

AVON PRODUCTS INC  
Form 10-Q  
October 31, 2013

UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2013

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-4881

AVON PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
Incorporation or organization)  
777 Third Avenue, New York, N.Y. 10017-1307  
(Address of principal executive offices) (Zip code)

13-0544597  
(I.R.S. Employer  
Identification No.)

(212) 282-5000  
(Telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock (par value \$0.25) outstanding at September 30, 2013 was 433,769,213.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In millions, except per share data)	Three Months Ended		
	September 30, 2013	September 30, 2012	
Net sales	\$2,265.3	\$2,472.7	
Other revenue	57.6	37.9	
Total revenue	2,322.9	2,510.6	
Costs, expenses and other:			
Cost of sales	871.7	971.2	
Selling, general and administrative expenses	1,340.9	1,384.8	
Impairment of goodwill and intangible asset	42.1	44.0	
Operating profit	68.2	110.6	
Interest expense	30.3	27.3	
Loss on extinguishment of debt	—	—	
Interest income	(3.4	) (3.8	)
Other expense, net	9.7	4.8	
Total other expenses	36.6	28.3	
Income from continuing operations, before taxes	31.6	82.3	
Income taxes	(38.0	) (46.1	)
(Loss) income from continuing operations, net of tax	(6.4	) 36.2	)
Income (loss) from discontinued operations, net of tax	0.6	(3.6	)
Net (loss) income	(5.8	) 32.6	)
Net loss (income) attributable to noncontrolling interests	0.3	(1.0	)
Net (loss) income attributable to Avon	\$(5.5	) \$31.6	)
(Loss) earnings per share:			
Basic from continuing operations	\$(0.01	) \$0.08	)
Basic from discontinued operations	\$—	\$(0.01	)
Basic attributable to Avon	\$(0.01	) \$0.07	)
Diluted from continuing operations	\$(0.01	) \$0.08	)
Diluted from discontinued operations	\$—	\$(0.01	)
Diluted attributable to Avon	\$(0.01	) \$0.07	)
Cash dividends per common share	\$0.06	\$0.23	

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In millions, except per share data)	Nine Months Ended	
	September 30, 2013	September 30, 2012
Net sales	\$7,139.2	\$7,492.1
Other revenue	148.6	117.1
Total revenue	7,287.8	7,609.2
Costs, expenses and other:		
Cost of sales	2,732.5	2,915.6
Selling, general and administrative expenses	4,068.8	4,337.4
Impairment of goodwill and intangible asset	42.1	44.0
Operating profit	444.4	312.2
Interest expense	90.8	76.8
Loss on extinguishment of debt	86.0	—
Interest income	(8.2)	(10.5)
Other expense, net	69.6	28.6
Total other expenses	238.2	94.9
Income from continuing operations, before taxes	206.2	217.3
Income taxes	(139.5)	(87.8)
Income from continuing operations, net of tax	66.7	129.5
Loss from discontinued operations, net of tax	(50.9)	(6.6)
Net income	15.8	122.9
Net income attributable to noncontrolling interests	(3.1)	(3.2)
Net income attributable to Avon	\$12.7	\$119.7
Earnings (loss) per share:		
Basic from continuing operations	\$0.15	\$0.29
Basic from discontinued operations	\$(0.12)	\$(0.02)
Basic attributable to Avon	\$0.03	\$0.27
Diluted from continuing operations	\$0.15	\$0.29
Diluted from discontinued operations	\$(0.12)	\$(0.02)
Diluted attributable to Avon	\$0.03	\$0.27
Cash dividends per common share	\$0.18	\$0.46

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(In millions)	Three Months Ended	
	September 30, 2013	September 30, 2012
Net (loss) income	\$ (5.8)	) \$ 32.6
Other comprehensive income:		
Foreign currency translation adjustments	23.4	70.3
Change in derivative losses on cash flow hedges, net of taxes of \$0.2 and \$0.8	0.3	1.0
Change in derivative losses on net investment hedges	—	—
Adjustments of and amortization of net actuarial loss, prior service cost, and transition obligation, net of taxes of \$(1.5) and \$9.1	(6.0)	) 15.4
Total other comprehensive income, net of taxes	17.7	86.7
Comprehensive income	11.9	119.3
Less: comprehensive loss attributable to noncontrolling interests	(0.4)	) (0.7)
Comprehensive income attributable to Avon	\$ 12.3	\$ 120.0

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

(In millions)	Nine Months Ended		
	September 30, 2013	September 30, 2012	
Net income	\$ 15.8	\$ 122.9	
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(107.7	) 5.5	
Change in derivative losses on cash flow hedges, net of taxes of \$0.8 and \$1.6	1.4	2.9	
Change in derivative losses on net investment hedges	—	(0.3	)
Adjustments of and amortization of net actuarial loss, prior service cost, and transition obligation, net of taxes of \$10.6 and \$12.2	23.7	25.0	
Total other comprehensive (loss) income, net of taxes	(82.6	) 33.1	
Comprehensive (loss) income	(66.8	) 156.0	
Less: comprehensive income attributable to noncontrolling interests	0.1	0.5	
Comprehensive (loss) income attributable to Avon	\$(66.9	) \$ 155.5	

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	September 30, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$808.3	\$1,206.9
Accounts receivable, net	690.2	752.1
Inventories	1,200.0	1,101.1
Prepaid expenses and other	733.5	827.0
Current assets of discontinued operations	—	41.8
Total current assets	3,432.0	3,928.9
Property, plant and equipment, at cost	2,499.8	2,684.8
Less accumulated depreciation	(1,110.6	) (1,158.8
Property, plant and equipment, net	1,389.2	1,526.0
Goodwill	279.6	330.3
Other intangible assets, net	33.1	40.6
Other assets	1,394.4	1,407.9
Noncurrent assets of discontinued operations	—	148.8
Total assets	\$6,528.3	\$7,382.5
Liabilities and Shareholders' Equity		
Current Liabilities		
Debt maturing within one year	\$243.1	\$572.0
Accounts payable	865.2	914.3
Accrued compensation	266.5	264.7
Other accrued liabilities	551.4	645.3
Sales and taxes other than income	180.8	210.6
Income taxes	47.8	73.6
Current liabilities of discontinued operations	—	24.1
Total current liabilities	2,154.8	2,704.6
Long-term debt	2,541.2	2,623.8
Employee benefit plans	541.7	637.6
Long-term income taxes	49.0	52.0
Other liabilities	114.0	131.1
Noncurrent liabilities of discontinued operations	—	0.1
Total liabilities	\$5,400.7	\$6,149.2
Contingencies (Note 6)		
Shareholders' Equity		
Common stock	\$189.4	\$188.3
Additional paid-in capital	2,169.2	2,119.6
Retained earnings	4,292.1	4,357.8
Accumulated other comprehensive loss	(959.3	) (876.7
Treasury stock, at cost	(4,580.1	) (4,571.9
Total Avon shareholders' equity	1,111.3	1,217.1
Noncontrolling interests	16.3	16.2
Total shareholders' equity	\$1,127.6	\$1,233.3
Total liabilities and shareholders' equity	\$6,528.3	\$7,382.5

The accompanying notes are an integral part of these statements.





AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In millions)	Nine Months Ended	
	September 30, 2013	September 30, 2012
Cash Flows from Operating Activities		
Net income	\$15.8	\$122.9
Loss from discontinued operations, net of tax	50.9	6.6
Income from continuing operations	\$66.7	\$129.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	174.9	158.4
Provision for doubtful accounts	175.6	191.1
Provision for obsolescence	84.6	83.8
Share-based compensation	35.9	34.7
Deferred income taxes	(49.2)	(101.9)
Charge for Venezuelan monetary assets and liabilities	34.1	—
Impairment of goodwill and intangible asset	42.1	44.0
Other	43.4	44.5
Changes in assets and liabilities:		
Accounts receivable	(164.8)	(186.3)
Inventories	(224.0)	(228.0)
Prepaid expenses and other	58.7	68.1
Accounts payable and accrued liabilities	(61.7)	71.6
Income and other taxes	(36.8)	(37.1)
Noncurrent assets and liabilities	(83.2)	(64.6)
Net cash provided by operating activities of continuing operations	96.3	207.8
Cash Flows from Investing Activities		
Capital expenditures	(118.2)	(134.7)
Disposal of assets	15.5	13.2
Purchases of investments	(23.7)	(1.9)
Proceeds from sale of investments	6.4	2.0
Net cash used by investing activities of continuing operations	(120.0)	(121.4)
Cash Flows from Financing Activities*		
Cash dividends	(79.8)	(300.6)
Debt, net (maturities of three months or less)	49.0	(624.5)
Proceeds from debt	1,481.1	713.7
Repayment of debt	(1,927.9)	(90.0)
Interest rate swap termination	88.1	43.6
Proceeds from exercise of stock options	18.2	7.9
Excess tax benefit realized from share-based compensation	(0.7)	(3.4)
Repurchase of common stock	(8.4)	(8.5)
Net cash used by financing activities of continuing operations	(380.4)	(261.8)
Cash Flows from Discontinued Operations		
Net cash (used) provided by operating activities of discontinued operations	(4.0)	11.8
Net cash provided (used) by investing activities of discontinued operations	84.8	(0.2)
Net cash provided by discontinued operations	80.8	11.6
Effect of exchange rate changes on cash and equivalents	(78.0)	16.2
Net decrease in cash and equivalents	(401.3)	(147.6)
Cash and equivalents at beginning of year <sup>(1)</sup>	\$1,209.6	\$1,245.1

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Cash and equivalents at end of period <sup>(2)</sup>	\$808.3	\$1,097.5
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\* Non-cash financing activities in the nine months ended September 30, 2013 and 2012 included the change in fair market value of interest-rate swap agreements of \$(.7) and \$(.7), respectively.

(1) Includes cash and cash equivalents of discontinued operations of \$2.7 and \$6.9 at the beginning of the year in 2013 and 2012, respectively.

(2) Includes cash and cash equivalents of discontinued operations of \$7.2 at the end of the period in 2012.

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(U.S. dollars in millions, except per share data)

1. ACCOUNTING POLICIES

Basis of Presentation

We prepare our unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"). We consistently applied the accounting policies described in our 2012 Annual Report on Form 10-K, as amended ("2012 Form 10-K") in preparing these unaudited financial statements. In our opinion, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results for a full year. You should read these unaudited interim consolidated financial statements in conjunction with our consolidated financial statements contained in our 2012 Form 10-K. When used in this report, the terms "Avon," "Company," "we" or "us" mean Avon Products, Inc. For interim consolidated financial statement purposes, our tax provision is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. We also provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense.

Venezuela Currency

Effective February 13, 2013, the Venezuelan government devalued its currency by approximately 32% and as such we recorded a one-time, after-tax loss of \$51 (\$34 in other expense, net and \$17 in income taxes) in the first quarter of 2013, primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. In addition, as a result of using the U.S. historic dollar cost basis of non-monetary assets, such as inventory, acquired prior to the devaluation, operating profit and net income during the nine months ending September 30, 2013 were negatively impacted.

New Accounting Standard Implemented

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires entities to report, either on the face of the income statement or in the notes, the effect of significant reclassifications out of accumulated other comprehensive income ("AOCI") on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety from AOCI to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. See Note 7, Accumulated Other Comprehensive Income, for the required disclosures. ASU 2013-02 is effective as of January 1, 2013 for Avon and did not have a significant impact on our financial statements, other than presentation.

2. EARNINGS PER SHARE AND SHARE REPURCHASES

We compute earnings (loss) per share ("EPS") using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Our participating securities are our grants of restricted stock and restricted stock units, which contain non-forfeitable rights to dividend equivalents. We compute basic EPS by dividing net income allocated to common shareholders by the weighted-average number of shares outstanding during the year. Diluted EPS is calculated to give effect to all potentially dilutive common shares that were outstanding during the period.

