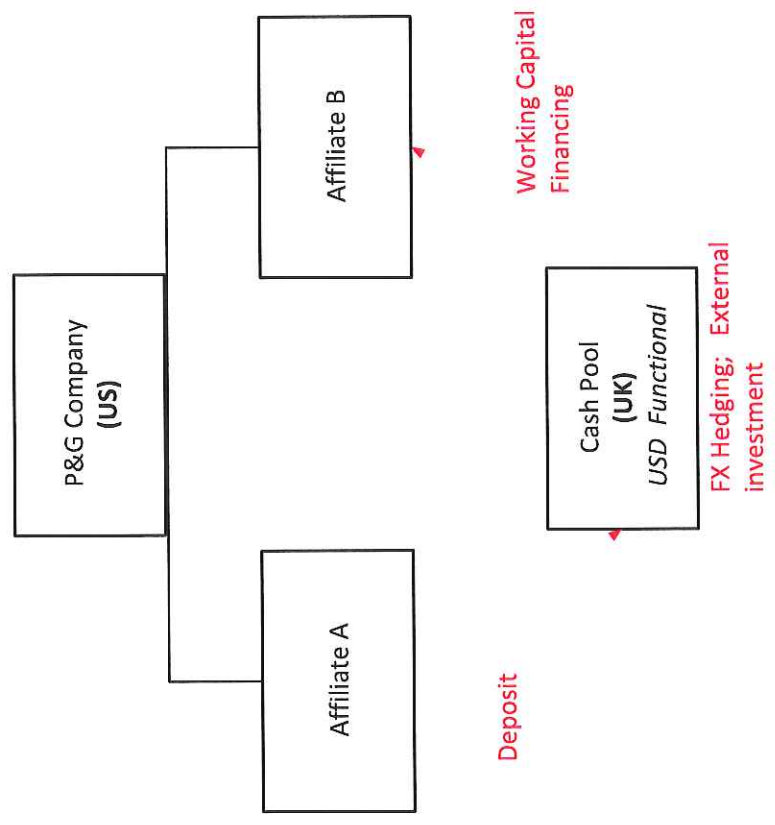
- 30 Cash Pool external bank accounts (across relevant currencies)
- ~3,000 Affiliate bank accounts with Cash Pool
- ~230 legal entity members representing 78 countries
- \$Billions/month of gross, intercompany commercial transactions processed
- > \$2.0 Trillion in annual gross throughput via millions of transactions
- ~\$750 Million in daily settlement with the Capital Markets via SWIFT
- \$10 Billion of external investments (<5% of market capitalization)

Key Benefits of P&G's Cash Pool

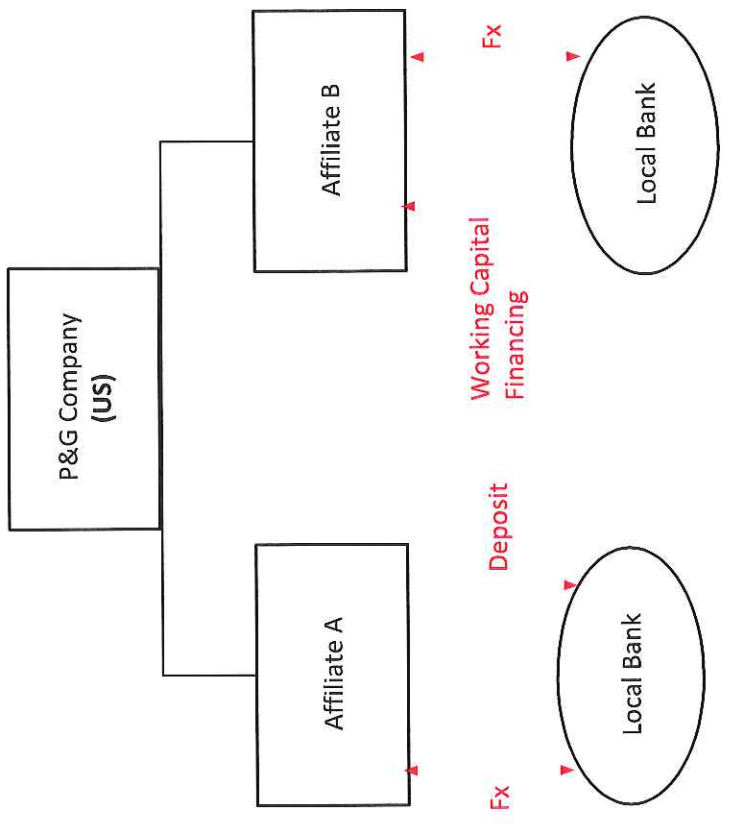
1. Stewardship, Control, and Security
2. Use of P&G cash to fund P&G operations
3. Capital Markets Pricing & Interest Income Optimization
4. Scale to efficiently hedge Foreign Exchange Risk (via netting)
5. Minimizes Bank Counterparty Risk
6. Efficient Intercompany Transaction Settlement (e.g., purchase / sales of goods and services)

