AVON PRODUCTS INC
Form 10-Q
November 02, 2018

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
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	13-0544597
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

Building 6, Chiswick Park, London W4 5HR
United Kingdom
(Address of principal executive offices)
+44-1604-232425
(Registrant's 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares of Common Stock (par value $0.25) outstanding at September 30, 2018 was 442,360,153.

TABLE OF CONTENTS

		Page Numbers
Part I. Financial Information		
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Operations Three and Nine Months Ended September 30, 2018 and September 30, 2017	3 - 4
	Consolidated Statements of Comprehensive Income (Loss) Three and Nine Months Ended September 30, 2018 and September 30, 2017	5 - 6
	Consolidated Balance Sheets September 30, 2018 and December 31, 2017	7
	Consolidated Statements of Cash Flows Nine Months Ended September 30, 2018 and September 30, 2017	8
	Notes to Consolidated Financial Statements	10 - 32
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34 - 52
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	52
Item 4.	Controls and Procedures	52
Part II. Other Information		
Item 1.	Legal Proceedings	53
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 6.	Exhibits	54
	Signature	55

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(In millions, except per share data)	Three Months Ended September 30, 2018	September 30, 2017
Net sales	$1,346.3	$ 1,378.2
Other revenue	77.9	39.6
Total revenue	1,424.2	1,417.8
Costs, expenses and other:		
Cost of sales	538.4	550.0
Selling, general and administrative expenses	698.9	780.5
Operating profit	186.9	87.3
Interest expense	31.3	34.8
Interest income	(4.3)	(3.4)
Other (income) expense, net	(22.2)	7.9
Total other expenses	4.8	39.3
Income before income taxes	182.1	48.0
Income taxes	(68.3)	(36.1)
Net income	113.8	11.9
Net loss attributable to noncontrolling interests	0.7	0.6
Net income attributable to Avon	$114.5	$ 12.5
Earnings per share:		
Basic attributable to Avon	$0.21	$ 0.01
Diluted attributable to Avon	0.21	0.01

The accompanying notes are an integral part of these statements.

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

(In millions, except per share data)	Nine Months Ended September 30, 2018	September 30, 2017
Net sales	$3,924.7	$4,029.8
Other revenue	244.9	117.0
Total revenue	4,169.6	4,146.8
Costs, expenses and other:		
Cost of sales	1,657.8	1,592.1
Selling, general and administrative expenses	2,227.0	2,404.9
Operating profit	284.8	149.8
Interest expense	102.0	106.0
Loss on extinguishment of debt	2.9	—
Interest income	(12.0)	(11.2)
Other (income) expense, net	(0.3)	25.9
Total other expenses	92.6	120.7
Income before income taxes	192.2	29.1
Income taxes	(136.5)	(99.5)
Net income (loss)	55.7	(70.4)
Net loss attributable to noncontrolling interests	2.4	0.9
Net income (loss) attributable to Avon	58.1	$(69.5)
Earnings (loss) per share:		
Basic attributable to Avon	0.09	(0.20)
Diluted attributable to Avon	0.09	(0.20)

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, 2018	Three Months Ended September 30, 2017
Net income	$113.8	$ 11.9
Other comprehensive income:		
Foreign currency translation adjustments	(3.8)	13.6
Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of $0.1 and $0.0	2.1	6.5
Total other comprehensive (loss) income, net of income taxes	(1.7)	20.1
Comprehensive income	112.1	32.0
Less: comprehensive loss attributable to noncontrolling interests	(0.9)	(0.6)
Comprehensive income attributable to Avon	$113.0	$ 32.6

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, 2018	September 30, 2017
Net income (loss)	$55.7	$ (70.4)
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(97.8)	85.1
Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of $0.4 and $0.0	7.8	12.7
Other comprehensive income related to New Avon investment, net of taxes of $0.0	—	1.2
Total other comprehensive (loss) income, net of income taxes	(90.0)	99.0
Comprehensive (loss) income	(34.3)	28.6
Less: comprehensive loss attributable to noncontrolling interests	(2.8)	(0.7)
Comprehensive (loss) income attributable to Avon	$(31.5)	$ 29.3

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2017 (Audited) and September 30, 2018 (Unaudited)

(In millions)	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 452.6	$ 881.5
Accounts receivable, net	374.3	457.2
Inventories	682.2	598.2
Prepaid expenses and other	264.2	296.4
Total current assets	1,773.3	2,233.3
Property, plant and equipment, at cost	1,395.3	1,481.9
Less accumulated depreciation	(771.3)	(779.2)
Property, plant and equipment, net	624.0	702.7
Goodwill	92.8	95.7
Other assets	584.5	666.2
Total assets	$ 3,074.6	$ 3,697.9
Liabilities, Series C Convertible Preferred Stock and Shareholders' Deficit		
Current Liabilities		
Debt maturing within one year	$ 16.3	$ 25.7
Accounts payable	764.8	832.2
Accrued compensation	105.2	130.3
Other accrued liabilities	391.5	405.6
Sales taxes and taxes other than income	114.9	153.0
Income taxes	25.5	12.8
Total current liabilities	1,418.2	1,559.6
Long-term debt	1,630.8	1,872.2
Employee benefit plans	132.3	150.6
Long-term income taxes	132.7	84.9
Long-term sales taxes and taxes other than income	—	193.1
Other liabilities	77.6	84.4
Total liabilities	3,391.6	3,944.8
Commitments and contingencies (Note 7)		
Series C convertible preferred stock	485.9	467.8
Shareholders' Deficit		
Common stock	190.3	189.7
Additional paid-in capital	2,299.1	2,291.2
Retained earnings	2,318.4	2,320.3
Accumulated other comprehensive loss	(1,015.9)	(926.2)
Treasury stock, at cost	(4,602.3)	(4,600.0)
Total Avon shareholders' deficit	(810.4)	(725.0)
Noncontrolling interests	7.5	10.3
Total shareholders' deficit	(802.9)	(714.7)
Total liabilities, series C convertible preferred stock and shareholders' deficit	$ 3,074.6	$ 3,697.9

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, 2018	Nine Months Ended September 30, 2017
Cash Flows from Operating Activities		
Net income (loss)	$55.7	$ (70.4)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:		
Depreciation	61.1	63.4
Amortization	20.3	22.2
Provision for doubtful accounts	126.9	168.5
Provision for obsolescence	22.5	27.7
Share-based compensation	9.5	22.0
Foreign exchange losses	12.5	12.0
Deferred income taxes	(28.5)	15.4
Revaluation of Argentinian monetary assets and liabilities	(8.5)	—
Brazil IPI tax release	(194.7)	—
Other [1]	14.2	37.0
Changes in assets and liabilities:		
Accounts receivable	(93.4)	(170.1)
Inventories	(131.8)	(71.6)
Prepaid expenses and other	(38.2)	18.0
Accounts payable and accrued liabilities	(30.7)	(51.1)
Income and other taxes	74.1	(15.3)
Noncurrent assets and liabilities	60.7	27.3
Net cash (used) provided by operating activities of continuing operations	(68.3)	35.0
Cash Flows from Investing Activities		
Capital expenditures	(71.0)	(66.7)
Disposal of assets	2.3	3.3
Dividend received from New Avon	—	22.0
Other investing activities	(3.3)	(0.1)
Net cash used by investing activities of continuing operations	(72.0)	(41.5)
Cash Flows from Financing Activities		
Debt, net (maturities of three months or less)	(6.8)	(0.7)
Repayment of debt	(238.9)	(2.3)
Repurchase of common stock	(3.1)	(6.6)
Other financing activities [1]	(6.3)	(0.2)
Net cash used by financing activities of continuing operations	(255.1)	(9.8)
Cash Flows from Discontinued Operations		
Net cash used by operating activities of discontinued operations	—	(7.5)
Net cash used by discontinued operations	—	(7.5)
Effect of exchange rate changes on cash and cash equivalents	(33.5)	33.2
Net (decrease) increase in cash and cash equivalents	(428.9)	9.4
Cash and cash equivalents at beginning of year	881.5	654.4
Cash and cash equivalents at end of period	$452.6	$ 663.8

(1) In our second quarter 2018 Form 10-Q, our Consolidated Statements of Cash Flows presented the payment of a make-whole premium of $6.2, relating to the prepayment of our 6.50% Notes, within cash flows from operating activities; however, this amount should have been presented within cash flows from financing activities. This has been reclassified to cash flows from financing activities for the nine months ended September 30, 2018.