## AVON PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares in millions)	2013	2012	2013	2012
Numerator from continuing operations:				
(Loss) income from continuing operations, less amounts attributable to noncontrolling interests	\$ (6.1 )	\$ 35.2	\$ 63.6	\$ 126.3
Less: Loss (earnings) allocated to participating securities	.1	(.9 )	(.6 )	(2.8 )
(Loss) income from continuing operations allocated to common shareholders	(6.0 )	34.3	63.0	123.5
Numerator from discontinued operations:				
Earnings (loss) from discontinued operations	\$ .6	\$ (3.6 )	\$ (50.9 )	\$ (6.6 )
Less: (Earnings) loss allocated to participating securities	—	(.6 )	.5	(1.7 )
Earnings (loss) allocated to common shareholders	.6	(4.2 )	(50.4 )	(8.3 )
Numerator attributable to Avon:				
Net (loss) income attributable to Avon	\$ (5.5 )	\$ 31.6	\$ 12.7	\$ 119.7
Less: Loss (earnings) allocated to participating securities	.1	(.8 )	(.1 )	(2.7 )
(Loss) income allocated to common shareholders	(5.4 )	30.8	12.6	117.0
Denominator:				
Basic EPS weighted-average shares outstanding	433.5	432.1	433.3	431.8
Diluted effect of assumed conversion of stock options	—	.4	.9	.7
Diluted EPS adjusted weighted-average shares outstanding	433.5	432.5	434.2	432.5
(Loss) Earnings per Common Share from continuing operations:				
Basic	\$ (.01 )	\$ .08	\$ .15	\$ .29
Diluted	\$ (.01 )	\$ .08	\$ .15	\$ .29
Loss per Common Share from discontinued operations:				
Basic	\$ —	\$ (.01 )	\$ (.12 )	\$ (.02 )
Diluted	\$ —	\$ (.01 )	\$ (.12 )	\$ (.02 )
(Loss) Earnings per Common Share attributable to Avon:				
Basic	\$ (.01 )	\$ .07	\$ .03	\$ .27
Diluted	\$ (.01 )	\$ .07	\$ .03	\$ .27

Amounts in the table above may not necessarily sum due to rounding.

At September 30, 2013 and 2012, we did not include stock options to purchase 17.8 million shares and 22.1 million shares of Avon common stock, respectively, in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price, and therefore, their inclusion would have been anti-dilutive. We also did not include stock options to purchase .9 million shares for the three months ended September 30, 2013, as we had a loss from continuing operations, net of tax and the inclusion of these shares would decrease the net loss per share. Since the inclusion of such shares would be anti-dilutive, these are excluded from the calculation.

We purchased approximately .4 million shares of Avon common stock for \$8.4 during the first nine months of 2013, as compared to approximately .4 million shares of Avon common stock for \$8.5 during the first nine months of 2012, through acquisition of stock from employees in connection with tax payments upon vesting of restricted stock units and private transactions with a broker in connection with stock based obligations under our Deferred Compensation Plan.

### 3. DISCONTINUED OPERATIONS

On June 30, 2013, the Company entered into an agreement to sell its Silpada jewelry business (“Silpada”) for \$85, plus an earn-out of up to \$15 if Silpada achieves specific earnings targets over two years. Silpada was previously reported

within our North America segment and has been classified within discontinued operations for all periods presented. The transaction closed on July 3, 2013. Proceeds from the sale were used for general corporate purposes, including the repayment of outstanding debt. The benefit associated with the earn-out will be recorded in discontinued operations only when it becomes realizable by Avon.

## AVON PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

In the second quarter of 2013, the Company recorded a pre-tax charge of \$79 (\$50 net of tax), reflecting the expected loss on sale, which represents the difference between the carrying value of the Silpada business and the expected proceeds.

Earlier this year, the Company disclosed that it was reviewing strategic alternatives for Silpada. In connection with this review, Avon ran a broad auction process that included potential financial and strategic buyers. The initial offers that were received through April of 2013 were lower than the carrying value of Silpada. At that time, we did not believe that these offers were representative of the underlying fair value of the Silpada business. In June 2013, the Company received final offers for the Silpada business that also were at a level below what previously had been expected as the fair value of the business. The Company decided to agree to the offer that emerged at the time as the highest bid, based in part on consideration of a) the timeline and investment required to return the business to historical levels of profitability and b) the deterioration of Silpada's business performance in the second quarter of 2013. The Company also considered that this divestiture would allow greater focus of time and resources on the core Avon business. This transaction was approved by the Board of Directors on June 26, 2013, subject to certain conditions which were satisfied on June 30, 2013.

Summarized financial information for discontinued operations is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total revenue	\$2.2	\$40.3	\$54.5	\$108.8
Operating income (loss) <sup>(1)</sup>	.9	(4.6	) (81.0	) (8.1

(1) Operating loss for the nine months ended September 30, 2013 includes a pre-tax charge of \$79.0 recorded in the second quarter of 2013, reflecting the expected loss on sale, as well as an additional loss on sale of \$.4 before tax recorded in the third quarter of 2013.

## 2012 Silpada Impairment Assessment

Silpada was acquired in July 2010. Silpada had historically generated positive cash flows and was expected to continue to generate positive cash flows; however, the expected cash flows of the business as of the date of our impairment analysis were not at a level sufficient to support the carrying value of the business. Since the acquisition in 2010, the Silpada business did not achieve our revenue, earnings and cash flows expectations primarily due to lower consumer spending, higher silver prices and increased competition. When compared to our initial projections for the business at the time of the acquisition, the future expectations for Silpada utilized in the 2011 and 2012 impairment analyses represented a significant decrease in the future cash flows that were expected to be generated by Silpada. This reduction in future expectations led to material impairments of \$263 and \$209 being recorded during the fourth quarters of 2011 and 2012, respectively.

Throughout the first nine months of 2012, Silpada continued to perform generally in line with our revenue and earnings forecast and there were no significant changes to our long-term outlook for the business, which was utilized in determining the estimated fair value in our 2011 impairment analysis. Our revenue and earnings forecast for 2012 had projected improvements to the trends (i.e., a reduction of the year-over-year revenue declines) in the latter portion of 2012. In 2012, in an effort to promote sales and grow the business, we made changes to certain members of the Silpada management team, including bringing in personnel who had previously managed other Avon businesses. Among the initiatives implemented by the new Silpada management team was a recruiting incentive program which we had believed would benefit our Representative counts and Representative productivity primarily in the latter portion of 2012, and in turn improve the performance of the business. While we saw improvement in our Representative additions, the recruiting incentive program did not result in the expected Representative productivity. In the fourth quarter of 2012, which is generally the quarter with the largest dollar value of revenue for the Silpada business, it became apparent that we would not achieve our forecasted revenue and earnings for 2012, partially due to

the recruiting incentive program not driving the expected Representative productivity, and as a result, Silpada experienced weaker than expected performance in the fourth quarter of 2012. The revenue performance in the fourth quarter of 2012 was approximately 19% less than the estimates utilized in our 2011 impairment analysis. Based on these continued trends, in the latter part of the fourth quarter of 2012, in conjunction with the 2013 planning process and the early stages of our evaluation of strategic alternatives for the business, we lowered our long-term revenue and earnings projections for Silpada in our discounted cash flow (“DCF”) model to reflect a more moderate recovery of the business. The more moderate recovery of the business was believed to be appropriate due to the lack of sales momentum in the business and the continued inability of Silpada to achieve our financial performance expectations.



AVON PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

The decline in the fair values of the Silpada reporting unit, the trademark, and the customer relationships was primarily driven by the reduction in the forecasted long-term growth rates and cash flows used to estimate fair value. The lower than expected results for fiscal year 2012 served as the baseline for the long-term projections of the business. Fiscal year 2012 revenue for Silpada was approximately 10% less than the estimates utilized in our 2011 impairment analysis and 19% less than fiscal year 2011 results. We forecasted revenue and the resulting cash flows over ten years using a DCF model which included a terminal value at the end of the projection period.

#### 4. INVENTORIES

Components of Inventories	September 30, 2013	December 31, 2012
Raw materials	\$365.4	\$393.4
Finished goods	834.6	707.7
Total	\$1,200.0	\$1,101.1

#### 5. EMPLOYEE BENEFIT PLANS

Net Periodic Benefit Costs	Three Months Ended September 30,					
	Pension Benefits				Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2013	2012
	2013	2012	2013	2012		
Service cost	\$3.4	\$3.8	\$2.3	\$4.5	\$ .5	\$ .5
Interest cost	7.0	7.4	9.2	10.0	1.2	1.4
Expected return on plan assets	(9.4 )	(9.0 )	(10.2 )	(9.6 )	—	—
Amortization of prior service credit	(.1 )	(.1 )	—	(.3 )	(1.2 )	(3.3 )
Amortization of net actuarial losses	12.0	10.9	2.7	4.4	.6	1.0
Curtailements	—	—	—	(.7 )	(1.8 )	—
Net periodic benefit costs	\$12.9	\$13.0	\$4.0	\$8.3	\$(.7 )	\$(.4 )
Net Periodic Benefit Costs	Nine Months Ended September 30,					
	Pension Benefits				Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2013	2012
	2013	2012	2013	2012		
Service cost	\$11.8	\$11.3	\$9.9	\$13.5	\$1.5	\$1.5
Interest cost	20.6	22.2	27.3	29.5	3.7	4.3
Expected return on plan assets	(28.2 )	(27.0 )	(30.1 )	(29.2 )	—	—
Amortization of prior service credit	(.3 )	(.2 )	(.3 )	(1.1 )	(3.6 )	(9.9 )
Amortization of net actuarial losses	35.3	32.8	10.0	13.2	2.0	3.0
Curtailements	—	—	(7.5 )	(.7 )	(1.8 )	(1.0 )
Net periodic benefit costs	\$39.2	\$39.1	\$9.3	\$25.2	\$1.8	\$(2.1 )

The non-U.S. pension curtailment gain recognized in 2013 is due to the decision to freeze our defined benefit pension plan in the United Kingdom. The postretirement benefits curtailment gain recognized in 2013 is due to the closure of the Atlanta distribution center in the U.S.

As of September 30, 2013, we made approximately \$40 and \$65 of contributions to the U.S. and non-U.S. pension and postretirement plans, respectively. During the remainder of 2013, we anticipate contributing approximately \$15 to \$20 and \$0 to \$5 to fund our U.S. and non-U.S. pension and postretirement plans, respectively. The contributions made as of September 30, 2013 to the non-U.S. pension and postretirement plans include \$25 as a result of our decision to freeze our defined benefit pension plan in the United Kingdom. All future pension benefits in the United Kingdom will now accrue on a defined

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contribution basis rather than on a defined benefit basis. Our funding requirements may be impacted by regulations or interpretations thereof.

## 6. CONTINGENCIES

### FCPA Investigations

As previously reported, we have engaged outside counsel to conduct an internal investigation and compliance reviews focused on compliance with the Foreign Corrupt Practices Act ("FCPA") and related U.S. and foreign laws in China and additional countries. The internal investigation, which has been conducted under the oversight of our Audit Committee, began in June 2008. As previously reported in July 2009, in connection with the internal investigation, we commenced compliance reviews regarding the FCPA and related U.S. and foreign laws in additional countries in order to evaluate our compliance efforts. We have conducted these compliance reviews in a number of countries selected to represent each of the Company's international geographic segments. The internal investigation and compliance reviews have focused on reviewing certain expenses and books and records processes, including, but not limited to, travel, entertainment, gifts, use of third-party vendors and consultants and related due diligence, joint ventures and acquisitions, and payments to third-party agents and others, in connection with our business dealings, directly or indirectly, with foreign governments and their employees. The internal investigation and compliance reviews of these matters are substantially complete. In connection with the internal investigation and compliance reviews, certain personnel actions, including termination of employment of certain senior members of management, have been taken, and additional personnel actions may be taken in the future. In connection with the internal investigation and compliance reviews, we continue to enhance our ethics and compliance program, including our policies and procedures, FCPA compliance-related training, FCPA third-party due diligence program and other compliance-related resources.