Cash Pool Elimination Effects

With Cash Pooling



Without Cash Pooling



Key Cash Pool Benefits Lost

1. Ste~~X~~wardship, Control, and Security
2. Use~~X~~of P&G cash to fund P&G operations
3. Cap~~X~~ital Markets Pricing & Interest Income Optimization
4. Sca~~X~~le to efficiently hedge Foreign Exchange (via netting)
5. Mir~~X~~imizes Bank Counterparty Risk
6. Effi~~X~~cient Intercompany Transaction Settlement (e.g., purchase / sales of goods and services)

Concerns with Proposed Regulations

- These regulations as currently proposed have broad sweeping impacts on ordinary course transactions.
- Funding rule will recharacterize a significant number of Cash Pool loans as equity
 - Often necessary for affiliates to make distributions in excess of current E&P
 - Operating affiliates borrow and lend on a daily basis
 - In general, borrowing needs of individual affiliates are not predictable and thus an affiliate that previously has made a distribution may unexpectedly need to borrow from the Cash Pool

Consequences of “Cascading Equity”

- Creates unmanageable complexity and uncertainty rendering operation of the cash pool inadministrable
- Risks inability to restructure tax free
- Taxation of “phantom” hedging gains
- Potential double taxation of investment income
- No ability to accommodate more than 10 depositors without loss of foreign tax credits

P&G’s cash pool operations are a competitive advantage that would need to be significantly curtailed with the finalization of these regulations as currently proposed