The accompanying notes are an integral part of these statements.

Table of Contents

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 2017 Annual Report on Form 10-K ("2017 Form 10-K") in preparing these unaudited interim Consolidated Financial Statements, other than those impacted by new accounting standards as described below. 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 2017 Form 10-K. When used in this report, the terms "Avon," "Company," "we" or "us" mean Avon Products, Inc.

For interim Consolidated Financial Statements purposes, we generally provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense, and adjust these accruals as estimates are refined. In addition, our income tax provision is determined using an estimate of our consolidated annual effective tax rate, adjusted in the current period for discrete income tax items including:

- the effects of significant, unusual or extraordinary pretax and income tax items, if any;
- withholding taxes recognized associated with cash repatriations; and
- the impact of loss-making subsidiaries for which we cannot recognize an income tax benefit and subsidiaries for which an effective tax rate cannot be reliably estimated.

Argentina Currency

During the quarter ended June 30, 2018, based on published official exchange rates which indicate that Argentina's three-year cumulative inflation rate has exceeded 100%, we concluded that Argentina had become a highly inflationary economy. From July 1, 2018, we have applied highly inflationary accounting for our Argentinian subsidiary. As such, the functional currency for Argentina has changed to the U.S. dollar, which is the consolidated group's reporting currency. When an entity operates in a highly inflationary economy, exchange gains and losses associated with monetary assets and liabilities resulting from changes in the exchange rate are recorded in income. Nonmonetary assets and liabilities, which include inventories, property, plant and equipment and contract liabilities, are carried forward at their historical dollar cost, which was calculated using the exchange rate at June 30, 2018.

As a result of the devaluation of the Argentinian peso of approximately 30% from June 30, 2018 to September 30, 2018, operating profit was negatively impacted approximately $4, largely in cost of sales in our Consolidated Income Statements, primarily due to inventory being accounted for at its historical dollar cost. During the three months ended September 30, 2018, we also recorded a benefit during the period of approximately $9 in other expense, net primarily associated with the net monetary liability position of Argentina, and an approximate $2 negative impact on income taxes, both in our Consolidated Income Statements.

Revenue

Nature of goods and services

We are a global manufacturer and marketer of beauty and related products. Our product categories are Beauty and Fashion & Home. Beauty consists of skincare, fragrance and color (cosmetics). Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, gift and decorative products, housewares, entertainment and leisure products, children’s products and nutritional products.

Our business is conducted primarily in one channel - direct selling. Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa South Latin America North Latin America and Asia Pacific. We primarily sell our products to the ultimate consumer through the direct selling channel principally through Representatives, who are independent contractors and not our employees.

10

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

Revenue recognition

Revenue is recognized when control of a product or service is transferred to a customer, which is generally the Representative. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, such as Value Added Taxes (“VAT”) collected for taxing authorities.

Principal revenue streams and significant judgments

Our principal revenue streams can be distinguished into: i) the sale of Beauty and Fashion & Home products to Representatives (recorded in net sales); ii) Representative fees, primarily for the sale of brochures to Representatives and fulfillment activities related to the contract, which include fees for shipping and handling (recorded in other revenue); and iii) other, which includes the sale of products to New Avon and royalties from the licensing of our name and products (recorded in other revenue).

i) Sale of Beauty and Fashion & Home products to Representatives

We generate the majority of our revenue through the sale of Beauty and Fashion & Home products. A Representative contacts her customers directly, selling primarily through our brochure (whether paper or online), which highlights new products and special promotions (or incentives) for each sales campaign. In this sense, the Representative, together with the brochure, are the "store" through which our products are sold. A brochure introducing a new sales campaign is typically generated every three to four weeks. A purchase order is processed and the products are picked at a distribution center and delivered to the Representative usually through a combination of local and national delivery companies. Generally, the Representative then delivers the merchandise and collects payment from the customer for her or his own account. A Representative generally receives a refund of the price the Representative paid for a product if the Representative chooses to return it.

A Representative Agreement, which outlines the basic terms of the agreement between Avon and the Representative, combined with a purchase order, constitutes a contract for the purposes of Accounting Standards Codification Topic (“ASC”), Revenue from Contracts with Customers ("ASC 606").

Revenue from Contracts with Customers

We account for individual products and services separately in the contract if they are distinct (i.e., if a product or service is separately identifiable from the other items in the contract and if a Representative can benefit from the product or service on its own or with other resources that are readily available), which is recognized at a point in time, when control of a product is transferred to a Representative. In addition, we offer incentives to Representatives to support sales growth. Certain of these sales incentives are distinct promises to a Representative, and therefore are a separate performance obligation. As a result, revenue is allocated to the performance obligation for sales incentives and is deferred on the balance sheet until the associated performance obligations are satisfied.

Typically included within a contract is variable consideration, such as sales returns and late payment fees. Revenue is only recorded to the extent it is probable that it will not be reversed, and therefore revenue is adjusted for variable consideration. Variable consideration is generally estimated using the expected value method, which considers possible outcomes weighted by their probability. Specifically for sales returns, a refund liability will be recorded for the estimated cash to be refunded for the products expected to be returned, and a returns asset will be recorded for the products which we expect to be returned and re-sold, each of these based on historical experience. Sales returns are estimated and updated at the end of each month. The measurement of the returns asset and the refund liability is updated at the end of each month for changes in expectations regarding the amount of salvageable returns, reconditioning costs and any additional decreases in the value of the returned products. Late payment fees are recorded when the uncertainty associated with collecting such fees are resolved (i.e., when collected).

The Representative generally receives a credit period of one sales campaign if they meet certain criteria; however, the specific credit terms are outlined in the Representative Agreement. Generally, the Representative remits payment during each sales campaign, which relates to the prior campaign cycle. The Representative is generally precluded from submitting an order for the current sales campaign until the accounts receivable balance past due for prior campaigns

is paid; however, there are circumstances where the Representative fails to make the required payment.
Our contracts with Representatives often include multiple promises to transfer products and/or services to the Representative, and determining which of these products and/or services are considered distinct performance obligations that should be accounted for separately may require significant judgment. In addition, in assessing the recognition of revenue for the following performance obligations, management has exercised significant judgment in the following areas: estimation of variable consideration and the stand-alone selling prices ("SSP") of promised goods or services in order to determine and allocate the transaction price.

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

Performance obligation - Avon products and appointment kits

The Representative purchases Avon products and appointment kits through a purchase order. Avon offers appointment kits for purchase to Representatives, which may contain various Avon products. We recognize revenue for Avon products and appointment kits in net sales in our Consolidated Statements of Operations when the Representative obtains control of the products, which occurs upon delivery of the product to the Representative. Transaction price is the amount we expect to receive in exchange for those products adjusted for variable consideration as discussed above and the estimated SSP of other performance obligations as discussed below. The cost of these products and appointment kits is recognized in cost of sales in our Consolidated Statements of Operations.

Performance obligation - Sales incentives

Types of sales incentives include status programs, loyalty points, prospective discounts, and gift with purchase, among others. A Representative is eligible for certain status programs if specified sales levels are met. Status programs offer additional benefits such as free or discounted products and services. Loyalty points offer the option to redeem for additional Avon or other products or services. Prospective discounts are offered in some countries when certain sales levels are reached in a given time period. The revenue attributable to the prospective discount performance obligation is for the option to purchase additional product at a discounted amount.

