

# Core Tax Principles

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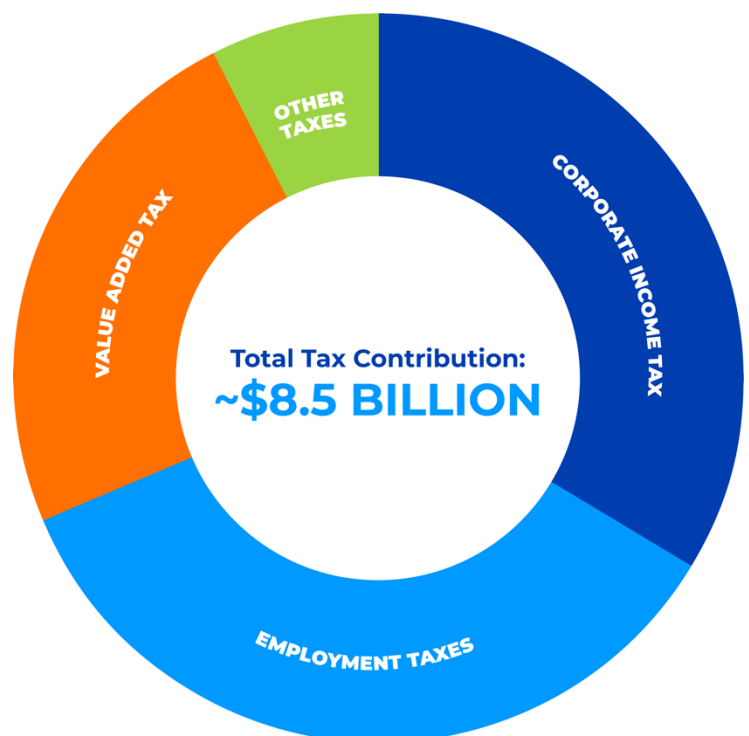
Procter & Gamble is one of the world's leading consumer goods companies. We serve consumers around the world with one of the strongest portfolios of trusted, quality, leadership brands – with the consumer at the center of all we do.

## P&G's GLOBAL FOOTPRINT

Our products are sold by P&G or through third-party distributors in more than 180 countries and territories. We have business operations in about 70 countries and manufacturing operations in nearly 40 countries.

P&G was founded in Cincinnati, Ohio in 1837. Our international operations began more than 100 years ago when we established a manufacturing facility in Canada in 1915. We entered Europe in 1930, Asia in 1935, Latin America in 1948, and Africa in 1985. P&G has funded our international expansion by reinvesting our earnings in plants, distribution facilities, infrastructure, and operating costs. Our operations have positive and diverse social and economic impacts around the world, strengthening the communities where P&G people live and work.

*Taxes are a significant element of P&G's economic contribution.* Our contribution is much more than the corporate income tax we pay. P&G also pays a significant amount of taxes to national and local governments in the form of value added taxes, employment taxes, sales taxes, excise taxes, property taxes and customs duties. In the year ended June 30, 2018, our activity resulted in government tax receipts of approximately **\$8.5 billion** around the world, comprising corporate income tax payments of about **\$2.8 billion** and other taxes paid and collected of about **\$5.7 billion**, consisting of value added taxes, employment taxes, sales taxes, excise taxes, property taxes and customs duties.





# CORE TAX PRINCIPLES

Tax follows business substance

Highest level of compliance with financial and tax reporting requirements

Robust tax stewardship and governance

Transparency in relationships with governments and tax administrations

Support for efficient, consistent and administrable tax and trade policies

## P&G's APPROACH TO TAXES

*P&G's Core Tax Principles are based on our [Purpose, Values, and Principles \(PVPs\)](#), which have guided P&G's business for 180 years and are the foundation of our culture. We are known, through words and concrete actions, as a company that is responsibly governed and behaves ethically, and is open and transparent in its business dealings. By growing our company responsibly, we earn the trust on which our business is based and we build the relationships on which our future depends.*

### Tax Follows Business Substance

P&G is a global company, with operations all over the world. Business operations and market needs determine where activities take place, where profits are earned, and consequently, where taxes are paid.

*Intercompany transactions are based on international transfer pricing principles.* The Organization for Economic Cooperation and Development (OECD) Guidelines and the laws of most countries establish the principle that transactions between different parts of a company be priced on the basis of the "arm's length" standard – the same as if the transactions were between two independent companies. Our intercompany prices, which follow this principle, are established based upon the functions, assets, and risks of the parties involved and are supported by appropriate economic analysis of similar transactions between unrelated parties. We transparently share this analysis as required with appropriate governmental authorities. We also follow the World Trade Organization, OECD, European Union and other applicable guidelines regarding indirect taxes such as consumption taxes (GST and VAT) and customs duties.

*The majority of our intellectual property is owned in the United States.* P&G has more than 180 years of history in the U.S, and the majority of our intellectual property – such as trademarks, production technology and patents – is funded, managed and owned in the U.S., resulting in license fees being paid to the U.S. from P&G's international operations for access to this

intellectual property. P&G's U.S. business represents about 40% of worldwide sales. The profits from P&G's U.S. business operations combined with intellectual property license fees result in around 60% of our global profits being taxed in the U.S.