As previously reported in October 2008, we voluntarily contacted the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") to advise both agencies of our internal investigation. We have cooperated and continue to cooperate with investigations of these matters by the SEC and the DOJ. We have, among other things, signed tolling agreements, responded to inquiries, translated and produced documents, assisted with interviews, and provided information on our internal investigation and compliance reviews, personnel actions taken and steps taken to enhance our ethics and compliance program. As previously reported in August 2012, we are in discussions with the SEC and the DOJ regarding resolving the government investigations. Our factual presentations as part of these discussions are substantially complete. As previously reported in our Quarterly Report on Form 10-Q for the period ending June 30, 2013, we made an offer of settlement to the DOJ and the SEC in June 2013 that, among other terms, would have included payment of monetary penalties of approximately \$12. Although our offer was rejected by the DOJ and the staff of the SEC, we accrued the amount of our offer in the second quarter of 2013.

In September 2013, the staff of the SEC proposed terms of potential settlement that included monetary penalties of a magnitude significantly greater than our earlier offer. We disagree with the SEC staff's assumptions and the methodology used in its calculations and believe that monetary penalties at the level proposed by the SEC staff are not warranted. We anticipate that the DOJ also will propose terms of potential settlement, although they have not yet done so and we are unable to predict the timing or terms of any such proposal. If the DOJ's offer is comparable to the SEC's offer and if the Company were to enter into settlements with the SEC and the DOJ at such levels, we believe that the Company's earnings, cash flows, liquidity, financial condition and ongoing business would be materially adversely impacted.

Although we are working to resolve the government investigations through settlement, our discussions are at early stages and at this point we do not know if those efforts will be successful and, if they are, what the timing or terms of any such settlements would be. We expect any such settlements will include civil and/or criminal fines and penalties,

and may also include non-monetary remedies, such as oversight requirements and additional remediation and compliance requirements. We may be required to incur significant future costs to comply with the non-monetary terms of any settlements with the SEC and the DOJ. If we are able to reach settlements with the SEC and the DOJ, the Company believes that such settlements are likely to include monetary penalties that would be material to its earnings and cash flows in the relevant fiscal period and could, depending on the amounts of the settlements, materially adversely impact the Company's liquidity, financial condition and ongoing business.

There can be no assurance that our efforts to reach settlements with the government will be successful. If we do not reach settlements with the SEC and/or the DOJ, we cannot predict the outcome of any subsequent litigation with the government but such litigation could have a material adverse effect on our earnings, cash flow, liquidity, financial condition and ongoing business.

We have not recorded an additional accrual beyond the amount recorded in the second quarter of 2013 because at this time, in light of the early stages of our discussions of possible settlement terms with the government, the magnitude of the difference between our offer and the amount proposed by the SEC and the absence of a proposal from the DOJ, and our inability to predict

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whether we will be able to reach settlements with the government, we cannot reasonably estimate the amount of additional loss above the amount accrued to date.

Until these matters are resolved, either through settlement or litigation, we expect to continue to incur costs, primarily professional fees and expenses, which may be significant, in connection with the government investigations. Furthermore, under certain circumstances, we may also be required to advance and/or reimburse significant professional fees and expenses to certain current and former Company employees in connection with these matters.

Litigation Matters

In July and August 2010, derivative actions were filed in state court against certain present or former officers and/or directors of the Company (Carol J. Parker, derivatively on behalf of Avon Products, Inc. v. W. Don Cornwell, et al. and Avon Products, Inc. as nominal defendant (filed in the New York Supreme Court, Nassau County, Index No. 600570/2010); Lynne Schwartz, derivatively on behalf of Avon Products, Inc. v. Andrea Jung, et al. and Avon Products, Inc. as nominal defendant (filed in the New York Supreme Court, New York County, Index No. 651304/2010)). These actions allege breach of fiduciary duty, abuse of control, waste of corporate assets, and, in one complaint, unjust enrichment, relating to the Company's compliance with the FCPA, including the adequacy of the Company's internal controls. The relief sought against the individual defendants in one or both of these derivative complaints includes certain declaratory and equitable relief, restitution, damages, exemplary damages and interest. The Company is a nominal defendant, and no relief is sought against the Company itself. In the Parker case, plaintiff has agreed that defendants' time to file an answer, motion to dismiss or other response is adjourned until plaintiff files an amended pleading. In Schwartz, the parties have agreed to defer the filing of an amended complaint and the defendants' response thereto until the parties submit a further stipulation addressing the scheduling of proceedings. On May 14, 2012, County of York Retirement Plan ("County of York") - which had been a plaintiff in a previously-filed but now discontinued derivative action - filed a complaint against the Company seeking enforcement of its demands for the inspection of certain of the Company's books and records (County of York Retirement Plan v. Avon Products, Inc., New York Supreme Court, New York County, Index No. 651673/2012). On July 10, 2012, the Company moved to dismiss County of York's complaint. We are unable to predict the outcome of these matters.

On July 6, 2011, a purported shareholder's class action complaint (City of Brockton Retirement System v. Avon Products, Inc., et al., No. 11-CIV-4665) was filed in the United States District Court for the Southern District of New York against certain present or former officers and/or directors of the Company. On September 29, 2011, the Court appointed LBBW Asset Management Investmentgesellschaft mbH and SGSS Deutschland Kapitalanlagegesellschaft mbH as lead plaintiffs and Motley Rice LLC as lead counsel. Lead plaintiffs have filed an amended complaint on behalf of a purported class consisting of all persons or entities who purchased or otherwise acquired shares of Avon's common stock from July 31, 2006 through and including October 26, 2011. The amended complaint names the Company and two individual defendants and asserts violations of Sections 10(b) and 20(a) of the Exchange Act based on allegedly false or misleading statements and omissions with respect to, among other things, the Company's compliance with the FCPA, including the adequacy of the Company's internal controls. Plaintiffs seek compensatory damages as well as injunctive relief. Defendants moved to dismiss the amended complaint on June 14, 2012. We are unable to predict the outcome of this matter. However, it is reasonably possible that we may incur a loss in connection with this matter. We are unable to reasonably estimate the amount or range of such reasonably possible loss. Under some circumstances, any losses incurred in connection with adverse outcomes in the litigation matters described above could be material.

Brazilian Tax Matters

In 2002, our Brazilian subsidiary received an excise tax (IPI) assessment from the Brazilian tax authorities for alleged tax deficiencies during the years 1997-1998. In December 2012, additional assessments were received for the year 2008 with respect to excise tax (IPI) and taxes charged on gross receipts (PIS and COFINS), totaling approximately \$371, \$56 and \$257 each, including penalties and accrued interest, at the exchange rate on September 30, 2013. The

2002 and the 2012 assessments assert that the establishment in 1995 of separate manufacturing and distribution companies in that country was done without a valid business purpose and that Avon Brazil did not observe minimum pricing rules to define the taxable basis of excise tax. The structure adopted in 1995 is comparable to that used by many other companies in Brazil. We believe that our Brazilian corporate structure is appropriate, both operationally and legally, and that the 2002 and 2012 assessments are unfounded.

These matters are being vigorously contested. In January 2013, we filed a protest seeking a first administrative level review with respect to the 2012 assessments. In July 2013, the 2012 IPI assessment was upheld at the first administrative level and we have appealed this decision to the second administrative level. In October 2013, the 2012 PIS and COFINS assessments were canceled in our favor by the first administrative level. This decision will be subject to a mandatory appeal to the second administrative level by the Brazilian tax authorities. In October 2010, the 2002 assessment was upheld at the first administrative

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level at an amount reduced to approximately \$29 from approximately \$70, including penalties and accrued interest, at the exchange rate on September 30, 2013. We have appealed this decision to the second administrative level.

In the event that the 2002 or 2012 assessments are upheld at the second as well as the third and last administrative level, it may be necessary for us to provide security to pursue further appeals, which, depending on the circumstances, may result in a charge to earnings. It is not possible to reasonably estimate the amount or range of potential loss that we could incur related to the 2002 and 2012 assessments or any additional assessments that may be issued for subsequent periods (tax years up through 2007 are closed by statute). However, other similar excise tax (IPI) assessments involving different periods (1998-2001) have been canceled and officially closed in our favor by the second administrative level, and management believes that the likelihood that the 2002 and 2012 assessments will be upheld is remote.

Other Matters

Various other lawsuits and claims, arising in the ordinary course of business or related to businesses previously sold, are pending or threatened against Avon. In management's opinion, based on its review of the information available at this time, the total cost of resolving such other contingencies at September 30, 2013, is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

The tables below present the changes in AOCI by component and the reclassifications out of AOCI for the three and nine months ended September 30, 2013:

	Foreign Currency Translation Adjustments	Cash Flow Hedges	Net Investment Hedges	Pension and Postretirement Benefits	Total
Three Months Ended September 30, 2013:					
Balance at June 30, 2013	\$ (448.7 )	\$ (5.7 )	\$ (4.3 )	\$ (518.3 )	\$ (977.0 )
Other comprehensive income other than reclassifications	23.4	—	—	—	23.4
Reclassifications into earnings:					
Derivative losses on cash flow hedges, net of tax of \$.2 <sup>(1)</sup>	—	.3	—	—	.3
Adjustments of and amortization of net actuarial loss, prior service cost, and transition obligation, net of tax of \$(1.5) <sup>(2)</sup>	—	—	—	(6.0 )	(6.0 )
Total reclassifications into earnings	—	.3	—	(6.0 )	(5.7 )
Balance at September 30, 2013	\$ (425.3 )	\$ (5.4 )	\$ (4.3 )	\$ (524.3 )	\$ (959.3 )
Nine Months Ended September 30, 2013:					
Balance at December 31, 2012	\$ (317.6 )	\$ (6.8 )	\$ (4.3 )	\$ (548.0 )	\$ (876.7 )
Other comprehensive loss other than reclassifications	(107.7 )	—	—	—	(107.7 )
Reclassifications into earnings:					
Derivative losses on cash flow hedges, net of tax of \$.8 <sup>(1)</sup>	—	1.4	—	—	1.4
Adjustments of and amortization of net actuarial loss, prior service cost, and transition obligation,	—	—	—	23.7	23.7

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net of tax of \$10.6<sup>(2)</sup>

Total reclassifications into earnings	—	1.4	—	23.7	25.1
Balance at September 30, 2013	\$ (425.3 )	\$ (5.4 )	\$ (4.3 )	\$ (524.3 )	\$ (959.3 )

(1) Gross amount reclassified to interest expense, and related taxes reclassified to income taxes.

(2) Gross amount reclassified to pension and postretirement expense, within selling, general & administrative expenses, and related taxes reclassified to income taxes.