Certain benefits within status programs, loyalty points, prospective discounts and certain other sales incentives constitute a material right and, therefore, a distinct performance obligation in the contract with the Representative. Transaction price is allocated to the material right (performance obligation) based on estimated SSP and is deferred on the balance sheet until the associated performance obligations are satisfied. The cost of incentives is presented in inventories in our Consolidated Balance Sheets. We recognize revenue allocated to the material right in net sales in our Consolidated Statements of Operations at the point in time that the Representative receives the benefits of the material right or obtains control of the products, which occurs upon delivery to the Representative or upon expiration of the material right. For sales incentives that are delivered with the associated products order (such as gift with purchase), no deferral is required.

SSP represents the estimated market value, or the estimated amount that could be charged for that material right when the entity sells it separately in similar circumstances to similar customers. Judgment is required to determine the SSP for each distinct performance obligation. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, including for certain sales incentives, we determine the SSP using information that may include market prices and other observable inputs.

ii) Representative fees, primarily for the sale of brochures to Representatives and fulfillment activities related to the contract ("Representative fees")

The purchase order in the contract with the Representative explicitly identifies activities that we will perform. This includes fees that we charge Representatives, primarily for the sale of brochures to Representatives and fulfillment activities, and also includes late payment fees (discussed above). Brochures represent promotional materials that are given directly by the Representatives to their customers as a marketing activity. Under ASC 606, brochures that are sold by Avon to Representatives through purchase orders represent separate performance obligations in the contract as these are promises made between Avon and the Representative. Although the brochures are used similar to marketing materials, the Representative generally orders and pays for the brochures, and we allocate consideration for purposes of revenue recognition. The revenue associated with brochures that are sold to Representatives is recognized in other revenue and the related cost is recognized in cost of sales in our Consolidated Statements of Operations. We recognize revenue when the Representative obtains control of the brochures, which occurs upon delivery to the Representative. When brochures are given away for free to Representatives as promotional items, the cost is recognized in selling, general and administrative expenses in our Consolidated Statements of Operations.

We often charge the Representative for shipping and handling (including order processing) and payment processing activities on the invoice, and such activities are considered to be fulfillment costs. The consideration received

represents part of the transaction price in the contract that is allocated to the performance obligations in the contract. We recognize revenue for fulfillment activities in other revenue in our Consolidated Statements of Operations when such services are provided to the Representative. The cost of these activities is recognized in selling, general and administrative expenses in our Consolidated Statements of Operations.

iii) Other revenue

We also recognize revenue from the sale of products to New Avon LLC ("New Avon"), as part of a manufacturing and supply agreement, since the separation of the Company's North America business into New Avon on March 1, 2016, and royalties from the licensing of our name and products, in other revenue in our Consolidated Statements of Operations.

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

Disaggregation of revenue

In the following table, revenue is disaggregated by product or service type. All revenue is recognized at a point in time, when control of a product is transferred to a customer:

	Three Months Ended September 30, 2018						
	Reportable segments						
	Europe, Middle East & Africa	South Latin America	North Latin America	Asia Pacific	Total reportable segments	Other operating segments and business activities	Total
Beauty:							
Skincare	$133.7	$ 137.8	$ 38.2	$29.3	$ 339.0	$ —	$339.0
Fragrance	139.5	113.8	54.9	23.7	331.9	—	331.9
Color	80.1	76.5	21.2	14.2	192.0	—	192.0
Total Beauty	353.3	328.1	114.3	67.2	862.9	—	862.9
Fashion & Home:							
Fashion	58.9	46.0	25.1	44.7	174.7	—	174.7
Home	8.7	68.6	56.0	6.8	140.1	.2	140.3
Total Fashion & Home	67.6	114.6	81.1	51.5	314.8	.2	315.0
Brazil IPI tax release *	—	168.4	—	—	168.4	—	168.4
Net sales	420.9	611.1	195.4	118.7	1,346.1	.2	1,346.3
Representative fees	21.8	33.7	11.6	1.8	68.9	.1	69.0
Other	.2	.6	—	—	.8	8.1	8.9
Other revenue	22.0	34.3	11.6	1.8	69.7	8.2	77.9
Total revenue	$442.9	$ 645.4	$ 207.0	$120.5	$ 1,415.8	$ 8.4	$1,424.2

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

	Nine Months Ended September 30, 2018						
	Reportable segments						
	Europe, Middle East & Africa	South Latin America	North Latin America	Asia Pacific	Total reportable segments	Other operating segments and business activities	Total
Beauty:							
Skincare	$457.4	$423.4	$ 128.8	$90.9	$ 1,100.5	$ 6.4	$1,106.9
Fragrance	446.5	363.9	160.9	62.4	1,033.7	2.9	1,036.6
Color	299.0	237.9	62.8	40.3	640.0	4.8	644.8
Total Beauty	1,202.9	1,025.2	352.5	193.6	2,774.2	14.1	2,788.3
Fashion & Home:							
Fashion	211.5	142.4	70.1	125.2	549.2	3.0	552.2
Home	25.6	213.1	153.9	21.2	413.8	2.0	415.8
Total Fashion & Home	237.1	355.5	224.0	146.4	963.0	5.0	968.0
Brazil IPI tax release *	—	168.4	—	—	168.4	—	168.4
Net sales	1,440.0	1,549.1	576.5	340.0	3,905.6	19.1	3,924.7
Representative fees	71.5	105.1	33.4	4.9	214.9	2.0	216.9
Other	.5	4.4	—	.1	5.0	23.0	28.0
Other revenue	72.0	109.5	33.4	5.0	219.9	25.0	244.9
Total revenue	$1,512.0	$1,658.6	$ 609.9	$345.0	$ 4,125.5	$ 44.1	$4,169.6

* Includes the impact of the Brazil IPI tax release, which was recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively, in our Consolidated Income Statements (See Note 7, Contingencies for further information).

Contract balances

The timing of revenue recognition generally is different from the timing of a promise made to a Representative. As a result, we have contract liabilities, which primarily relate to the advance consideration received from Representatives prior to transfer of the related good or service for material rights, such as loyalty points and status programs, and are primarily classified within other accrued liabilities (with the long-term portion in other liabilities) in our Consolidated Balance Sheets.

Generally, we record accounts receivable when we invoice a Representative. In addition, we record an estimate of an allowance for doubtful accounts on receivable balances based on an analysis of historical data and current circumstances, including seasonality and changing trends. The allowance for doubtful accounts is reviewed for adequacy, at a minimum, on a quarterly basis. We generally have no detailed information concerning, or any communication with, any ultimate consumer of our products beyond the Representative. We have no legal recourse against the ultimate consumer for the collection of any accounts receivable balances due from the Representative to us. If the financial condition of the Representatives were to deteriorate, resulting in their inability to make payments, additional allowances may be required.

The following table provides information about receivables and contract liabilities from contracts with customers at September 30, 2018:

	September 30, 2018
Accounts receivable, net of allowances of $104.7	$ 374.3

Contract liabilities	$ 73.6

At January 1, 2018 and September 30, 2018 we had a contract liability of $91.8 and $73.6, respectively, relating to certain material rights (loyalty points, status program and prospective discounts). During the nine months ended September 30, 2018, we recognized $86.1 of revenue related to the contract liability balance at January 1, 2018, as the result of performance obligations satisfied. In addition, we deferred an additional $68.5 related to certain material rights granted during the period, for which the performance obligations are not yet satisfied. Of the amount deferred during the period, substantially all will be recognized within a year, with the significant majority to be captured within a quarter. The remaining movement in the contract

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

liability balance is attributable to foreign exchange differences arising on the translation of the balance as at September 30, 2018 as compared with December 31, 2017.