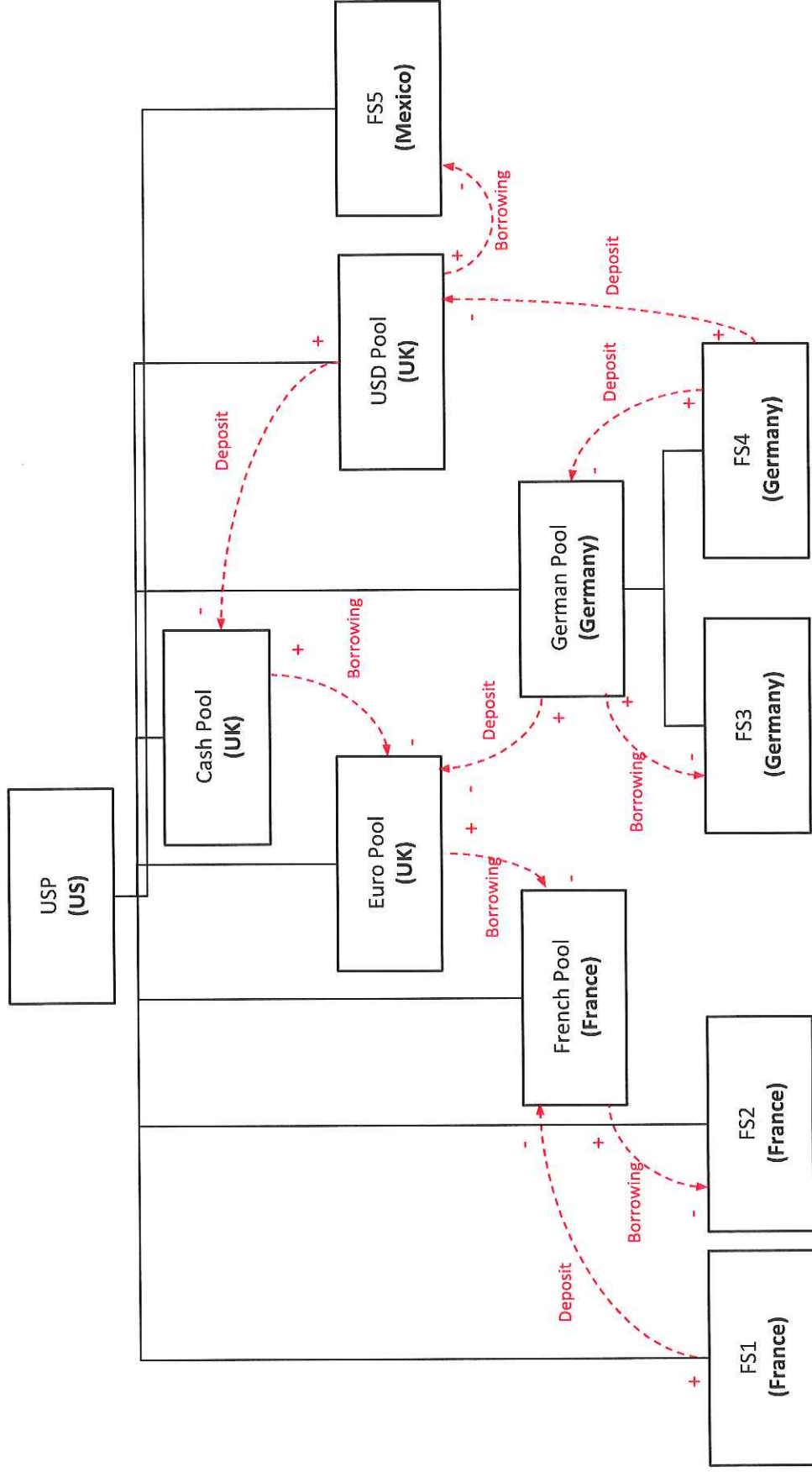
Potential Cash Pool Solutions

- Exempt CFC to CFC loans from Funding rule
- Reserve on application of Funding rule for CFC to CFC loans until further study
 - Allows for adequate time to address impact to US MNCs' competitiveness
 - Allows for a thorough review of potential solutions to address cash pooling
- On CFC to CFC payments, taxpayer election to apply "Equity" Characterization for Interest Deduction purposes only
- "Qualified Cash Pooling" Exception to Funding rule
- Technical Modifications

Backup

Cash Pool Cascading Equity (Illustrative)