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## 8. SEGMENT INFORMATION

In the second quarter of 2013, Silpada was classified within discontinued operations. See Note 3, Discontinued Operations for further details. Accordingly, all amounts exclude the results of Silpada for all periods presented. Summarized financial information concerning our reportable segments was as follows:

	Three Months Ended September 30,		2012	
	2013		Revenue	Operating Profit (Loss)
	Revenue	Operating Profit (Loss)	Revenue	Operating Profit (Loss)
Latin America	\$ 1,207.7	\$ 121.7	\$ 1,270.9	\$ 142.2
Europe, Middle East & Africa	619.2	61.4	620.7	53.6
North America	328.6	(32.7)	) 403.3	(8.8)
Asia Pacific	167.4	(39.7)	) 215.7	(30.2)
Total from operations	\$ 2,322.9	\$ 110.7	\$ 2,510.6	\$ 156.8
Global and other	—	(42.5)	) —	(46.2)
Total	\$ 2,322.9	\$ 68.2	\$ 2,510.6	\$ 110.6
	Nine Months Ended September 30,		2012	
	2013		Revenue	Operating Profit (Loss)
	Revenue	Operating Profit (Loss)	Revenue	Operating Profit (Loss)
Latin America	\$ 3,604.2	\$ 370.9	\$ 3,663.2	\$ 307.9
Europe, Middle East & Africa	2,030.7	276.9	2,008.4	181.4
North America	1,087.4	(53.5)	) 1,281.8	(5.4)
Asia Pacific	565.5	(12.2)	) 655.8	(3.7)
Total from operations	\$ 7,287.8	\$ 582.1	\$ 7,609.2	\$ 480.2
Global and other	—	(137.7)	) —	(168.0)
Total	\$ 7,287.8	\$ 444.4	\$ 7,609.2	\$ 312.2

Our consolidated net sales by classes of principal products were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beauty <sup>(1)</sup>	\$ 1,660.0	\$ 1,820.4	\$ 5,215.7	\$ 5,533.5
Fashion <sup>(2)</sup>	362.7	407.0	1,182.3	1,255.1
Home <sup>(3)</sup>	242.6	245.3	741.2	703.5
Net sales	\$ 2,265.3	\$ 2,472.7	\$ 7,139.2	\$ 7,492.1
Other revenue <sup>(4)</sup>	57.6	37.9	148.6	117.1
Total revenue	\$ 2,322.9	\$ 2,510.6	\$ 7,287.8	\$ 7,609.2

(1) Beauty includes color cosmetics, fragrances, skincare and personal care.

(2) Fashion includes jewelry, watches, apparel, footwear, accessories and children's products.

(3) Home includes gift and decorative products, housewares, entertainment and leisure products, children's products and nutritional products.

(4) Other revenue primarily includes shipping and handling and order processing fees billed to Representatives.



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#### 9. SUPPLEMENTAL BALANCE SHEET INFORMATION

At September 30, 2013 and December 31, 2012, prepaid expenses and other included the following:

Components of Prepaid Expenses and Other	September 30, 2013	December 31, 2012
Deferred tax assets	\$237.0	\$273.5
Prepaid taxes and tax refunds receivable	150.0	141.1
Prepaid brochure costs, paper, and other literature	107.0	111.8
Receivables other than trade	90.2	131.6
Short-term investments	34.2	16.5
Healthcare trust assets	7.6	26.9
Interest-rate swap agreements, including interest (Notes 12 and 13)	—	19.5
Other	107.5	106.1
Prepaid expenses and other	\$733.5	\$827.0

At September 30, 2013 and December 31, 2012, other assets included the following:

Components of Other Assets	September 30, 2013	December 31, 2012
Deferred tax assets	\$922.0	\$826.9
Capitalized software	244.0	235.4
Long-term receivables	159.2	174.9
Investments	33.4	44.5
Interest-rate swap agreements (Notes 12 and 13)	—	94.8
Other	35.8	31.4
Other assets	\$1,394.4	\$1,407.9

#### 10. RESTRUCTURING INITIATIVES

##### \$400M Cost Savings Initiative

In 2012, we announced a cost savings initiative (the "\$400M Cost Savings Initiative") in an effort to stabilize the business and return Avon to sustainable growth, which is expected to be achieved through restructuring actions as well as other cost-savings strategies that will not result in restructuring charges. The \$400M Cost Savings Initiative is designed to reduce our operating expenses as a percentage of total revenue to help us achieve a targeted low double-digit operating margin by 2016. The restructuring actions under the \$400M Cost Savings Initiative primarily consist of global headcount reductions and related actions, as well as the restructuring or closure of certain smaller, under-performing markets, including our exit from the South Korea, Vietnam and Republic of Ireland markets. As a result of the actions approved to-date, we have recorded total costs to implement these restructuring initiatives of \$80.1 before taxes, of which \$29.4 before taxes was recorded in the first nine months of 2013. For the actions approved to-date, we expect our total costs to implement restructuring to be in the range of \$100 to \$110 before taxes. The additional charges not yet incurred associated with the actions approved to-date of approximately \$20 to \$30 before taxes are expected to be recorded primarily in 2013. At this time we are unable to quantify the total costs to implement these restructuring initiatives that will be incurred through the time the initiative is fully implemented. In connection with the restructuring actions approved to-date associated with the \$400M Cost Savings Initiative, we expect to realize annualized savings of approximately \$125 before taxes. For market closures, the annualized savings represent the foregone selling, general and administrative expenses as a result of no longer operating in the respective markets. For actions that did not result in the closure of a market, the annualized savings represent the net reduction of expenses that will no longer be incurred by Avon. The annualized savings do not incorporate the impact of the decline in revenue associated with these actions (including market closures), which is not expected to be material.



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During the three and nine months ended September 30, 2013, we recorded costs to implement of \$.6 and \$29.4, respectively, related to the \$400M Cost Savings Initiative, and the costs consisted of the following:

• net benefit of \$1.9 and net charge of \$14.6, respectively, primarily for employee-related costs, including severance and pension and postretirement benefits;

• contract termination and other charges of \$.2 and \$4.1, respectively, primarily related to the costs associated with our exit from the Republic of Ireland market;

• accelerated depreciation of \$1.7 and \$13.5, respectively, associated with the closure and rationalization of certain facilities;

• net benefit of \$3.5 due to accumulated foreign currency translation adjustments in the second quarter of 2013 primarily associated with our exit from the Vietnam market;

• implementation costs of \$.6 and \$1.4, respectively, for professional service fees; and

• net benefit of \$.7 due to inventory adjustments in the first and second quarters of 2013.

For the three months ended September 30, 2013 total costs to implement were recorded in selling, general and administrative expenses. For the nine months ended September 30, 2013, \$30.1 of the total costs to implement was recorded in selling, general and administrative expenses and a net benefit of \$.7 was recorded in cost of sales. The majority of cash payments associated with these charges are expected to be made during 2013.

The liability balance for the \$400M Cost Savings Initiative as of September 30, 2013 is as follows:

	Employee- Related Costs	Inventory/ Asset Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
Balance at December 31, 2012	\$41.3	\$—	\$—	\$ 1.7	\$43.0
2013 charges	16.4	.1	(3.5 )	4.6	17.6
Adjustments	(1.8 )	(.8 )	—	(.5 )	(3.1 )
Cash payments	(39.1 )	—	—	(4.6 )	(43.7 )
Non-cash write-offs	1.8	.7	3.5	—	6.0
Foreign exchange	.1	—	—	—	.1
Balance at September 30, 2013	\$18.7	\$—	\$—	\$ 1.2	\$19.9

Non-cash write-offs associated with employee-related costs are the result of settlements and curtailment for pension and postretirement benefits plans due to the initiatives implemented.

The following table presents the restructuring charges incurred to-date, net of adjustments, under our \$400M Cost Savings Initiative, along with the estimated charges expected to be incurred on approved initiatives under the plan:

	Employee- Related Costs	Inventory/Asset Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
Charges incurred to date	\$59.8	\$ .7	\$(3.5 )	\$ 6.0	\$63.0
Estimated charges to be incurred on approved initiatives	3.5	—	6.0	8.3	17.8
Total expected charges on approved initiatives	\$63.3	\$ .7	\$2.5	\$ 14.3	\$80.8

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The charges, net of adjustments, of initiatives under the \$400M Cost Savings Initiative by reportable business segment were as follows:

	Latin America	Europe, Middle East & Africa	North America	Asia Pacific	Corporate	Total
2012	\$12.9	\$1.1	\$18.0	\$12.9	\$3.6	\$48.5
First quarter 2013	(1.1 )	9.0	1.5	1.5	2.1	13.0
Second quarter 2013	3.8	3.4	(.1 )	(3.9 )	—	3.2
Third quarter 2013	1.7	(.3 )	(3.1 )	.1	(.1 )	(1.7 )
Charges incurred to date	17.3	13.2	16.3	10.6	5.6	63.0
Estimated charges to be incurred on approved initiatives	3.3	14.3	.2	—	—	17.8
Total expected charges on approved initiatives	\$20.6	\$27.5	\$16.5	\$10.6	\$5.6	\$80.8

As noted previously, for the initiatives approved to date, we expect to record total costs to implement restructuring in the range of \$100 to \$110 before taxes under the \$400M Cost Savings Initiative. The amounts shown in the tables above as charges recorded to date relate to initiatives that have been approved and recorded in the financial statements as the costs are probable and estimable. The amounts shown in the tables above as total expected charges on approved initiatives represent charges recorded to date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording an expense have not yet been met. In addition to the charges included in the tables above, we have incurred and will incur other costs to implement restructuring initiatives such as other professional services and accelerated depreciation.

#### Additional Restructuring Charges

In an effort to improve operating performance, we identified certain actions in 2012 that we believe will enhance our operating model, reduce costs, and improve efficiencies. In addition, we have relocated our corporate headquarters in New York City.

#### Restructuring Charges – Three and Nine Months Ended September 30, 2013

As a result of the analysis and the actions taken, during the three and nine months ended September 30, 2013, we recorded total costs to implement of \$1.2 and \$1.0, respectively, in selling, general and administrative expenses.

#### Restructuring Charges – Three and Nine Months Ended September 30, 2012

During the three and nine months ended September 30, 2012, we recorded total costs to implement of \$2.2 and \$63.2, respectively, associated with previously approved initiatives, and the costs consisted of the following:

• net charges of \$.2 and \$56.2, respectively, primarily for employee-related costs;

• implementation costs of \$.4 and \$4.3, respectively, for professional service fees; and

• accelerated depreciation of \$1.6 and \$2.7, respectively, associated with the relocation our corporate headquarters.

Total costs to implement were recorded in selling, general and administrative expenses for the three and nine months ended September 30, 2012.

The liability balance for these various restructuring initiatives as of September 30, 2013 is as follows:

	Employee- Related Costs	Contract Terminations/Other	Total
Balance at December 31, 2012	\$17.6	\$ 11.8	\$29.4
2013 charges	.8	1.3	2.1
Adjustments	(1.2 )	—	(1.2 )

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Cash payments	(13.3	)	(4.2	)	(17.5	)
Foreign exchange	(.1	)	—	)	(.1	)
Balance at September 30, 2013	\$3.8		\$ 8.9		\$12.7	

The actions associated with these various restructuring initiatives are substantially complete.

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#### 2005 and 2009 Restructuring Programs

We launched restructuring programs in 2005 and 2009 (collectively, the "2005 and 2009 Restructuring Programs") with initiatives designed to enhance our organizational effectiveness, implement a global manufacturing strategy and additional supply chain efficiencies in distribution, restructure our global supply chain operations, realign certain local business support functions to a more regional base, and streamline transactional and other services.

#### Restructuring Charges – Three and Nine Months Ended September 30, 2013

During the three and nine months ended September 30, 2013, we have recorded net benefits as a result of adjustments to the reserve of \$2.1 and \$1.9, respectively, primarily in selling, general and administrative expenses, associated with previously approved initiatives that are part of our 2005 and 2009 Restructuring Programs.

#### Restructuring Charges – Three and Nine Months Ended September 30, 2012

During the three and nine months ended September 30, 2012, we recorded a net benefit of \$.6 and total costs to implement of \$3.9, respectively, associated with previously approved initiatives that are part of our 2005 and 2009 Restructuring Programs, and the costs consisted of the following:

- net benefits of \$1.7 and \$7.5, respectively, as a result of adjustments to the reserve, partially offset by employee-related costs;

- implementation costs of \$1.0 and \$8.2, respectively, for professional service fees, primarily associated with our initiatives to outsource certain finance processes and realign certain distribution operations;

- accelerated depreciation of \$.8 and \$3.9, respectively, associated with our initiatives to realign certain distribution operations; and

- a gain of \$.7 due to the sale of machinery and equipment in Germany in the third quarter of 2012.