Contract costs

Incremental costs to obtain contracts, such as bonuses or commissions, are recognized as an asset if the entity expects to recover them. However, ASC 340-40, Other Assets and Deferred Costs, offers a practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. We elected the practical expedient and expense costs to obtain contracts when incurred because our amortization period is one year or less.

Costs to fulfill contracts with Representatives are comprised of shipping and handling (including order processing) and payment processing services, which are expensed as incurred. The fees for these services are included in the transaction price.

Changes in accounting policies

Except for the changes below, we have consistently applied the accounting policies to all periods presented in these consolidated financial statements.

We adopted ASC 606 with a date of the initial application of January 1, 2018, as a cumulative-effect adjustment to retained earnings. Therefore, the comparative information for prior periods has not been adjusted and continues to be reported under ASC 605, Revenue Recognition. We applied ASC 606 to all outstanding contracts at January 1, 2018.

We recorded a cumulative-effect adjustment upon adoption of the new revenue recognition standard as of January 1, 2018 comprised of the following:

- a reduction to retained earnings of $52.7 before taxes ($41.1 after tax), with a corresponding impact to deferred income taxes of $11.6;
- a reduction to prepaid expenses and other of $54.9;
- an increase to inventories of $39.3; and
- an increase to other accrued liabilities of $37.1 due to the net impact of the establishment of a contract liability of $91.8 for deferred revenue where our performance obligations are not yet satisfied, which is partially offset by a reduction in the sales incentive accrual of $54.7.

This cumulative-effect adjustment impacting our Consolidated Balance Sheets is primarily driven by sales incentives and brochures. The other changes resulting from the new revenue recognition standard were not material.

The details of the significant changes to our accounting policy for revenue recognition and the quantitative impact of the changes on our Consolidated Financial Statements are set out below.

Performance obligations - Avon products and appointment kits

We recognize revenue for Avon products and appointment kits in net sales in our Consolidated Statements of Operations when the Representative obtains control of the products, which occurs upon delivery of the product to the Representative. Transaction price is the amount we expect to receive in exchange for those products adjusted for variable consideration, such as sales returns and past due fees, and the estimated SSP of other performance obligations, such as sales incentives. Revenue allocated to the material right (performance obligation) for sales incentives is deferred on the balance sheet until the associated performance obligations are satisfied. The cost of these products and appointment kits is recognized in cost of sales in our Consolidated Statements of Operations.

Under our historical accounting, we recognized revenue for Avon products in net sales in our Consolidated Statements of Operations upon delivery of the product to the Representative. We recognized revenue for appointment kits sold to Representatives as a reduction of selling, general and administrative expenses in our Consolidated Statements of Operations, and the associated cost was recognized in selling, general and administrative expenses in our Consolidated Statements of Operations. Revenue was adjusted for expected sales returns.

Performance obligations/ material rights - sales incentives

Certain benefits within status programs, loyalty points, prospective discounts and certain other sales incentives constitute a material right and, therefore, a distinct performance obligation in the contract with the Representative. Transaction price is allocated to the material right based on estimated SSP and is deferred on the balance sheet until the associated performance obligations are satisfied. The cost of sales incentives is presented in inventories in our Consolidated Balance Sheets. We

recognize revenue allocated to the material right in net sales and the associated cost of sales incentives is recognized in cost of sales in our Consolidated Statements of Operations, at the point in time that the Representative receives the benefits of the material right or obtains control of the products, which occurs upon delivery to the Representative or upon expiration of the material right. For sales incentives that are delivered with the associated products order (such as gift with purchase), no deferral is required.

Under our historical accounting, the cost of sales incentives was generally presented in other accrued liabilities and prepaid expenses and other in our Consolidated Balance Sheets and recognized in selling, general and administrative expenses in our Consolidated Statements of Operations over the period that the sales incentive was earned.

Representative fees, primarily for the sale of brochures to Representatives and fulfillment activities related to the contract

This includes fees that we charge Representatives, primarily for the sale of brochures to Representatives and fulfillment activities, and also includes late payment fees.

Brochures - Brochures represent promotional materials that are given directly by the Representatives to their customers as a marketing activity. Under ASC 606, brochures that are sold by Avon to Representatives through purchase orders represent separate performance obligations in the contract as these are promises made between Avon and the Representative. Although the brochures are used similar to marketing materials, the Representative generally orders and pays for the brochures, and Avon allocates consideration for purposes of revenue recognition. The revenue associated with brochures that are sold to Representatives is recognized in other revenue and the related cost is recognized in cost of sales in our Consolidated Statements of Operations. We recognize revenue when the Representative obtains control of the brochures, which occurs upon delivery to the Representative. When brochures are given away for free to Representatives as promotional items, the cost is recognized in selling, general and administrative expenses in our Consolidated Statements of Operations.

Under our historical accounting, all brochure costs were initially deferred to prepaid expenses and other in our Consolidated Balance Sheets and were charged to selling, general and administrative expenses in our Consolidated Statements of Operations over the campaign length. In addition, fees charged to Representatives for brochures were initially deferred and presented as a reduction of prepaid expenses and other in our Consolidated Balance Sheets, and were recorded as a reduction of selling, general and administrative expenses in our Consolidated Statements of Operations over the campaign length.

Fulfillment activities and late payment fees - We often charge the Representative for shipping and handling (including order processing) and payment processing activities on the invoice, and such activities are considered to be fulfillment costs. The consideration received represents part of the transaction price in the contract that is allocated to the performance obligations in the contract. We recognize revenue for fulfillment activities in other revenue in our Consolidated Statements of Operations when such services are provided to the Representative. The cost of these activities is recognized in selling, general and administrative expenses in our Consolidated Statements of Operations. Late payment fees are recorded in other revenue in our Consolidated Statements of Operations when collected.

Under our historical accounting, revenue for shipping and handling (including order processing) activities was recorded in other revenue in our Consolidated Statements of Operations. However, the revenue for payment processing activities and late payment fees were recognized as a reduction of selling, general and administrative expenses in our Consolidated Statements of Operations. The cost of these activities was recognized in selling, general and administrative expenses in our Consolidated Statements of Operations.

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

Impacts on consolidated financial statements
The following tables summarize the impacts of adopting ASC 606 on the Company's consolidated financial statements for the three months ended September 30, 2018:

Line items impacted within the Consolidated Statements of Operations	Impact of change in revenue recognition standard			
	Per consolidated financial statements	Adjustments		Balances excluding the impact of adopting ASC 606
Revenue				
Net sales	$1,346.3	$ 2.8	(1)	$1,349.1
Other revenue	77.9	(48.3)	(2)	29.6
Total revenue	1,424.2	(45.5)		1,378.7
Costs and expenses				
Cost of sales	538.4	(69.9)	(3)	468.5
Selling, general and administrative expenses	698.9	16.3	(4)	715.2
Operating profit	186.9	8.1		195.0
Income before income taxes	182.1	8.1		190.2
Income taxes	(68.3)	(.7)		(69.0)
Net income	113.8	7.4		121.2
Net income attributable to Avon	114.5	7.4		121.9

(1) Primarily relates to net impact of the timing of recognition of sales incentives, partially offset by appointment kits, which were reclassified from SG&A.
(2) Relates to Representative fees (primarily brochure fees, late payment fees and certain other fees), which were reclassified from SG&A. Brochure fees were also impacted by the timing of recognition.
(3) Primarily relates to the cost of sales incentives, the cost of brochures paid for by Representatives and the cost of appointment kits, which were reclassified from SG&A. The cost of sales incentives and the cost of brochures were also impacted by the timing of recognition.
(4) Relates to the cost of sales incentives, which were reclassified to cost of sales and were also impacted by the timing of recognition. This was partially offset by Representative fees, which were reclassified to other revenue, and appointment kits, which were reclassified to net sales and cost of sales.