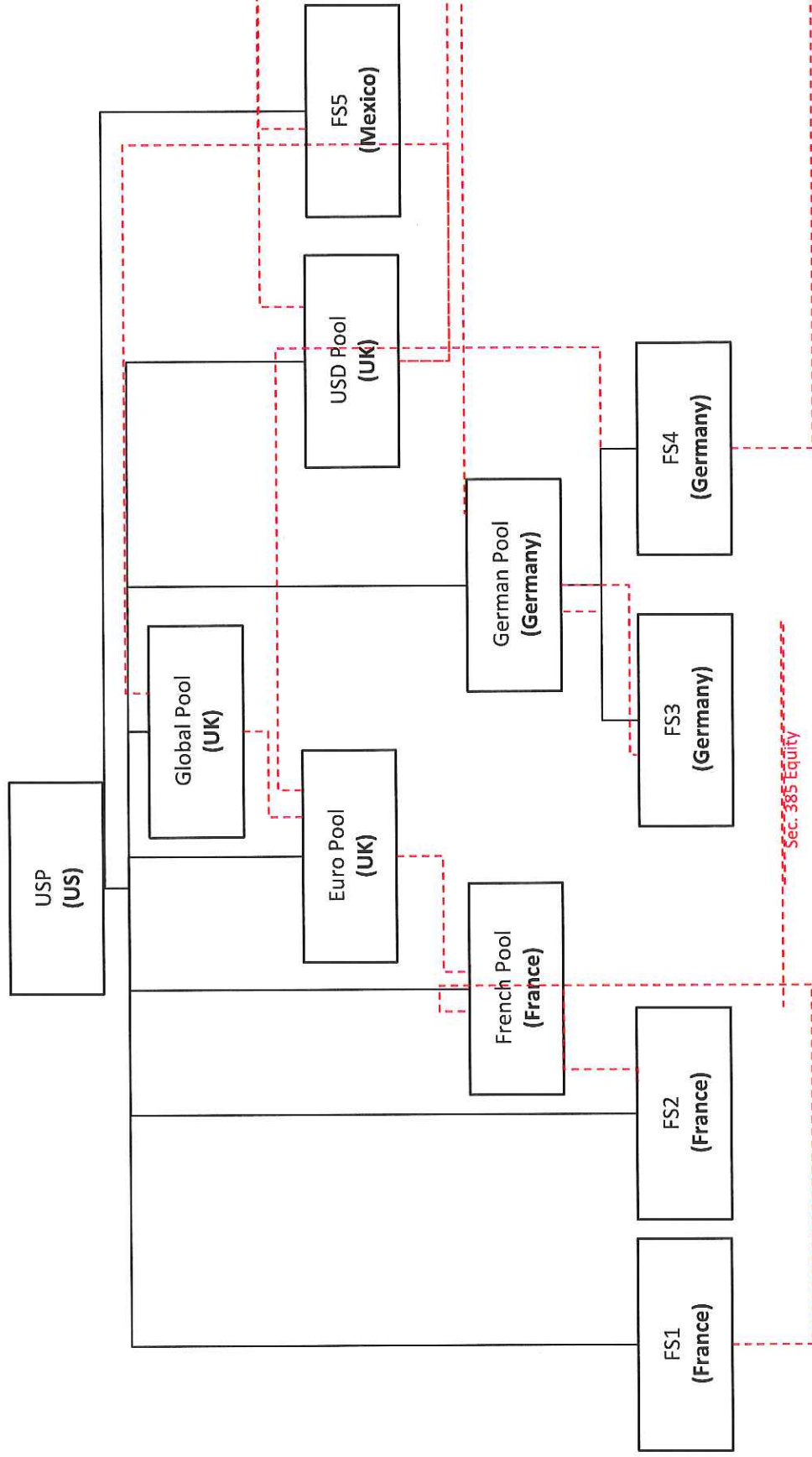
(Legal Structure)



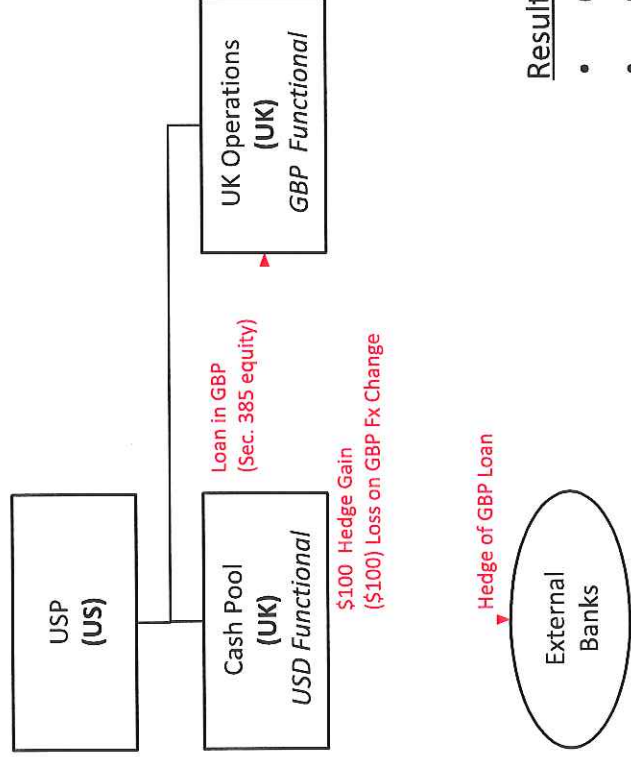
Cash Pool Cascading Equity (Illustrative)