For the three months ended September 30, 2012, net benefits of \$.4 was recorded in selling, general and administrative expenses and \$.2 were recorded in cost of sales. For the nine months ended September 30, 2012, total costs to implement of \$.7 were recorded in selling, general and administrative expenses and \$3.2 were recorded in cost of sales.

The liability balances, which primarily consist of employee-related costs, for the initiatives under the 2005 and 2009 Restructuring Programs are shown below:

	Total	
Balance December 31, 2012	\$21.0	
2013 charges	.7	
Adjustments	(3.4)	)
Cash payments	(15.8)	)
Foreign exchange	—	
Balance at September 30, 2013	\$2.5	

The 2005 and 2009 Restructuring Programs are substantially complete.

#### 11. GOODWILL AND INTANGIBLE ASSETS

In the second quarter of 2013, Silpada was classified within discontinued operations. See Note 3, Discontinued Operations for further details. Accordingly, all amounts exclude the results of Silpada for all periods presented.

#### Q3 2013 China Impairment Assessment

As compared to our projections used in our fourth quarter 2012 impairment analysis ("Q4 2012 projections"), China performed generally in line with our revenue and earnings projections during the first half of 2013. As assumed in our Q4 2012 projections, China's revenue in the first half of 2013 continued to deteriorate versus the prior-year period; however, beginning in the third quarter of 2013, this revenue decline was significantly in excess of our assumptions.



Revenue in the third quarter of 2013 declined 67% versus the third quarter of 2012, compared to a revenue decline of 28% in the first half of 2013 versus the first half of 2012. As a result, in the third quarter of 2013, it became apparent that we would not achieve our 2013 and long-

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term forecasted revenue and earnings, and we completed an interim impairment assessment of the fair value of goodwill related to our operations in China.

China's revenue performance in the third quarter of 2013 was approximately 67% less (when excluding the impact of foreign currency) than the revenue in our Q4 2012 projections. The revenue decline in China during the third quarter of 2013 resulted in the recognition of an operating loss while we had expected operating profit in our Q4 2012 projections. In the third quarter of 2013, we significantly lowered our long-term revenue and earnings projections for China that was included in our DCF model utilized in our interim impairment assessment. Based upon this interim analysis, we determined that the goodwill related to our operations in China was impaired. Specifically, the results of our interim impairment analysis indicated the estimated fair value of our China reporting unit was less than its respective carrying amount. As a result of our impairment testing, we recorded a non-cash before tax impairment charge of \$38.4 (\$38.4 after tax) to reduce the carrying amount of goodwill. There is no goodwill remaining for our China reporting unit as a result of this impairment. The decline in the fair value of the China reporting unit was primarily driven by the significant reduction in the forecasted long-term growth rates and cash flows used to estimate fair value. Fiscal year 2013 revenue for China is expected to be approximately 38% less than the revenue in our Q4 2012 projections and 47% less than fiscal year 2012 results.

We also performed an interim impairment analysis for our China finite-lived intangible assets, which indicated the carrying value of these intangible assets exceeded the estimated future undiscounted cash flows of the business. This resulted in a non-cash before tax impairment charge of \$3.7 (\$2.8 after tax) to reduce the carrying amount of these assets. There are no finite-lived intangible assets remaining for China as a result of this impairment. China had historically generated positive cash flows, but is not expected to generate positive cash flows in 2013 or for a number of years thereafter as there is a need for further investment than previously anticipated. As a result, the expected cash flows of the business as of the date of our impairment analysis were not at a level sufficient to support the carrying value of the business. As compared to prior years' projections for China, the future expectations declined significantly in the 2012 and 2013 impairment analyses. This reduction in future expectations led to impairments of \$44.0 and \$42.1 being recorded during the third quarters of 2012 and 2013, respectively. As previously disclosed in the third quarter of 2012, we made changes to our long-term growth estimates as the China business did not achieve our revenue, earnings and cash flows expectations primarily due to challenges in our business model.

The impairment analyses performed for goodwill and intangible assets require several estimates in computing the estimated fair value of a reporting unit and finite-lived intangible assets. We use a DCF approach to estimate the fair value of a reporting unit, which we believe is the most reliable indicator of fair value of a business, and is most consistent with the approach that we would generally expect a market participant would use. In estimating the fair value of our reporting units utilizing a DCF approach, we typically forecast revenue and the resulting cash flows for periods of five to ten years and include an estimated terminal value at the end of the forecasted period. When determining the appropriate forecast period for the DCF approach, we consider the amount of time required before the reporting unit achieves what we consider a normalized, sustainable level of cash flows. The estimation of fair value utilizing a DCF approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors. Key assumptions used in measuring the fair value of China included projections of revenue and the resulting cash flows. To estimate the fair value of China, we forecasted revenue and the resulting cash flows over ten years using a DCF model which included a terminal value at the end of the projection period. We believed that a ten-year period was a reasonable amount of time in order to return China's cash flows to normalized, sustainable levels.



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Goodwill

	Latin America	Europe, Middle East & Africa	Asia Pacific	Total
Gross balance at December 31, 2012	\$122.8	\$167.3	\$84.2	\$374.3
Accumulated impairments	—	—	(44.0)	(44.0)
Net balance at December 31, 2012	\$122.8	\$167.3	\$40.2	\$330.3
Changes during the period ended September 30, 2013:				
Impairment	\$—	\$—	\$(38.4)	\$(38.4)
Other <sup>(1)</sup>	(9.5)	(3.6)	.8	(12.3)
Gross balance at September 30, 2013	\$113.3	\$163.7	\$85.0	\$362.0
Accumulated impairments	—	—	(82.4)	(82.4)
Net balance at September 30, 2013	\$113.3	\$163.7	\$2.6	\$279.6

(1) Other is primarily comprised of foreign currency translation.

Other intangible assets

	September 30, 2013		December 31, 2012	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Finite-Lived Intangible Assets				
Customer relationships	\$40.0	\$(36.2)	\$52.7	\$(46.0)
Licensing agreements	52.3	(47.2)	62.8	(53.6)
Noncompete agreements	8.1	(8.1)	8.6	(8.6)
Trademarks	6.6	(6.6)	6.6	(6.3)
Indefinite-Lived Trademarks	24.2	—	24.4	—
Total	\$131.2	\$(98.1)	\$155.1	\$(114.5)

Aggregate amortization expense was \$1.3 and \$3.6 for the three months ended September 30, 2013 and 2012, respectively, and \$3.5 and \$5.3 for the nine months ended September 30, 2013 and 2012, respectively. Amortization expense in the remainder of 2013 and future periods is not expected to be material.

## 12. FAIR VALUE

### Assets and Liabilities Recorded at Fair Value

The fair value measurement provisions required by the Fair Value Measurements and Disclosures Topic of the Codification establish a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3 - Unobservable inputs based on our own assumptions.

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

	Level 1	Level 2	Total
Assets:			
Money market funds	\$7.6	\$—	\$7.6
Available-for-sale securities	2.2	—	2.2
Foreign exchange forward contracts	—	2.6	2.6
Total	\$9.8	\$2.6	\$12.4
Liabilities:			
Foreign exchange forward contracts	\$—	\$4.1	\$4.1
Total	\$—	\$4.1	\$4.1

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Level 1	Level 2	Total
Assets:			
Money market funds	\$26.9	\$—	\$26.9
Available-for-sale securities	1.9	—	1.9
Interest-rate swap agreements	—	94.8	94.8
Foreign exchange forward contracts	—	4.9	4.9
Total	\$28.8	\$99.7	\$128.5
Liabilities:			
Interest-rate swap agreements	\$—	\$1.7	\$1.7
Foreign exchange forward contracts	—	1.5	1.5
Total	\$—	\$3.2	\$3.2

The money market funds are held in a Healthcare trust in order to fund future benefit payments for both active and retiree benefit plans.

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis

September 30, 2013 - China

In the third quarter of 2013, we completed an interim impairment assessment of the fair value of goodwill related to China and subsequently determined that the goodwill associated with China was impaired. As a result, the carrying amount of China's goodwill was reduced from \$38.4 to \$0, resulting in a non-cash impairment charge of \$38.4. In addition, the carrying amount of China's finite-lived intangible assets was reduced from \$3.7 to \$0, resulting in a non-cash impairment charge of \$3.7. See Note 11, Goodwill and Intangible Assets for further details.

Fair Value Measurement - China

The impairment analyses performed for goodwill and intangible assets require several estimates in computing the estimated fair value of a reporting unit and finite-lived intangible assets. We use a DCF approach to estimate the fair value of a reporting unit, which we believe is the most reliable indicator of fair value of a business, and is most consistent with the approach that we would generally expect a market participant would use. In estimating the fair value of our reporting units utilizing a DCF approach, we typically forecast revenue and the resulting cash flows for

periods of five to ten years and include an estimated terminal value at the end of the forecasted period. When determining the appropriate forecast period for the DCF approach, we consider the amount of time required before the reporting unit achieves what we consider a normalized, sustainable level of cash flows. The estimation of fair value utilizing a DCF approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors.

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Key assumptions used in measuring the fair value of China included projections of revenue and the resulting cash flows. To estimate the fair value of China, we forecasted revenue and the resulting cash flows over ten years using a DCF model which included a terminal value at the end of the projection period. We believed that a ten-year period was a reasonable amount of time in order to return China's cash flows to normalized, sustainable levels.

#### Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, available-for-sale securities, short-term investments, money market funds, accounts receivable, loans receivable, debt maturing within one year, accounts payable, long-term debt, foreign exchange forwards contracts, and interest-rate swap agreements. The carrying value for cash and cash equivalents, accounts receivable, accounts payable, and short-term investments approximate fair value because of the short-term nature of these instruments. The net asset (liability) amounts recorded in the balance sheet (carrying amount) and the estimated fair values of our remaining financial instruments at September 30, 2013 and December 31, 2012, respectively, consisted of the following:

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale securities	\$2.2	\$2.2	\$1.9	\$1.9
Money market funds	7.6	7.6	26.9	26.9
Debt maturing within one year <sup>(1)</sup>	(243.1 )	(243.1 )	(572.0 )	(572.2 )
Long-term debt <sup>(1)</sup>	(2,541.2 )	(2,560.2 )	(2,623.8 )	(2,547.7 )
Foreign exchange forward contracts	(1.5 )	(1.5 )	3.4	3.4
Interest-rate swap agreements	—	—	93.1	93.1

(1) The carrying value of debt maturing within one year and long-term debt includes any related discount or premium, unamortized deferred gains on terminated interest-rate swap agreements, and unrealized losses from interest-rate swap agreements.

The methods and assumptions used to estimate fair value are as follows:

Available-for-sale securities and money market funds - The fair values of these investments were the quoted market prices for issues listed on securities exchanges.

Debt maturing within one year and long-term debt - The fair values of all debt and other financing were determined using Level 2 inputs based on indicative market prices.

Foreign exchange forward contracts - The fair values of forward contracts were estimated based on quoted forward foreign exchange prices at the reporting date.

Interest-rate swap agreements - The fair values of interest-rate swap agreements were estimated based on LIBOR yield curves at the reporting date.

### 13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We operate globally, with manufacturing and distribution facilities in various countries around the world. We may reduce our exposure to fluctuations in the fair value and cash flows associated with changes in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. If we use foreign currency-rate sensitive and interest-rate sensitive instruments to hedge a certain portion of our existing and forecasted transactions, we would expect that any gain or loss in value of the hedge instruments generally would be offset by decreases or increases in the value of the underlying forecasted transactions. As of September 30, 2013, all interest-rate swap agreements have been terminated.