Line items impacted within the Consolidated Statements of Other Comprehensive Income	Impact of change in revenue recognition standard		
	Per consolidated financial statements	Adjustments	Balances excluding the impact of adopting ASC 606
Net income	113.8	$ 7.4	$ 121.2
Foreign currency translation adjustments	(3.8)	(1.6)	(5.4)
Total other comprehensive loss, net of income taxes	(1.7)	(1.6)	(3.3)

Comprehensive income	112.1	5.8	117.9
Comprehensive income attributable to Avon	113.0	5.8	118.8

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

The following tables summarize the impacts of adopting ASC 606 on the Company's consolidated financial statements for the nine months ended September 30, 2018:

Line items impacted within the Consolidated Statements of Operations	Impact of change in revenue recognition standard			
	Per consolidated financial statements	Adjustments		Balances excluding the impact of adopting ASC 606
Revenue				
Net sales	$3,924.7	$ (30.3)	(1)	$3,894.4
Other revenue	244.9	(153.6)	(2)	91.3
Total revenue	4,169.6	(183.9)		3,985.7
Costs and expenses				
Cost of sales	1,657.8	(208.5)	(3)	1,449.3
Selling, general and administrative expenses	2,227.0	37.6	(4)	2,264.6
Operating profit	284.8	(13.0)		271.8
Income before income taxes	192.2	(13.0)		179.2
Income taxes	(136.5)	3.0		(133.5)
Net income	55.7	(10.0)		45.7
Net income attributable to Avon	58.1	(10.0)		48.1

(1) Primarily relates to appointment kits, which were reclassified from SG&A, partially offset by the timing of recognition of sales incentives.
(2) Relates to Representative fees (primarily brochure fees, late payment fees and certain other fees), which were reclassified from SG&A. Brochure fees were also impacted by the timing of recognition.
(3) Primarily relates to the cost of sales incentives, the cost of brochures paid for by Representatives and the cost of appointment kits, which were reclassified from SG&A. The cost of sales incentives and the cost of brochures were also impacted by the timing of recognition.
(4) Relates to the cost of sales incentives, which were reclassified to cost of sales and were also impacted by the timing of recognition. This was partially offset by Representative fees, which were reclassified to other revenue, and appointment kits, which were reclassified to net sales and cost of sales.

Line items impacted within the Consolidated Statements of Other Comprehensive Income	Impact of change in revenue recognition standard		
	Per consolidated financial statements	Adjustments	Balances excluding the impact of adopting ASC 606
Net income	$55.7	$ (10.0)	$ 45.7
Foreign currency translation adjustments	(97.8)	(2.9)	(100.7)
Total other comprehensive loss, net of income taxes	(90.0)	(2.9)	(92.9)
Comprehensive loss	(34.3)	(12.9)	(47.2)

Comprehensive loss attributable to Avon	(31.5)	(12.9)	(44.4)

18

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

Line items impacted within the Consolidated Balance Sheets	Impact of change in revenue recognition standard			
	Per consolidated financial statements	Adjustments		Balances excluding the impact of adopting ASC 606
Assets				
Accounts receivable, net	$374.3	$ (10.9)	(1)	$ 363.4
Inventories	682.2	(40.1)	(2)	642.1
Prepaid expenses and other	264.2	46.4	(2)	310.6
Other assets	584.5	(10.2)	(3)	574.3
Total assets	3,074.6	(14.8)		3,059.8
Liabilities, Series C Convertible Preferred Stock and Shareholders' Deficit				
Other accrued liabilities	391.5	(38.7)	(4)	352.8
Income taxes	25.5	(3.0)		22.5
Total current liabilities	1,418.2	(41.7)		1,376.5
Other liabilities	77.6	(1.3)		76.3
Total liabilities	3,391.6	(43.0)		3,348.6
Retained earnings	2,318.4	31.1	(5)	2,349.5
Accumulated other comprehensive loss	(1,015.9)	(2.9)		(1,018.8)
Total Avon shareholders' deficit	(810.4)	28.2		(782.2)
Total shareholders' deficit	(802.9)	28.2		(774.7)
Total liabilities, series C convertible preferred stock and shareholders' deficit	3,074.6	(14.8)		3,059.8

(1) Relates to sales returns, which were reclassified from a reduction of accounts receivable to a refund liability (within other accrued liabilities) and a returns asset (within prepaid expenses and other).
(2) Primarily relates to sales incentives and brochures, both of which were reclassified from prepaid expenses and other to inventories, and were also impacted by the timing of recognition. In addition, prepaid expenses and other was impacted by the timing of recognition of brochures, as well as the reclassification of sales returns (described above).
(3) Relates to deferred tax assets associated with the cumulative-effect adjustment.
(4) Primarily relates to the contract liability for sales incentives, which is partially offset by the lower accrual for sales incentives. In addition, other accrued liabilities was impacted by the reclassification of sales returns (described above).
(5) Relates to the $41.1 cumulative-effect adjustment upon adoption of ASC 606, partially offset by the year-to-date $10.0 net loss adjustment.

Line items impacted within the Consolidated Statements of Cash Flows	Impact of change in revenue recognition standard		
	Per consolidated financial statements	Adjustments	Balances excluding the impact of adopting ASC 606
Net income	$55.7	$ (10.0)	$ 45.7

Other	14.2	(2.9)	11.3
Changes in assets and liabilities:			
Accounts receivable	(93.4)	2.3	(91.1)
Inventories	(131.8)	0.8	(131.0)
Prepaid expenses and other	(38.2)	5.3	(32.9)
Accounts payable and accrued liabilities	(30.7)	9.8	(20.9)
Income and other taxes	74.1	(3.0)	71.1
Noncurrent assets and liabilities	60.7	(2.3)	58.4

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

Other Accounting Standards Implemented

ASU 2017-07, Compensation - Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits. This new guidance requires entities to (1) disaggregate the service cost component from the other components of net periodic benefit costs and present it with other current employee compensation costs in the Consolidated Statements of Operations and (2) present the other components of net periodic benefit costs below operating profit in other expense, net. We adopted this new accounting guidance effective January 1, 2018. The new accounting guidance was applied retrospectively and increased our operating profit for the three and nine months ended September 30, 2017 by $4.3 and $6.5 respectively, but had no impact on net loss.

ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities to align the hedge accounting model more closely with risk management practices, and to simplify its application. Among other things, the new guidance eliminates the requirement to separately measure and report hedge ineffectiveness. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The new guidance must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. We early adopted ASU 2017-12 effective July 1, 2018 and initiated a new hedging program during the third quarter 2018 to hedge foreign exchange risk relating to forecasted transactions. The adoption did not have a material impact on our Consolidated Financial Statements.

Accounting Standards to be Implemented

ASU 2016-02, Leases

In February 2016, the FASB issued ASU 2016-02, Leases, which requires all assets and liabilities arising from leases to be recognized in our Consolidated Balance Sheets. We intend to adopt this new accounting guidance effective January 1, 2019.

In July 2018, the FASB added an optional transition method which we will elect upon adoption of the new standard. This allows us to recognize and measure leases existing at January 1, 2019 without restating comparative information. In addition, we will elect to apply the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical lease classification.

While we are continuing to assess potential impacts of the standard, we currently expect the most significant impact will be the recognition of right of use assets and lease liabilities for operating leases of approximately $210 to $260 as of January 1, 2019. We expect our accounting for finance leases to remain substantially unchanged.

ASU 2018-02, Income Statement - Reporting Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income, which permits entities to reclassify the disproportionate income tax effects of the 2017 enactment of U.S. tax reform legislation (the "Act") on items within accumulated other comprehensive income (loss) to retained earnings. We intend to adopt this new accounting guidance effective January 1, 2019 and have elected not to reclassify the disproportionate income tax effects of the Act from accumulated other comprehensive income (loss) to retained earnings.