(Recast under 385)

As loans are recharacterized, "cascading equity" results



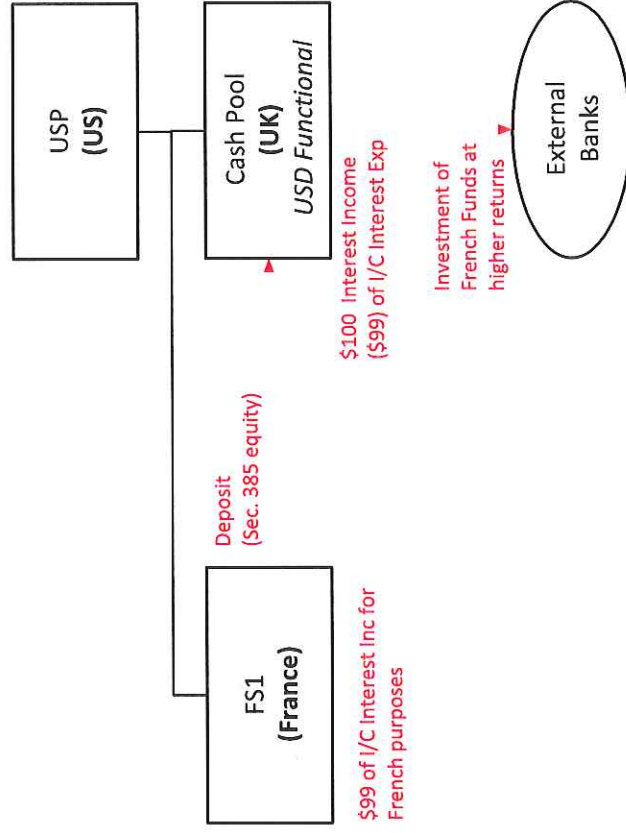
Example – “Phantom” FX Gains



Result of Equity Recharacterization

- Global Pool Economic Income = \$0
- Global Pool U.S. Earnings & Profits (Subpart F) = \$100
- \$100 loss on GBP 385 Equity is non-deductible for U.S. Earnings & Profits

Examples – Potential Double Taxation of Interest



Result of Equity Recharacterization

- Global Pool Economic Income = \$1
- Global Pool U.S. Earnings & Profits (Subpart F) = \$100
- \$99 of interest income is potentially double taxed in U.S. and France

Estimated Annual Pre-Tax Costs of Inability to Cash Pool

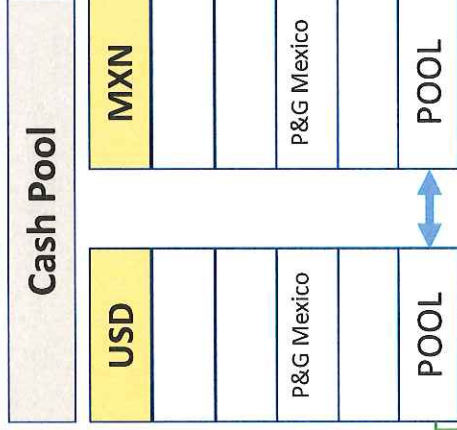
	\$(Millions)
Interest Income Optimization on Pooled Cash	\$100 - 150
Increased Borrowing Costs by using external funds to fund P&G Operations	\$60 - 90
Foreign exchange pricing, hedging costs	\$40 - 60
Systems modifications, controls increases, staffing, Auditor review	\$20 - 40
Total Annual Reduction in Pre-tax income Estimated for Cash Pool Termination	\$220 - 340
Cost of Reduced Control of Global Cash	Incalculable
Increase in bank counterparty credit exposure	Incalculable

Capital Markets

Capital Market Banks

Scenario: P&G Mexico has excess pesos. Deposits with Cash Pool.