We do not enter into derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives. The master agreements governing our derivative contracts generally contain standard provisions

that could trigger early termination of the contracts in certain circumstances, including if we were to merge with another entity and the creditworthiness of the surviving entity were to be "materially weaker" than that of Avon prior to the merger.

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Derivatives are recognized on the balance sheet at their fair values. The following table presents the fair value of derivative instruments outstanding at September 30, 2013:

	Asset Balance Sheet Classification	Fair Value	Liability Balance Sheet Classification	Fair Value
Derivatives not designated as hedges:				
Foreign exchange forward contracts	Prepaid expenses and other	\$2.6	Accounts payable	\$4.1
Total derivatives not designated as hedges		\$2.6		\$4.1
Total derivatives		\$2.6		\$4.1

The following table presents the fair value of derivative instruments outstanding at December 31, 2012:

	Asset Balance Sheet Classification	Fair Value	Liability Balance Sheet Classification	Fair Value
Derivatives designated as hedges:				
Interest-rate swap agreements	Other assets/ Prepaid expenses and other	\$93.1	Other liabilities	\$—
Total derivatives designated as hedges		\$93.1		\$—
Derivatives not designated as hedges:				
Interest-rate swap agreements	Prepaid expenses and other	\$1.7	Accounts payable	\$1.7
Foreign exchange forward contracts	Prepaid expenses and other	4.9	Accounts payable	1.5
Total derivatives not designated as hedges		\$6.6		\$3.2
Total derivatives		\$99.7		\$3.2

#### Accounting Policies

If applicable, derivatives are recognized on the balance sheet at their fair values. When we become a party to a derivative instrument and intend to apply hedge accounting, we designate the instrument, for financial reporting purposes, as a fair value hedge, a cash flow hedge, or a net investment hedge. The accounting for changes in fair value (gains or losses) of a derivative instrument depends on whether we had designated it and it qualified as part of a hedging relationship and further, on the type of hedging relationship. We apply the following accounting policies:

• Changes in the fair value of a derivative that is designated as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk are recorded in earnings.

• Changes in the fair value of a derivative that is designated as a cash flow hedge are recorded in AOCI to the extent effective and reclassified into earnings in the same period or periods during which the transaction hedged by that derivative also affects earnings.

• Changes in the fair value of a derivative that is designated as a hedge of a net investment in a foreign operation are recorded in foreign currency translation adjustments within AOCI to the extent effective as a hedge.

• Changes in the fair value of a derivative not designated as a hedging instrument are recognized in earnings in other expense, net in the Consolidated Statements of Income.

Realized gains and losses on a derivative are reported in the Consolidated Statements of Cash Flows consistent with the underlying hedged item.

For derivatives designated as hedges, we assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Highly effective means that cumulative changes in the fair value of the derivative are between 85% - 125% of the cumulative changes in the fair value of the hedged item. The ineffective portion of a derivative's gain or loss, if any, is recorded in earnings in other expense, net in the Consolidated Statements of Income. In addition, when we determine that a derivative is not highly effective as a hedge, hedge accounting is discontinued. When it is probable that a hedged forecasted transaction will not occur, we discontinue hedge accounting for the affected portion of the forecasted transaction, and reclassify gains or losses that were accumulated in AOCI to earnings in other expense, net in the Consolidated Statements of Income.

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## Interest Rate Risk

A portion of our borrowings is subject to interest rate risk. We previously used interest-rate swap agreements, which effectively converted the fixed rate on long-term debt to a floating interest rate, to manage our interest rate exposure. The agreements were designated as fair value hedges. At December 31, 2012, we held interest-rate swap agreements that effectively converted approximately 62% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR. As of September 30, 2013, all designated interest-rate swap agreements have been terminated either in conjunction with repayment of the associated debt or in the January 2013 and March 2012 transactions described below. Our total exposure to floating interest rates was approximately 9% at September 30, 2013, and 69% at December 31, 2012.

In January 2013, we terminated eight of our interest-rate swap agreements designated as fair value hedges, with notional amounts totaling \$1,000. As of the interest-rate swap agreements' termination date, the aggregate favorable adjustment to the carrying value (deferred gain) of our debt was \$90.4, which is being amortized as a reduction to interest expense over the remaining term of the underlying debt obligations. We incurred termination fees of \$2.3 which were recorded in other expense, net. For the three and nine months ended September 30, 2013, the net impact of the gain amortization was \$3.6 and \$22.6, respectively. The interest-rate swap agreements were terminated in order to improve our capital structure, including increasing our ratio of fixed-rate debt. At September 30, 2013, the unamortized deferred gain associated with the January 2013 interest-rate swap termination was \$67.8, and was included within long-term debt.

In March 2012, we terminated two of our interest-rate swap agreements designated as fair value hedges, with notional amounts totaling \$350. As of the interest-rate swap agreements' termination date, the aggregate favorable adjustment to the carrying value (deferred gain) of our debt was \$46.1, which is being amortized as a reduction to interest expense over the remaining term of the underlying debt obligations through March 2019. We incurred termination fees of \$2.5 which were recorded in other expense, net. For the three and nine months ended September 30, 2013, the net impact of the gain amortization was \$1.5 and \$4.5, respectively. For the three and nine months ended September 30, 2012, the net impact of the gain amortization was \$1.5 and \$2.9, respectively. The interest-rate swap agreements were terminated in order to increase our ratio of fixed-rate debt. At September 30, 2013, the unamortized deferred gain associated with the March 2012 interest-rate swap termination was \$37.2, and was included within long-term debt.

At September 30, 2013, we do not have interest-rate swap agreements designated as fair value hedges. In addition to the terminations discussed above, the remaining interest-rate swap agreements designated as fair value hedges were terminated in conjunction with the repayment of the associated debt. During the nine months ended September 30, 2013, we recorded a net loss of \$.7 in interest expense for the interest-rate swap agreements designated as fair value hedges; however, no net gain or loss was recorded during the three months ended September 30, 2013 as the interest-rate swaps were terminated prior to the third quarter of 2013. During the three and nine months ended September 30, 2012, we recorded a net gain of \$.4 and a net loss of \$.7, respectively, in interest expense for these interest-rate swap agreements designated as fair value hedges. The impact on interest expense of these interest-rate swap agreements was offset by an equal and offsetting impact in interest expense on our fixed-rate debt.

At times, we may de-designate the hedging relationship of a receive-fixed/pay-variable interest-rate swap agreement. In these cases, we enter into receive-variable/pay-fixed interest-rate swap agreements that are designated to offset the gain or loss on the de-designated contract. At September 30, 2013, we do not have interest-rate swap agreements that are not designated as hedges as the remaining undesignated interest-rate swap agreements were terminated in conjunction with the repayment of the associated debt, and therefore no net gain or loss was recorded during the three months ended September 30, 2013. During the nine months ended September 30, 2013, we recorded an immaterial net loss in other expense, net associated with the undesignated interest-rate swap agreements. During the three and nine months ended September 30, 2012, we recorded immaterial net gains in other expense, net associated with these undesignated interest-rate swap agreements.

There was no hedge ineffectiveness for the three and nine months ended September 30, 2013 and 2012, related to these interest-rate swaps.

Foreign Currency Risk

At September 30, 2013, the primary currencies for which we had net underlying foreign currency exchange rate exposures were the Argentine peso, Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese renminbi, Colombian peso, the Czech Republic koruna, the euro, Mexican peso, New Zealand dollar, Peruvian new sol, Philippine peso, Polish zloty, Russian ruble, South Africa rand, Turkish lira, Ukrainian hryvnia, and Venezuelan bolívar. We use foreign exchange forward contracts to manage a portion of our foreign currency exchange rate exposures. At September 30, 2013, we had outstanding foreign

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exchange forward contracts with notional amounts totaling approximately \$186 for the Mexican peso, euro, Peruvian new sol, Polish zloty, Canadian dollar, Romanian leu, and New Zealand dollar.

We use foreign exchange forward contracts to manage foreign currency exposure of intercompany loans. These contracts are not designated as hedges. The change in fair value of these contracts is immediately recognized in earnings and substantially offsets the foreign currency impact recognized in earnings relating to the intercompany loans. During the three and nine months ended September 30, 2013, we recorded a gain of \$2.6 and a loss of \$5.5, respectively, in other expense, net related to these undesignated foreign exchange forward contracts. During the three and nine months ended September 30, 2013, we recorded a loss of \$1.9 and a gain of \$6.7, respectively, related to the intercompany loans, caused by changes in foreign currency exchange rates. During the three and nine months ended September 30, 2012, we recorded gains of \$9.8 and \$4.2, respectively, in other expense, net related to these undesignated foreign exchange forward contracts. During the three and nine months ended September 30, 2012, we recorded losses of \$8.8 and \$1.4, respectively, related to the intercompany loans, caused by changes in foreign currency exchange rates.

We also used a foreign exchange forward contract to hedge the foreign currency exposure related to the net assets of a foreign subsidiary, which was effective as a hedge. A loss of \$.3 on the foreign exchange forward contract was recorded in foreign currency translation adjustments within AOCI for the nine months ended September 30, 2012. The foreign exchange forward contract was terminated in January 2012, and therefore no gain or loss was recorded during the three months ended September 30, 2012 or during the three and nine months ended September 30, 2013.

#### 14. DEBT

##### Revolving Credit Facility

In March 2013, we entered into a four-year \$1 billion revolving credit facility (the "revolving credit facility"), which expires in March 2017. The revolving credit facility replaced the previous \$1 billion revolving credit facility (the "2010 revolving credit facility"), which was terminated in March 2013 prior to its scheduled expiration in November 2013. There were no amounts drawn under the 2010 revolving credit facility on the date of termination and no early termination penalties were incurred. In the first quarter of 2013, \$1.2 was recorded for the write-off of issuance costs related to the 2010 revolving credit facility. As discussed below under "Commercial Paper Program," the \$1 billion available under the revolving credit facility is effectively reduced by the principal amount of any commercial paper outstanding. Borrowings under the revolving credit facility bear interest, at our option, at a rate per annum equal to LIBOR plus an applicable margin or a floating base rate plus an applicable margin, in each case subject to adjustment based on our credit ratings. As of September 30, 2013, there were no amounts outstanding under the revolving credit facility.

##### Term Loan Agreement

On June 29, 2012, we entered into a \$500.0 term loan agreement (the "term loan agreement"). Subsequently on August 2, 2012, we borrowed an incremental \$50.0 of principal from subscriptions by new lenders under the term loan agreement. In March 2013, we entered into the first amendment to the term loan agreement. This amendment primarily related to (i) adding a provision whereby the lenders may, at our election, decide to decline receipt of prepayments, and (ii) adding a subsidiary debt covenant and conforming the interest coverage ratio and leverage ratio covenants to those contained in the revolving credit facility (discussed below under "Debt Covenants"). Later in March 2013, we repaid \$380.0 of the outstanding principal amount of the term loan agreement with a portion of the proceeds from the issuance of the Notes (as defined below under "Public Notes"), which repayment resulted in a loss in the first quarter of 2013 of \$1.6 on extinguishment of debt associated with the write-off of debt issuance costs related to the term loan agreement. On July 25, 2013, we prepaid \$117.5 of the outstanding principal balance under the term loan agreement, without prepayment penalties. At September 30, 2013, the outstanding principal balance under the term loan agreement was \$52.5.