ASU 2016-13, Financial Instruments - Credit Losses

In January 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which requires measurement and recognition of expected credit losses for financial assets held. We intend to adopt this new accounting guidance effective January 1, 2020. We are currently assessing the impact on our consolidated financial statements.

2. EARNINGS (LOSS) PER SHARE AND SHARE REPURCHASES

We compute earnings (loss) per share ("EPS") using the two-class method, which is an earnings (loss) allocation formula that determines earnings (loss) per share for common stock, and earnings (loss) allocated to convertible

preferred stock and participating securities, as appropriate. The earnings allocated to convertible preferred stock are the larger of 1) the preferred dividends accrued in the period or 2) the percentage of earnings from continuing operations allocable to the preferred stock as if they had been converted to common stock. Our participating securities are our grants of restricted stock and restricted stock units, which contain non-forfeitable rights to dividend equivalents to the extent any dividends are declared and paid on our common stock. We compute basic EPS by dividing net income (loss) allocated to common shareholders by the weighted-average number of shares outstanding during the period. 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
(U.S. dollars in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares in millions)	2018	2017	2018	2017
Numerator attributable to Avon:				
Net income (loss) attributable to Avon	$114.5	$12.5	$58.1	$(69.5)
Less: Earnings (loss) allocated to participating securities	1.4	.2	.7	(.9)
Less: Earnings allocated to convertible preferred stock	18.8	5.8	18.1	17.2
Income (loss) allocated to common shareholders	94.3	6.5	39.3	(85.8)
Denominator:				
Basic EPS weighted-average shares outstanding	442.3	440.0	441.8	439.5
Diluted effect of assumed conversion of stock options	—	—	—	—
Diluted effect of assumed conversion of preferred stock	—	—	—	—
Diluted EPS adjusted weighted-average shares outstanding	442.3	440.0	441.8	439.5
Earnings (loss) per Common Share attributable to Avon:				
Basic	$.21	$.01	$.09	$(.20)
Diluted	.21	.01	.09	(.20)

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

During the three and nine months ended September 30, 2018, and three months ended September 30, 2017, we did not include stock options to purchase 18.1 million, 17.6 million and 18.4 million shares, respectively, of Avon common stock in the calculation of diluted EPS because the exercise prices of those options were greater than the average market price. During the nine months ended September 30, 2017, we did not include stock options to purchase 16.9 millions shares of Avon common stock in the calculation of diluted EPS as we had a net loss 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.

For the three and nine months ended September 30, 2018 and 2017, it is more dilutive to assume the series C convertible preferred stock is not converted into common stock; therefore, the weighted-average shares outstanding were not adjusted by the as-if converted series C convertible preferred stock because the effect would be anti-dilutive. The inclusion of the series C convertible preferred stock would increase the net earnings per share for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and decrease the net loss per share for the nine months ended September 30, 2017. If the as-if converted series C convertible preferred stock had been dilutive, approximately 87.1 million additional shares would have been included in the diluted weighted average number of shares outstanding for the three and nine months ended September 30, 2018 and 2017. See Note 4, Related Party Transactions.

We purchased approximately 1.1 million shares of Avon common stock for $3.1 during the first nine months of 2018, as compared to approximately 1.5 million shares of Avon common stock for $6.6 during the first nine months of 2017, through acquisition of stock from employees in connection with tax payments upon the vesting of restricted stock units and performance restricted stock units.

3. INVESTMENT IN NEW AVON

In connection with the separation of the Company's North America business, which closed on March 1, 2016, the Company retained a 19.9% ownership interest in New Avon, a privately-held company that is majority-owned and managed by an affiliate of Cerberus Capital Management L.P. ("Cerberus").

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

Our recorded investment balance in New Avon at September 30, 2018 and December 31, 2017 was zero.
Summarized financial information related to New Avon is shown below:

	Nine Months Ended September 30,	
	2018	2017
Total revenue	$468.9	$527.7
Gross profit	272.1	322.9
Net loss	(67.5)	(80.5)

4. RELATED PARTY TRANSACTIONS
The following tables present the related party transactions with New Avon, affiliates of Cerberus and the Instituto Avon in Brazil. There are no other related party transactions. New Avon is majority-owned and managed by Cerberus . See Note 3, Investment in New Avon for further details.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Statement of Operations Data				
Revenue from sale of product to New Avon[1]	$7.3	$8.3	$20.3	$25.9
Gross profit from sale of product to New Avon[1]	$.6	$.2	$1.3	$1.5
Cost of sales for purchases from New Avon[2]	$.9	$.9	$2.1	$3.0
Selling, general and administrative expenses related to New Avon:				
Transition services, intellectual property, technical support and innovation and subleases[3]	$(.6)	$(7.4)	$(4.3)	$(22.5)
Project management team[4]	$.2	$.6	$1.0	$2.2
Net reduction of selling, general and administrative expenses	$(.4)	$(6.8)	$(3.3)	$(20.3)
Interest income from Instituto Avon[5]	$.1	$—	$.1	$—

	September 30, 2018	December 31, 2017
Balance Sheet Data		
Inventories[6]	$ .3	$ .4
Receivables due from New Avon[7]	$ 8.0	$ 9.8
Receivables due from Instituto Avon[5]	$ 3.6	$ —
Payables due to New Avon[8]	$ .2	$ .2
Payables due to an affiliate of Cerberus[9]	$ .5	$ .4

(1) The Company supplies product to New Avon as part of a manufacturing and supply agreement.
(2) New Avon supplies product to the Company as part of the same manufacturing and supply agreement noted above. The Company purchased $.7 and $.8 from New Avon associated with this agreement during the three months ended September 30, 2018 and 2017, respectively, and recorded $.9 and $.9 associated with these purchases within cost of sales in our Consolidated Statement of Operations during the three months ended September 30, 2018 and 2017,

respectively. The Company purchased $1.9 and $2.7 from New Avon associated with this agreement during the nine months ended September 30, 2018 and 2017, respectively, and recorded $2.1 and $3.0 associated with these purchases within cost of sales in our Consolidated Statement of Operations during the nine months ended September 30, 2018 and 2017, respectively.

(3) The Company also entered into a transition services agreement to provide certain services to New Avon, as well as an intellectual property ("IP") license agreement, an agreement for technical support and innovation and sublease for office space. In addition, New Avon performed certain services for the Company under a similar transition services agreement, which expired during the third quarter of 2017. The net amounts recorded within selling, general and administrative expenses generally represent a recovery of the related costs.

(4) The Company also entered into agreements with an affiliate of Cerberus, which provide for the secondment of Cerberus affiliate personnel to the Company's project management team responsible for assisting with the execution of the implementation of the Company’s strategic initiatives. The Company recorded $.2 and $.6 in selling, general and administrative expenses associated with these agreements during the three months ended September 30, 2018 and 2017, respectively, and recorded $1.0 and $2.2 in selling, general and administrative expenses associated with these agreements during the nine months ended September 30, 2018 and 2017, respectively. See Note 11, Restructuring Initiatives for additional information related to the Transformation Plan.

(5) During the second quarter of 2018, the Company entered into an agreement to loan the Instituto Avon, an independent non-government charitable organization in Brazil, $3.6 for an unsecured 5-year term at a fixed interest rate of 7% per annum, to be paid back in 5 equal annual installments. The Instituto Avon was created by an Avon subsidiary in Brazil, with the board and executive team comprise of Avon Brazil management. The purpose of the loan is to provide the Instituto Avon with the means to donate funds to Fundação Pio XII (a leading cancer prevention and treatment organization in Brazil and owner of the Hospital do Câncer de Barretos), in order to invest in equipment with the objective of expanding breast cancer prevention and treatment.