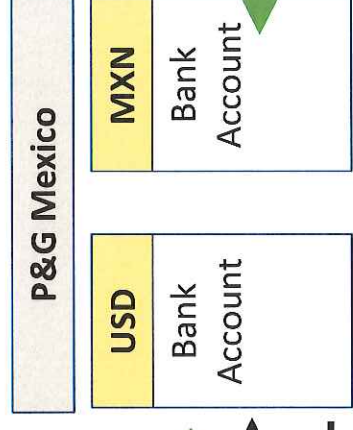
Cash Pool



1.) P&G Mexico receives customer payments in pesos.

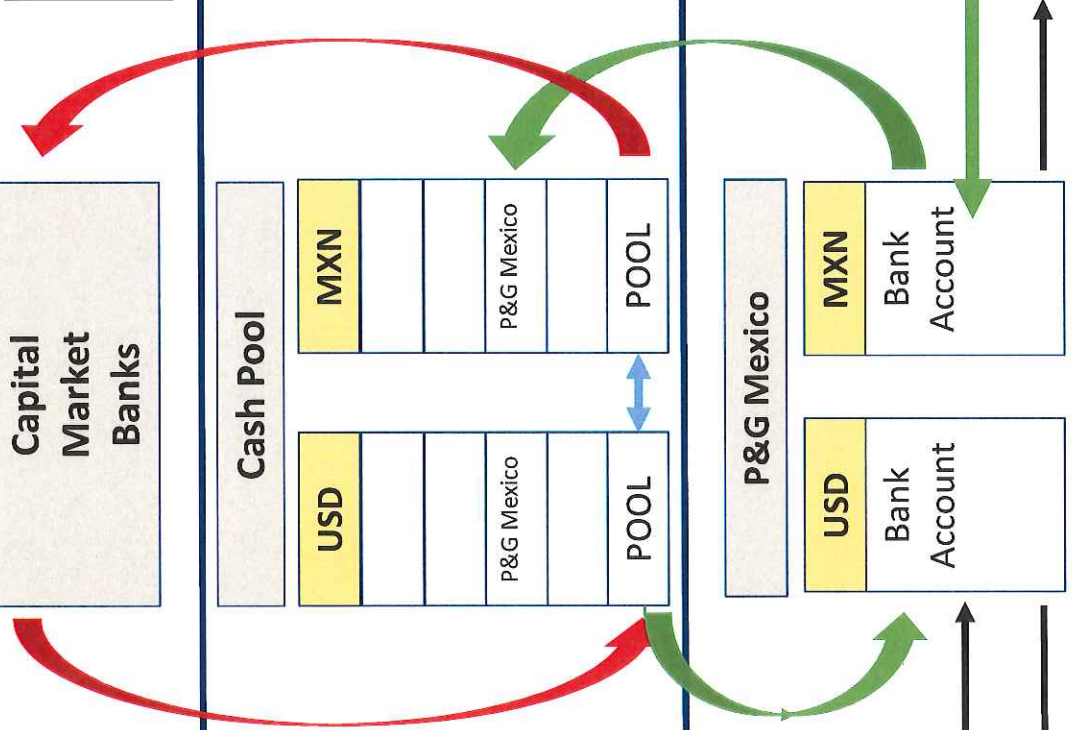
2.) P&G Mexico lends pesos to the Cash Pool.

Affiliates



Customers
Suppliers

Customers
Suppliers

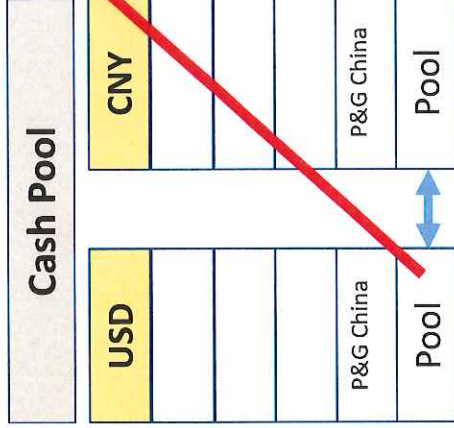


Capital Markets

USD External Investment

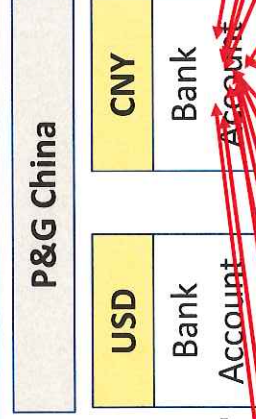
Scenario: China enters the Cash Pool with its local currency.