*Our investment choices are based upon long-term business needs.* Where tax incentives are made available by governments, we implement them in line with the relevant statutory, regulatory, or administrative framework, and do not pursue them to secure a short-term financial advantage. P&G selects sites for its international operations based on criteria fundamental to the success of our business — proximity to consumers, access to a talented workforce, education, transportation, infrastructure, business climate, the rule of law, stable political environments, effective protection of intellectual property, and other costs.

In order to operate and serve customers and consumers most efficiently worldwide, many business activities are centralized in different locations. In our U.S. and regional headquarters locations we perform strategic business activities such as marketing, brand building, management of the product supply chain, portfolio investment decision making, and day-to-day business management. For example, in our regional headquarters in Geneva, Singapore and Panama, we have more than 3,200 employees, including senior management responsible for the Europe, IMEA (India, Middle East, and Africa), Asia Pacific and Latin America regions.

### Highest Level of Compliance with Financial and Tax Reporting Requirements

*P&G maintains the highest level of financial and tax reporting compliance everywhere we operate.* In doing so, we observe and adhere to the tax law, the underlying tax policy intent, and the disclosure and reporting requirements in each jurisdiction.

## **Robust Tax Stewardship and Governance**

*Tax stewardship and governance is the foundation of P&G's approach to taxes.* Our tax organization consists of more than 200 professionals around the world who are responsible for staying abreast of applicable tax laws and ensuring that we adhere to these laws in every country in which we have a presence. We have online and classroom-based tax training programs for P&G employees in tax, finance, and other disciplines. These programs create overall awareness of our Core Tax Principles as well as the importance of tax stewardship, governance and compliance throughout the Company. We also retain experts around the world to assist in our compliance and interpretation of tax laws in the countries in which we operate.

*P&G's global and regional leadership plays an important role in tax stewardship and governance.*

Finance and Accounting (F&A) leadership regularly reviews our tax strategy and related governance processes, including an annual review with the Audit Committee of the Board of Directors. Global F&A leadership has regular oversight responsibility, ensuring P&G's tax stewardship and governance framework is in line with our Core Tax Principles, internal controls, policies, and procedures, as well as with external compliance and regulatory requirements.

*P&G only pursues tax planning that is consistent with our business operations and that is based on real business substance.* At P&G, tax planning must comply with both the letter and spirit of the law and be supported by real business substance.

## **Transparency in Relationships with Governments and Tax Administrations**

*We build constructive and sustainable working relationships with governments and fiscal authorities.*

We have a shared interest with governments to ensure predictable, efficient, and rule-based tax administration. Where possible, we proactively seek certainty from tax authorities based upon full disclosure of all relevant facts and circumstances, including entering into bilateral Advance Pricing Agreements (APAs) where available. A bilateral APA is an agreement between two governments with respect to a specific taxpayer, specifying the pricing method to apply to intercompany transactions and how those transactions should be taxed. P&G currently has a comprehensive network of bilateral APAs which we estimate result in certainty regarding the taxation of over 70% of our global earnings. APAs are considered a best practice by the OECD.

P&G has operations in about 70 countries worldwide and our tax returns – similar to any multinational company – are continuously under audit around the world. We engage with tax authorities to respond timely to tax audit requests. Our working relationships with governments and fiscal authorities are conducted in a professional, constructive, and collaborative manner with full transparency of the facts of our business operations.

When interacting with government officials, P&G complies with all international, U.S. federal, and state laws including the Lobbying Disclosure Act and Honest Leadership and Open Government Act that require reporting on lobbying activities and certification of compliance with Congressional gift rules.

Our Worldwide Business Conduct Manual articulates the global standards we expect from our daily business activities, and our legal and ethical responsibilities. We operate within the letter and spirit of the law because doing the right thing, every time, gives consumers, customers, shareholders, external business partners, government and community leaders, and other stakeholders a reason to trust us, to believe we achieve our results in the right way and that we do not tolerate illegal or unethical dealings anywhere in the world. In addition to regular training, employees are required to report any potential violations of law or Company standards set forth in the Worldwide Business Conduct Manual and other policies.

## **Support for Efficient, Consistent and Administrable Tax and Trade Policies**

*We seek to create dialog with tax policy makers on matters of local and international importance.* We do this directly and through trade associations. We support initiatives that result in economic growth, reduce trade barriers and develop the capabilities of the tax authorities, especially in developing countries.

*We support the OECD's efforts to lead a global consensus to create a more stable and sustainable global tax system.* Specifically, we support the work of the OECD and the G7 to design tax policies that are uniformly adopted, retain the arm's length standard, and prevent the artificial separation of taxable profits from the location of commercial and economic functions. We also support the OECD's longstanding efforts to promote rules that help reduce tax disputes between countries, and the potential for multiple taxation of the same activity and associated income.

*Development of consistent and sustainable tax policy is a shared responsibility.* P&G believes that the business community must play an active role helping policy makers to understand the impact of tax policy choices on investment and the economy. We believe that principled taxation leads to economic stability and prosperity for countries, people, and businesses.