(6) Inventories relate to purchases from New Avon, associated with the manufacturing and supply agreement, which have not yet been sold, and were classified within inventories in our Consolidated Balance Sheets.

(7) The receivables due from New Avon relate to the agreements for transition services, the IP license agreement, technical support and innovation and subleases for office space, as well as the manufacturing and supply agreement, and were classified within prepaid expenses and other in our Consolidated Balance Sheets.

(8) The payables due to New Avon relate to the manufacturing and supply agreement, and were classified within other accrued liabilities in our Consolidated Balance Sheets.

(9) The payables due to an affiliate of Cerberus relate to the agreement for the project management team, and were classified within other accrued liabilities in our Consolidated Balance Sheets.

In addition, the Company also issued standby letters of credit to the lessors of certain equipment, a lease for which was transferred to New Avon in connection with the separation of the Company's North America business. As of September 30, 2018, the Company has a liability of $1.4 for the estimated value of such standby letters of credit.

Series C Preferred Stock

On March 1, 2016, the Company issued and sold to Cerberus Investor 435,000 shares of newly issued series C preferred stock for an aggregate purchase price of $435.0. Cumulative preferred dividends accrue daily on the series C preferred stock at a rate of 1.25% per quarter. The series C preferred stock had accrued unpaid dividends of $59.6 as of September 30, 2018. There were no dividends declared in the nine months ended September 30, 2018 and 2017.

5. INVENTORIES

Components of Inventories	September 30, 2018	December 31, 2017
Raw materials	$ 183.5	$ 190.6
Finished goods	498.7	407.6
Total	$ 682.2	$ 598.2

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

6. EMPLOYEE BENEFIT PLANS

	Three Months Ended September 30,					
	Pension Benefits					
Net Periodic Benefit Costs	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
	2018	2017	2018	2017	2018	2017
Service cost	$.6	$.8	$1.1	$1.1	$ —	$ —
Interest cost	.6	.7	3.4	4.7	.2	.1
Expected return on plan assets	(1.0)	(.8)	(7.3)	(7.4)	—	—
Amortization of prior service credit	—	—	(.1)	—	(.1)	(.1)
Amortization of net actuarial losses	.7	1.3	1.5	2.1	.1	—
Settlements/curtailments	—	—	—	3.3	—	—
Net periodic benefit costs[1]	$.9	$2.0	$(1.4)	$3.8	$ .2	$ —

	Nine Months Ended September 30,					
	Pension Benefits					
Net Periodic Benefit Costs	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
	2018	2017	2018	2017	2018	2017
Service cost	$2.4	$3.5	$3.5	$3.5	$ .1	$ —
Interest cost	1.8	2.2	11.6	13.5	.8	.8
Expected return on plan assets	(2.6)	(2.4)	(23.9)	(21.0)	—	—
Amortization of prior service credit	—	—	(.1)	(.1)	(.3)	(.3)
Amortization of net actuarial losses	3.3	3.8	5.1	5.9	.1	.1
Settlements/curtailments	—	—	—	3.3	—	—
Net periodic benefit costs[1]	$4.9	$7.1	$(3.8)	$5.1	$ .7	$ .6

[1] Service cost is presented in selling, general and administrative expenses in our Consolidated Statements of Operations. The components of net periodic benefit costs other than service cost are presented in other expense, net in our Consolidated Statements of Operations.

During the nine months ended September 30, 2018, we made approximately $12 and approximately $11 of contributions to the U.S. and non-U.S. defined benefit pension and postretirement benefit plans, respectively. During the remainder of 2018, we anticipate contributing approximately zero to $3 and approximately $9 to $14 to fund our U.S. and non-U.S. defined benefit pension and postretirement benefit plans, respectively.

In addition to the amounts in the tables above, during the second quarter of 2017, we recorded an $18.2 charge for a loss contingency related to a non-U.S. pension plan, for which an amendment to the plan that occurred in a prior year may not have been appropriately implemented.

7. CONTINGENCIES

Settlements of FCPA Investigations

As previously reported, the United States District Court for the Southern District of New York (the "USDC") approved in December 2014 a deferred prosecution agreement (“DPA”) entered into between the Company and the U.S. Department of Justice related to charges of violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act (“FCPA”). In addition, Avon Products (China) Co. Ltd., a subsidiary of the Company operating in China, pleaded guilty to conspiring to violate the books and records provision of the FCPA. The USDC also entered a judgment in January 2015 approving our consent agreement with the U.S. Securities and Exchange Commission (the “SEC”) (the "Consent") to settle the SEC’s complaint charging violations of the books and records and internal control provisions of the FCPA.

As part of these resolutions, the Company agreed, among other things, to pay fines, disgorgement and prejudgment interest in an aggregate amount of $135 and to have a compliance monitor. The DPA expired, and the charges against the Company were dismissed with prejudice on February 5, 2018. Under the terms of the Consent, the Company was subject to a continued self-monitoring period until July 2018, which has now concluded.

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

Brazilian Tax Assessments

In December 2012, our Brazilian subsidiary received an excise (IPI) tax assessment for the year 2008 with respect to excise tax (IPI) and taxes charged on gross receipts (PIS and COFINS) from the Brazilian tax authorities. In the second quarter of 2014, the PIS and COFINS assessments were officially closed in favor of Avon Brazil. As in prior IPI cases that have been settled in Avon's favor, the 2012 IPI assessment asserts that the establishment in 1995 of separate manufacturing and distribution companies in Brazil 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 2012 IPI assessment is 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 IPI assessment. In July 2013, the 2012 IPI assessment was upheld at the first administrative level and we appealed this decision to the second administrative level. The 2012 IPI assessment totals approximately $293, including penalties and accrued interest. On April 18, 2018, Avon received official notification that the second administrative level has issued a partially favorable and partially unfavorable decision. In this decision, the original assessment was reduced by approximately $61 (including associated penalty and interest), subject to Federal Revenue appeal. The remaining $232 of the assessment was upheld at the second administrative level. On April 20, 2018, we appealed this decision in the third administrative level.

On October 3, 2017, Avon Brazil received a new tax assessment notice regarding IPI for 2014. The 2017 IPI assessment totals approximately $225, including penalties and accrued interest. In line with the other assessments received in the past, the Brazilian tax authorities assert that the structure adopted in 2005 has no valid business purpose and that Avon Brazil did not observe minimum pricing rules to define the taxable basis of excise tax. On April 2, 2018, Avon was notified of an unfavorable decision at the first administrative level. On April 27, 2018, we filed an appeal in the second administrative level.

In the event that the 2012 and the 2017 IPI assessments are upheld in the third and final administrative level, it may be necessary for us to provide security to pursue further appeals in the judicial levels, which, depending on the circumstances, may result in a charge to earnings and an adverse effect on the Company's Consolidated Statements of Cash Flows. It is not possible to reasonably estimate the likelihood or potential amount of assessments that may be issued for subsequent periods (tax years up through 2010 are closed by statute). We believe that the 2012 and the 2017 IPI assessments are unfounded, however, based on the likelihood that these will be upheld, we assess the risks as disclosed above as reasonably possible. At September 30, 2018, we have not recognized a liability for the 2012 or 2017 IPI assessments.

Brazil IPI Tax on Cosmetics

In May 2015, an Executive Decree on certain cosmetics went into effect in Brazil which increased the amount of IPI taxes that are to be remitted by Avon Brazil to the taxing authority on the sales of cosmetic products subject to IPI. Avon Brazil filed an objection to this IPI tax increase on the basis that it is not constitutional. In December 2016, Avon Brazil received a favorable decision from the Federal District Court regarding this objection. This decision has been appealed by the tax authorities.

