

The Corporate View

John Goodwin
Corporate Treasurer
The Procter & Gamble Company



The Procter & Gamble Company has over 135,000 employees and reported sales of over \$68 billion last year. P&G markets over 300 brands including Gillette, Pampers, Pringles and Duracell. This month, we talk to John Goodwin about risk management strategies and making the most of P&G's global presence.

What are your responsibilities?

I report to the CFO and I have three major areas of responsibility as the treasurer of the company. The first is what we term 'Global Treasury'. This covers traditional treasury areas, such as managing day-to-day global liquidity, capital markets activities, the management of foreign exchange, interest rates and commodity exposures – as well as the management of relationships with banking partners, counterparty risk, global pension management and insurance programme design and execution.

I also have responsibility for the company's acquisition and divestiture group. This is made up of several deal managers who lead transactions that have been identified by the company either at the corporate level or within specific business units. We have gone through the process of centralising deal making in order to develop the best-in-class practices in negotiation, structures and integration capabilities needed to maximise value creation.

Finally, I am responsible for investor relations and shareholder services. I've been involved in this area for nearly six years, as I was the head of the investor relations and shareholders services group before being promoted into the position of treasurer three years ago.

How is P&G's treasury organised?

We have very centralised operations. Most of my organisation is in Cincinnati, with some smaller operations in Brussels, Caracas, Geneva, Guangzhou and Singapore that deal with specific regional and local nuances. The main centralised trading activity takes place in Cincinnati, with part of our global in-house bank located in Brussels. The total number of people in my group is about 100, if we include all three areas of responsibility. In the global treasury group there are 50 people.

How would you describe P&G's risk appetite?

I would say that P&G is a conservative company when it comes to financial risks. We manage to a credit rating of AA which really reflects the strength of our balance sheet and the cash flows generated out of our operations. We generally operate under the premise that the markets as a whole are efficient – so we don't take speculative positions on currencies or commodities. We don't think that's what our investors are looking for us to do. We look to manage the risks that arise as a consequence of our primary trading and operations, which is the manufacturing and selling of consumer products, and we generally don't look to step into the market in any big way in order to take a speculative position.

In terms of treasury activities, how do you optimise the company's global presence?

We think there is an important difference between being big and being able to leverage scale. We've been working to evolve our treasury practices so that we're able to leverage our scale most effectively. We have centralised those areas where we think the pooling or aggregation of activities or positions gives us a distinct benefit. But where there's a need for local knowledge and flexibility, we keep close to the markets.

That's why we have those small operations that I mentioned in Caracas, Geneva, Guangzhou and Singapore. But otherwise we pool our activities to a central place. As an example, if we look at foreign exchange, our gross FX exposures are about three times larger than our net consolidated positions once we've pooled all of the positions together and taken into account the correlations of currencies. So there's a massive reduction and associated efficiency with the pooling of activities. That's one way in which we're trying to utilise our scale to drive efficiency.

Similarly, centrally managing the assets and liabilities of our pensions programmes around the world allows us to get very cost efficient and utilise tools that we were not able to use when we managed the pension programmes on a country by country basis. When I joined the company in 1990, every country did their own thing – no one country really had the significance of mass to be able to implement the level of resources and skills that we can now with a centralised approach. We're able to apply sophisticated asset managing programmes and processes to ensure that the investments the pension funds are making are returning the optimum amount that that market or asset class can yield. As a consequence, we doing a much better job of leveraging our scale.

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Outside the global treasury area, in deal making (the acquisition and divestiture work that I'm responsible for), we're also developing skill sets and associated value enhancements by leveraging our scale. McKinsey conducted a study that showed that in the case of deal making, those companies that are most successful are not always those that do the largest number of deals, but those that do transactions and identify the learnings out of each one to apply in future transactions.

Our centralised deal teams have enabled us to develop leading edge experience sharing techniques – breaking down barriers in order to have more effective knowledge exchange, driving efficiency and effectiveness in future programmes.

Our centralisation of skills and knowledge has also led to improvements in internal controls and stewardship. This proved very valuable when the company implemented the SOX requirements, as our treasury governance was already operating above these levels. We have an internal controls self assessment programme where we look to ensure we consistently deliver the highest levels of internal controls everywhere within the global treasury group. We have a very strong internal governance culture.

How are the treasury's activities linked to external expectations?

This is an area that we've been focused on lately in order to improve that linkage between what the external stakeholder is looking for, and our internal activities. Often, treasury activities are undertaken on the basis of what the group believes 'management wants', or because of internal performance measures that are not always consistent with what the shareholders want.

A good example is property insurance. We've challenged ourselves recently to think about why it is that we take out property insurance. If you think about a company of our size that generates annual free cash flow of over \$10 billion, AA credit rating, market capitalisation of over \$200 billion dollars – we don't really have much pure physical asset concentration within the corporation, and we have a fairly diversified manufacturing stream. So as a consequence, it's highly unlikely that there will ever be a single property event that would jeopardise the ongoing operation of Procter & Gamble, because we have access to liquidity in the market that would easily provide us with financing that would be able to pay for the replacement of a manufacturing facility, should a disaster occur.

And that's really what property insurance is – it's a different form of financing, where you pay ahead of the event. We've challenged ourselves to think about that in that context and ask, is that really the most efficient financing for us to do? We're getting to the conclusion that it's probably not.

We do use captive insurance companies for insuring exposures related to contractual commitments and coverage required in certain localities. Directionally, we are headed towards complete self insurance for property and general liability exposures. Our business units have always operated as though they did not have insurance, ie they



manage their profit commitments and risk exposures with proper controls, governance, safety, training, etc. Losses will always occur; when they do, we will finance the recovery via cash on hand or the capital markets. We recognise the business unit's risk mitigation and recovery efforts in our reward systems. In this way, just as with our FX management, our businesses win by focusing exclusively on their business plans and our shareholders win as we have eliminated the cost inefficiencies embedded within insurance.

For large corporations like us, paying property insurance, and the associated friction, is probably not the best thing for our shareholders from a cost efficiency point of view. These are the types of areas where we're looking to challenge whether our actions match what our external stakeholders, our bondholders and our equity shareholders, really want us to protect against.

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What is your Global Treasury group focusing on in 2007?

We're still finalising the long-term financing of the Gillette acquisition. As I mentioned, we're also going to be looking into insurance programmes and ways in which we can perhaps move up some of those deductibles, in order to move towards a situation where we may have less in the form of traditional insurance contracts.

We're moving into new realms with regards to corporate risk management by working with RiskMetrics to find ways in which we can pool all the different asset classes together – foreign exchange, interest rate and commodities – in order to manage them as a total portfolio and then explain externally to our investors how that's going to be beneficial to them over the long-term.

In addition to this, as a consequence

of the number of acquisitions that we've executed over the last five years, we have a fair amount of complexity in our pensions plans that we are looking to simplify. We're going through a process where we're looking to merge those plans together and do an even better job of leveraging scale. So we've got plenty of activity ahead!

Biography

John Goodwin was appointed Treasurer of The Procter & Gamble Company in January 2004. He joined P&G in 1990 in the United Kingdom, and has worked in various financial roles throughout the company, in multiple geographies. Before joining Procter & Gamble, John worked for Ernst & Young in the Auditing & Tax Department.

John is from London, England and was educated at Loughborough University with an honours degree in Mathematical Engineering. He is also a Fellow of the Institute of Chartered Accountants of England & Wales (FCA).