Pursuant to the term loan agreement, we are required to repay an amount equal to 25% of the aggregate remaining principal amount of the term loan on June 29, 2014, and the remaining outstanding principal amount of the term loan on June 29, 2015. Amounts repaid or prepaid under the term loan agreement may not be reborrowed. Borrowings under the term loan agreement bear interest, at our option, at a rate per annum equal to LIBOR plus an applicable margin or a floating base rate plus an applicable margin, in each case subject to adjustment based on our credit ratings. The term loan agreement also provides for mandatory prepayments and voluntary prepayments. Subject to certain exceptions (including the issuance of commercial paper and draw-downs on our revolving credit facility), we are required to prepay the term loan in an amount equal to 50% of the net cash proceeds received from any incurrence of debt for borrowed money in excess of \$500.

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#### Debt Covenants

The revolving credit facility and the term loan agreement (collectively, "the debt agreements") contain covenants limiting our ability to incur liens and enter into mergers and consolidations or sales of substantially all our assets. The debt agreements also contain covenants that limit Avon's subsidiary debt to existing subsidiary debt at February 28, 2013 plus \$500.0, with certain other exceptions. In addition, the debt agreements contain financial covenants which require our interest coverage ratio at the end of each fiscal quarter to equal or exceed 4:1 and our leverage ratio to not be greater than 4:1 at the end of the fiscal quarter ended September 30, 2013, 3.75:1 at the end of each subsequent fiscal quarter on or prior to September 30, 2014, and 3.5:1 at the end of each fiscal quarter thereafter. In addition, the debt agreements contain customary events of default and cross-default provisions. The interest coverage ratio is determined by dividing our consolidated EBIT (as defined in the debt agreements) by our consolidated interest expense, in each case for the period of four fiscal quarters ending on the date of determination. The leverage ratio is determined by dividing the amount of our consolidated funded debt on the date of determination by our consolidated EBITDA (as defined in the debt agreements) for the period of four fiscal quarters ending on the date of determination. When calculating the interest coverage and leverage ratios, the debt agreements allow us, subject to certain conditions and limitations, to add back to our consolidated net income, among other items: (i) extraordinary and other non-cash losses and expenses, (ii) one-time fees, cash charges and other cash expenses, premiums or penalties incurred in connection with any asset sale, equity issuance or incurrence or repayment of debt or refinancing or modification or amendment of any debt instrument and (iii) cash charges and other cash expenses, premiums or penalties incurred in connection with any restructuring or relating to any legal or regulatory action, settlement, judgment or ruling, in an aggregate amount not to exceed \$400.0 for the period from October 1, 2012 until the termination of commitments under the debt agreements; provided, that restructuring charges incurred after December 31, 2014 shall not be added back to our consolidated net income. As of September 30, 2013, and based on then applicable interest rates, the full \$1 billion revolving credit facility, less the principal amount of commercial paper outstanding (which was \$4.9 at September 30, 2013), could have been drawn down without violating any covenant. We were in compliance with our interest coverage and leverage ratios under the debt agreements for the four fiscal quarters ended September 30, 2013.

#### Private Notes

On November 23, 2010, we issued, in a private placement exempt from registration under the Securities Act of 1933, as amended, \$142.0 principal amount of 2.60% Senior Notes, Series A, due November 23, 2015, \$290.0 principal amount of 4.03% Senior Notes, Series B, due November 23, 2020, and \$103.0 principal amount of 4.18% Senior Notes, Series C, due November 23, 2022 (collectively, the "Private Notes"). The proceeds from the sale of the Private Notes were used to repay existing debt and for general corporate purposes.

On March 29, 2013, we prepaid our Private Notes. The prepayment price was equal to 100% of the principal amount of \$535.0, plus accrued interest of \$6.9 and a make-whole premium of \$68.0. In connection with the prepayment of our Private Notes, we incurred a loss on extinguishment of debt of \$71.4 in the first quarter of 2013, which included the make-whole premium and the write-off of \$3.4 of debt issuance costs related to the Private Notes.

#### Public Notes

In May and June 2003, respectively, we issued, in public offerings, \$250.0 principal amount of 4.20% Notes, due July 15, 2018 and \$125.0 principal amount of 4.625% Notes, due May 15, 2013. In March 2008, we issued, in a public offering, \$250.0 principal amount of 4.80% Notes, due March 1, 2013 and \$250.0 principal amount of 5.75% Notes, due March 1, 2018. In March 2009, we issued, in a public offering, \$500.0 principal amount of 5.625% Notes, due March 1, 2014 (the "2014 Notes") and \$350.0 principal amount of 6.50% Notes, due March 1, 2019. The net proceeds from these offerings were used to repay indebtedness outstanding under our commercial paper program and for general corporate purposes.

The 4.80% Notes due March 1, 2013 were repaid in full at maturity. On April 15, 2013 we prepaid the 2014 Notes at a prepayment price equal to 100% of the principal amount of \$500.0, plus accrued interest of \$3.4 and a make-whole

premium of \$21.7. In connection with the prepayment of our 2014 Notes, we incurred a loss on extinguishment of debt of \$13.0 in the second quarter of 2013 consisting of the \$21.7 make-whole premium for the 2014 Notes and the write-off of \$1.1 of debt issuance costs and discounts related to the initial issuance of the 2014 Notes, partially offset by a deferred gain of \$9.8 associated with the January 2013 interest-rate swap agreement termination. See Note 13, Derivative Instruments and Hedging Activities for further details. In addition, the 4.625% Notes due May 15, 2013 were repaid in full at maturity.

In March 2013, we issued, in a public offering, \$250.0 principal amount of 2.375% Notes, due March 15, 2016, \$500.0 principal amount of 4.60% Notes, due March 15, 2020, \$500.0 principal amount of 5.00% Notes, due March 15, 2023 and \$250.0 principal amount of 6.95% Notes, due March 15, 2043 (collectively, the "Notes"). The net proceeds from these Notes



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were used to repay \$380.0 of the outstanding principal amount of the term loan agreement, to prepay the Private Notes and 2014 Notes (plus make-whole premium and accrued interest), and to repay the 4.625% Notes, due May 15, 2013 at maturity. Interest on the Notes is payable semi-annually on March 15 and September 15 of each year.

#### Commercial Paper Program

We also maintain a \$1 billion commercial paper program, which is supported by the revolving credit facility. Under this program, we may issue from time to time unsecured promissory notes in the commercial paper market in private placements exempt from registration under federal and state securities laws, for a cumulative face amount not to exceed \$1 billion outstanding at any one time and with maturities not exceeding 270 days from the date of issue. The commercial paper short-term notes issued under the program are not redeemable prior to maturity and are not subject to voluntary prepayment. Outstanding commercial paper effectively reduces the amount available for borrowing under the revolving credit facility. At September 30, 2013, there was \$4.9 of outstanding commercial paper under this program. Beginning in 2012 and continuing into 2013, the demand for our commercial paper declined, partially impacted by the rating agency action described below.

#### Additional Information

Our long-term credit ratings are Baa2 (Stable Outlook) with Moody's and BBB- (Negative Outlook) with S&P, which are on the low end of investment grade, and BB+ (Stable Outlook) with Fitch, which is below investment grade. In February 2013, Fitch lowered their long-term credit rating from BBB- (Negative Outlook) to BB+ (Stable Outlook) and Moody's lowered their long-term credit rating from Baa1 (Negative Outlook) to Baa2 (Stable Outlook).

Additional rating agency reviews could result in a further change in outlook or downgrade, which would most likely result in an increase in financing costs, including interest expense under certain of our debt instruments, and reduced access to lending sources, including the commercial paper market.

AVON PRODUCTS, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(U.S. dollars in millions, except per share data)

OVERVIEW

We are a global manufacturer and marketer of beauty and related products. Our business is conducted worldwide, primarily in the direct-selling channel. At December 31, 2012, we had sales operations in 65 countries and territories, including the United States ("U.S."), and distribute products in 43 more. Our reportable segments are based on geographic operations and include commercial business units in Latin America; Europe, Middle East & Africa; North America; and Asia Pacific. Our product categories are Beauty, Fashion and Home. Beauty consists of color cosmetics, fragrances, skin care and personal care. Fashion consists of jewelry, watches, apparel, footwear, accessories and children's products. Home consists of gift and decorative products, housewares, entertainment and leisure products, children's products and nutritional products. Sales are made to the ultimate consumer principally through direct selling by more than 6 million active independent Representatives, who are independent contractors and not our employees. The success of our business is highly dependent on recruiting, retaining and servicing our Representatives. During 2012, approximately 86% of our consolidated revenue was derived from operations outside the U.S.

In the first quarter of 2013, we renamed our "Growth in Active Representatives" performance metric to be referred to as "Change in Active Representatives." In addition, we revised the definition of this metric to exclude China. As previously disclosed, our business in China is predominantly retail, and as a result, we do not believe including China within the Change in Active Representatives calculation provides for a relevant indicator of underlying business trends. There were no changes to the underlying calculation other than the exclusion of China.

During the nine months ended September 30, 2013, revenues declined 4% compared to the prior-year period due to unfavorable foreign exchange. Constant \$ revenue was relatively unchanged, as a 1% increase in average order was offset by a 1% decrease in Active Representatives. Sales from the Beauty category decreased 6%, or 1% on a Constant \$ basis. Sales from the Fashion category decreased 6%, or 3% on a Constant \$ basis. Sales from the Home category increased 5%, or 11% on a Constant \$ basis. See "Segment Review" of this Management's Discussion and Analysis of Financial Condition and Results of Operations, which we refer to in this report as "MD&A," for additional information related to changes in revenue by category and segment.

We are focused on executing our growth platforms, including improving our consumer proposition, product category and innovation strategies and marketing plans, driving simplification and efficiency, and improving organizational effectiveness. However, our sales recovery is taking longer than we expected. We continue to face economic uncertainties and our challenges in North America and Asia Pacific continue.

In 2012, we announced a cost savings initiative (the "\$400M Cost Savings Initiative"), in an effort to stabilize the business and return Avon to sustainable growth, which is expected to be achieved through restructuring actions as well as other cost-savings strategies that will not result in restructuring charges. The \$400M Cost Savings Initiative is designed to reduce our operating expenses as a percentage of total revenue to help us achieve a targeted low double-digit operating margin by 2016. The restructuring actions under the \$400M Cost Savings Initiative primarily consist of global headcount reductions and related actions, as well as the restructuring or closure of certain smaller, under-performing markets, including our exit from the South Korea, Vietnam and Republic of Ireland markets. As a result of the actions approved to-date, we have recorded total costs to implement these restructuring initiatives of \$80.1 before taxes, of which \$29.4 before taxes was recorded in the first nine months of 2013. For the actions approved to-date, we expect our total costs to implement restructuring to be in the range of \$100 to \$110 before taxes. The additional charges not yet incurred associated with the actions approved to-date of approximately \$20 to \$30 before taxes are expected to be recorded primarily in 2013. At this time we are unable to quantify the total costs to implement these restructuring initiatives that will be incurred through the time the initiative is fully implemented. In connection with the restructuring actions approved to-date associated with the \$400M Cost Savings Initiative, we expect to realize annualized savings of approximately \$125 before taxes. Refer to Note 10, Restructuring Initiatives, to the consolidated financial statements included herein for further information.

As a result of the 32% devaluation of Venezuelan currency in February 2013, our 2013 revenue and operating margin was negatively impacted. As a result of using the U.S. historic dollar cost basis of non-monetary assets, such as inventory, acquired prior to the devaluation, the first nine months of 2013 operating profit and net income were negatively impacted by \$45, due to the difference between the historical cost at the previous official exchange rate of 4.30 and the new official exchange rate of 6.30. We expect an additional negative impact of approximately \$5 to 2013 operating profit and net income due to the

AVON PRODUCTS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(U.S. dollars in millions, except per share data)

difference between the historical cost at the previous official exchange rate of 4.30 and the new official exchange rate of 6.30. In addition to the negative impact to operating margin, as a result of the devaluation of Venezuelan currency, during the first quarter of 2013, we recorded a one-time, after-tax loss of \$51 (\$34 in other expense, net and \$17 in income taxes), primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. Refer to further discussion of Venezuela in "Segment Review - Latin America" of this MD&A.