Cash Pool



- 1.) P&G China pulls deposits from many bank accounts and deposits into main acct.
- 2.) P&G China lends CNY to Cash Pool.
- 3.) Cash Pool swaps CNY for USD.
- 4.) Cash Pool swaps CNY for USD with the Capital Markets.

Affiliates



- 5.) Cash Pool buys USD External Investment.



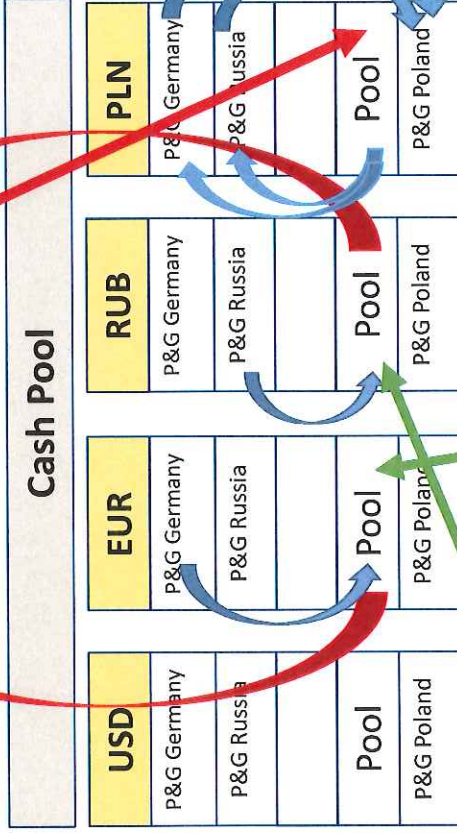
Capital Markets

Capital Market Banks

Scenario: P&G Poland Blades & Razors manufacturing plant sells Gillette blades to Russia and Germany.

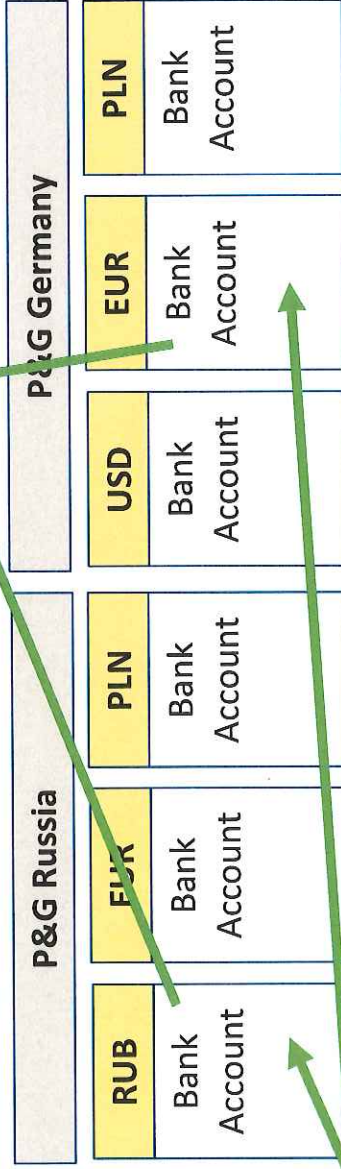
Cash Pool

- 1.) P&G Poland needs to finance the production of blades.
- 2.) P&G Russia sells RUB and buys PLN from Pool. P&G Germany sells EUR and buys PLN from Pool.
- 3.) Pool will sell both RUB and EUR and buy PLN with Capital Markets.



- 4.) P&G Germany & Russia buy blades from P&G Poland in PLN within the vostro accounts.
- 5.) P&G Germany and P&G Russia receives local currency from customers when they purchase the blades.
- 6.) P&G Germany lends EUR & P&G Russia lends RUB to Cash Pool.

Affiliates



Customers