In July 2013, we completed the sale of our Silpada business ("Silpada") for \$85. Silpada has been classified within discontinued operations for all periods presented. Silpada was previously reported within our North America segment. In the second quarter of 2013, the Company recorded a pre-tax charge of \$79 (\$50 net of tax), reflecting the expected loss on sale.

CRITICAL ACCOUNTING ESTIMATES

The disclosure below provides information that is supplemental to the disclosure provided in our 2012 Form 10-K:

Taxes

At December 31, 2012, we had recognized deferred tax assets of \$356 relating to foreign tax credit carryforwards of which \$58, \$44, \$54, \$125 and \$75 expire at the end of 2018, 2019, 2020, 2021 and 2022, respectively. We have a history of having domestic source losses and our excess foreign tax credits have primarily resulted from having a greater domestic source loss in recent years which reduces foreign source income. Our ability to utilize these foreign tax credits is dependent on future U.S. taxable income. At December 31, 2012, we would need to generate approximately \$1 billion of excess net foreign source income in order to realize the deferred tax assets. There are a number of variables to consider in determining the projected realization of excess foreign tax credits including the amount of any domestic source loss and the type, jurisdiction and timing of any foreign source income. Based on our projections, we estimate that it will take several years to generate sufficient excess net foreign source income to realize these excess foreign tax credits, which expire 10 years after being created.

We have concluded that the tax benefits associated with the foreign tax credits are "more likely than not" to be realized prior to expiration based on forecasted future U.S. taxable income, including domestic profitability, royalties received from foreign subsidiaries and repatriation of foreign earnings, and the potential impact of possible tax planning strategies. Assumptions embedded in our forecasted future U.S. taxable income include continued international growth, the stabilization of the U.S. business and the reduction of corporate expenses. To the extent U.S. taxable income is less favorable than currently projected, our ability to utilize these foreign tax credits may be negatively affected.

At December 31, 2012, we had \$3.1 billion of cumulative undistributed earnings of foreign subsidiaries. The repatriation of foreign earnings should result in the utilization of foreign tax credits in the year of repatriation; therefore, the utilization of foreign tax credits is dependent on the amount and timing of repatriations, as well as the jurisdictions involved.

Goodwill and Intangible Assets

The impairment analyses performed for goodwill and intangible assets require several estimates in computing the estimated fair value of a reporting unit, an indefinite-lived intangible asset, and a finite-lived intangible asset. We use a discounted cash flow ("DCF") approach to estimate the fair value of a reporting unit, which we believe is the most reliable indicator of fair value of a business, and is most consistent with the approach that we would generally expect a market participant would use. In estimating the fair value of our reporting units utilizing a DCF approach, we typically forecast revenue and the resulting cash flows for periods of five to ten years and include an estimated terminal value at the end of the forecasted period. When determining the appropriate forecast period for the DCF approach, we consider the amount of time required before the reporting unit achieves what we consider a normalized, sustainable level of cash flows. The estimation of fair value utilizing a DCF approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as

assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors.

Key assumptions used in measuring the fair value of China included projections of revenue and the resulting cash flows. To estimate the fair value of China, we forecasted revenue and the resulting cash flows over ten years using a DCF model which included a terminal value at the end of the projection period. We believed that a ten-year period was a reasonable amount of time in order to return China's cash flows to normalized, sustainable levels.

Key assumptions used in measuring the fair value of Silpada included the discount rate (based on the weighted-average cost of capital) and revenue growth, as well as silver prices and Representative growth and activity rates. To estimate the fair value of Silpada, we forecasted revenue and the resulting cash flows over ten years using a DCF model which included a terminal value

AVON PRODUCTS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(U.S. dollars in millions, except per share data)

at the end of the projection period. We believed that a ten-year period was a reasonable amount of time in order to return Silpada's cash flows to normalized, sustainable levels. The fair value of Silpada's indefinite-lived trademark was determined using a risk-adjusted DCF model under the relief-from-royalty method. The royalty rate used was based on a consideration of market rates. The fair value of the Silpada finite-lived customer relationships was determined using a DCF model under the multi-period excess earnings method. The impact of the impairments associated with Silpada are reflected within Discontinued Operations.

NEW ACCOUNTING STANDARDS

Information relating to new accounting standards is included in Note 1, Accounting Policies, to the consolidated financial statements included herein.

RESULTS OF OPERATIONS—THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

Non-GAAP Financial Measures

To supplement our financial results presented in accordance with generally accepted accounting principles in the United States ("GAAP"), we disclose operating results that have been adjusted to exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, including changes in: revenue, operating profit, Adjusted operating profit, operating margin, and Adjusted operating margin. We also refer to these adjusted financial measures as Constant \$ items, which are Non-GAAP financial measures. We believe these measures provide investors an additional perspective on trends. To exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, we calculate current-year results and prior-year results at a constant exchange rate. Currency impact is determined as the difference between actual growth rates and constant currency growth rates.

We also present gross margin, selling, general and administrative expenses as a percentage of revenue, net global expenses, operating profit, operating margin and effective tax rate on a Non-GAAP basis. The discussion of our segments presents operating profit and operating margin on a Non-GAAP basis. We refer to these Non-GAAP financial measures as "Adjusted." We have provided a quantitative reconciliation of the difference between the Non-GAAP financial measures and the financial measures calculated and reported in accordance with GAAP. The Company uses the Non-GAAP financial measures to evaluate its operating performance and believes that it is meaningful for investors to be made aware of, on a period-to-period basis, the impacts of 1) costs to implement ("CTI") restructuring initiatives, 2) costs and charges related to Venezuela being designated as a highly inflationary economy and the subsequent devaluation of its currency in February 2013 ("Venezuelan special items"), 3) the \$12 accrual for the offer of settlement relating to the FCPA investigations ("FCPA accrual"), 4) the goodwill and intangible asset impairment charges and a valuation allowance for deferred tax assets related to China ("China impairment and other charges"), and 5) costs and charges related to the extinguishment of debt ("Loss on extinguishment of debt"). The Company believes investors find the Non-GAAP information helpful in understanding the ongoing performance of operations separate from items that may have a disproportionate positive or negative impact on the Company's financial results in any particular period.

The Venezuelan special items include the impact on the Consolidated Statements of Income caused by the devaluation of Venezuelan currency on monetary assets and liabilities, such as cash, receivables and payables; deferred tax assets and liabilities; and non-monetary assets, such as inventory and prepaid expenses. For non-monetary assets, the Venezuelan special items include the earnings impact caused by the difference between the historical cost of the assets at the previous official exchange rate of 4.30 and the revised official exchange rate of 6.30. The China impairment and other charges include the impact on the Consolidated Statements of Income caused by the goodwill and intangible

asset impairment charges and a valuation allowance for deferred tax assets related to China in the third quarter of 2013, and the goodwill impairment charge related to China in the third quarter of 2012. The Loss on extinguishment of debt includes the impact on the Consolidated Statements of Income in the first quarter of 2013 caused by the make-whole premium and the write-off of debt issuance costs associated with the prepayment of our Private Notes (as defined below), as well as the write-off of debt issuance costs associated with the early repayment of \$380 of the outstanding principal amount of the term loan agreement (as defined below). The Loss on extinguishment of debt also includes the impact on the Consolidated Statements of Income in the second quarter of 2013 caused by the make-whole premium and the write-off of debt issuance costs and discounts, partially offset by a deferred gain associated with the January 2013 interest-rate swap agreement termination, associated with the prepayment of the 2014 Notes (as defined below).

AVON PRODUCTS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(U.S. dollars in millions, except per share data)

See Note 6, Contingencies, Note 10, Restructuring Initiatives, Note 11, Goodwill and Intangible Assets and Note 14, Debt, to the consolidated financial statements included herein, "Segment Review - Latin America" below, and "Liquidity and Capital Resources" below for more information on these items.

These Non-GAAP measures should not be considered in isolation, or as a substitute for, or superior to, financial measures calculated in accordance with GAAP.

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AVON PRODUCTS, INC.  
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

(U.S. dollars in millions, except per share data)

Consolidated

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	%/Point Change	2013	2012	%/Point Change
Total revenue	\$2,322.9	\$2,510.6	(7 )%	\$7,287.8	\$7,609.2	(4 )%
Cost of sales	871.7	971.2	(10 )%	2,732.5	2,915.6	(6 )%
Selling, general and administrative expenses	1,340.9	1,384.8	(3 )%	4,068.8	4,337.4	(6 )%
Impairment of goodwill and intangible asset	42.1	44.0	(4 )%	42.1	44.0	(4 )%
Operating profit	68.2	110.6	(38 )%	444.4	312.2	42 %
Interest expense	30.3	27.3	11 %	90.8	76.8	18 %
Loss on extinguishment of debt	—	—	*	86.0	—	*
Interest income	(3.4 )	(3.8 )	(11 )%	(8.2 )	(10.5 )	(22 )%
Other expense, net	9.7	4.8	102 %	69.6	28.6	143 %
(Loss) income from continuing operations, net of tax	(6.4 )	36.2	(118 )%	66.7	129.5	(48 )%
Net income attributable to Avon	(5.5 )	31.6	(117 )%	12.7	119.7	(89 )%
Diluted (loss) earnings per share from continuing operations	(.01 )	.08	*	.15	.29	(48 )%
Diluted (loss) earnings per share attributable to Avon	(.01 )	.07	*	.03	.27	(89 )%
Advertising expenses <sup>(1)</sup>	\$53.9	\$57.2	(6 )%	141.6	189.3	(25 )%
Gross margin	62.5 %	61.3 %	1.2 %	62.5 %	61.7 %	.8 %
CTI restructuring	—	—	—	—	—	—
Venezuelan special items	.6	—	.6	.5	—	.5
Adjusted gross margin	63.1 %	61.3 %	1.8 %	63.0 %	61.7 %	1.3 %
Selling, general and administrative expenses as a % of total revenue	57.7 %	55.2 %	2.5 %	55.8 %	57.0 %	(1.2 ) %
CTI restructuring	—	(.1 )	.1	(.4 )	(.8 )	.4
Venezuelan special items	—	—	—	(.1 )	—	(.1 )
FCPA accrual	—	—	—	(.2 )	—	(.2 )
Adjusted selling, general and administrative expenses as a % of total revenue	57.7 %	55.1 %	2.6 %	55.2 %	56.2 %	(1.0 ) %
Operating profit	\$68.2	\$110.6	(38 )%	\$444.4	\$312.2	42 %
CTI restructuring	(.2 )	1.6		28.5	67.1	
Venezuelan special items	14.9	—		44.7	—	
FCPA accrual	—	—		12.0	—	

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China impairment and other charges	42.1	44.0		42.1	44.0		
Adjusted operating profit	\$125.0	\$156.2	(20 )%	\$571.7	\$423.3	35	%
Operating margin	2.9	% 4.4	% (1.5 )	6.1	% 4.1	% 2.0	
CTI restructuring	—	.1	(.1 )	.4	.9	(.5 )	
Venezuelan special items	.6	—	.6	.6	—	.6	
FCPA accrual	—	—	—	.2	—	.2	
China impairment and other charges	1.8	1.8	—	.6	.6	—	
Adjusted operating margin	5.4	% 6.2	% (.8 )	7.8	% 5.6	% 2.2	
Effective tax rate	120.1	% 56.0	% 64.1	67.6	% 40.4	% 27.2	

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AVON PRODUCTS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(U.S. dollars in millions, except per share data)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	%/Point Change	2013	2012	%/Point Change
CTI restructuring	(.9	) .1	(1.0	) (.3	) (.1	) (.2
Venezuelan special items						