From May 2015 through April 2016, Avon Brazil remitted the taxes associated with this IPI tax increase into a judicial deposit which would be remitted to the taxing authorities in the event that we are not successful in our objection to the tax increase. In May 2016, Avon Brazil received a favorable preliminary decision on its objection to the tax and was granted a preliminary injunction. As a result, beginning in May 2016, Avon Brazil was no longer required to remit the taxes associated with IPI into a judicial deposit. On June 12, 2018, we received a decision authorizing Avon to withdraw the amount held as a judicial deposit, substituting it by letter of guarantee, which was presented. On June 29, 2018, the tax authorities presented an appeal against that decision. On July 30, 2018, the funds were received in our bank account. As of September 30, 2018, due in part to recent judicial decisions across the

industry and other developments, we have concluded, supported by the opinion of legal counsel, that the Executive Decree is unconstitutional. We have therefore assessed the IPI tax under ASC 450, Contingencies and determined that the risk of loss during ongoing judicial reviews is reasonably possible but not probable. Accordingly, we released the associated liability as of September 30, 2018 of approximately $195 and have ceased accruing the IPI taxes from October 1, 2018. The liability had been classified within long-term sales taxes and taxes other than income in our Consolidated Balance Sheet, and the release has been recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively, in our Consolidated Income Statements.
An unfavorable ruling to our objection of this IPI tax increase would have an adverse effect on the Company's Consolidated Income Statements and Consolidated Statements of Cash Flows as Avon Brazil would have to remit the reasonably possible amount of $195 to the taxing authorities (including the judicial deposit that was returned to us on July 30, 2018). We are not able to reliably predict the timing of the outcome of our objection to this tax increase. A favorable judicial ruling to our

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

objection of this IPI tax would have an adverse effect on the Company's Consolidated Statements of Cash Flows as Avon Brazil would have to remit all or a portion of the associated income tax liability to the taxing authorities. The Company is accruing a tax reserve, which amounts to approximately $66 at September 30, 2018. This reserve will be settled on final adjudication of the law through a combination of cash and use of deferred tax assets.

Talc-Related Litigation

The Company has been named a defendant in numerous personal injury lawsuits filed in U.S. courts, alleging that certain talc products the Company sold in the past were contaminated with asbestos. Many of these actions involve a number of codefendants from a variety of different industries, including manufacturers of cosmetics and manufacturers of other products that, unlike the Company’s products, were designed to contain asbestos. We believe that the claims against us are without merit. We are defending vigorously against these claims and will continue to do so. To date, there have been no findings of liability against the Company in any of these cases but we are unable to predict the ultimate outcome of each case. Additional similar cases arising out of the use of the Company's talc products are reasonably anticipated. At this time, we are unable to estimate our reasonably possible losses, if any. Also, in light of the inherent litigation uncertainties, potential costs to litigate these cases are not known, but they may be significant, though some costs will be covered by insurance.

Brazilian Labor-Related Litigation

On an ongoing basis, the Company is subject to numerous and diverse labor-related lawsuits filed by employees in Brazil. These cases are assessed on an aggregated and ongoing basis based on historical outcomes of similar cases. The claims made are often for significantly larger sums than have historically been paid out by the Company. Our practice continues to be to recognize a liability based on our assessment of historical payments in similar cases. Our best estimate of the probable loss for such current cases at September 30, 2018 is approximately $12 and, accordingly, we have recognized a liability for this amount.

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, 2018, is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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, 2018 and 2017:

Three Months Ended September 30, 2018	Foreign Currency Translation Adjustments	Net Investment Hedges	Pension and Postretirement Benefits	Investment in New Avon	Total
Balance at June 30, 2018	$ (923.5)	$ (4.3)	$ (90.0)	$ 3.4	$(1,014.4)
Other comprehensive loss other than reclassifications	(3.6)	—	—	—	(3.6)
Reclassifications into earnings:					
Amortization of net actuarial loss and prior service cost, net of tax of $.1[(1)]	—	—	2.1	—	2.1
Total reclassifications into earnings	—	—	2.1	—	2.1
Balance at September 30, 2018	$ (927.1)	$ (4.3)	$ (87.9)	$ 3.4	$(1,015.9)

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

Three Months Ended September 30, 2017:	Foreign Currency Translation Adjustments	Net Investment Hedges	Pension and Postretirement Benefits	Investment in New Avon	Total
Balance at June 30, 2017	$ (839.7)	$ (4.3)	$ (114.0)	$ 3.4	$(954.6)
Other comprehensive income other than reclassifications	13.5	—	—	—	13.5
Reclassifications into earnings:					
Amortization of net actuarial loss and prior service cost, net of tax of $0.0[1]	—	—	6.5	—	6.5
Total reclassifications into earnings	—	—	6.5	—	6.5
Balance at September 30, 2017	$ (826.2)	$ (4.3)	$ (107.5)	$ 3.4	$(934.6)

Nine Months Ended September 30, 2018:	Foreign Currency Translation Adjustments	Net Investment Hedges	Pension and Postretirement Benefits	Investment in New Avon	Total
Balance at December 31, 2017	$ (829.6)	$ (4.3)	$ (95.7)	$ 3.4	$(926.2)
Other comprehensive loss other than reclassifications	(97.5)	—	—	—	(97.5)
Reclassifications into earnings:					
Amortization of net actuarial loss and prior service cost, net of tax of $.4[1]	—	—	7.8	—	7.8
Total reclassifications into earnings	—	—	7.8	—	7.8
Balance at September 30, 2018	$ (927.1)	$ (4.3)	$ (87.9)	$ 3.4	$(1,015.9)

Nine Months Ended September 30, 2017:	Foreign Currency Translation Adjustments	Net Investment Hedges	Pension and Postretirement Benefits	Investment in New Avon	Total
Balance at December 31, 2016	$ (910.9)	$ (4.3)	$ (120.2)	$ 2.2	$(1,033.2)
Other comprehensive income other than reclassifications	84.7	—	—	1.2	85.9
Reclassifications into earnings:					
Amortization of net actuarial loss and prior service cost, net of tax of $0.0[1]	—	—	12.7	—	12.7
Total reclassifications into earnings	—	—	12.7	—	12.7
Balance at September 30, 2017	$ (826.2)	$ (4.3)	$ (107.5)	$ 3.4	$(934.6)

(1) Gross amount reclassified to pension and postretirement expense, within other expense, net in our Consolidated Statements of Operations, and related taxes reclassified to income taxes in our Consolidated Statements of Operations.

A foreign exchange net gain of $1.2 and $5.0 for the three months ended September 30, 2018 and 2017, respectively, and a foreign exchange net loss of $2.5 and net gain of $14.8 for the nine months ended September 30, 2018 and 2017, respectively, resulting from the translation of actuarial losses and prior service cost recorded in AOCI, are included in foreign currency translation adjustments in our Consolidated Statements of Comprehensive Loss.

9. SEGMENT INFORMATION

We determine segment profit by deducting the related costs and expenses from segment revenue. Segment profit includes an allocation of global marketing expenses based on actual revenues. Segment profit excludes global expenses other than the allocation of marketing, costs to implement ("CTI") restructuring initiatives (see Note 11,

Restructuring Initiatives), a loss contingency related to a non U.S. pension plan (see Note 6, Employee Benefit Plans), certain significant asset impairment charges, and other items, which are not allocated to a particular segment, if applicable. This is consistent with the manner in which we assess our performance and allocate resources.

Summarized financial information concerning our reportable segments was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Total Revenue	2018	2017	2018	2017
Europe, Middle East & Africa	$442.9	$482.8	$1,512.0	$1,484.9
South Latin America *	645.4	589.7	1,658.6	1,647.0
North Latin America	207.0	206.0	609.9	607.0
Asia Pacific	120.5	118.3	345.0	345.6
Total revenue from reportable segments *	1,415.8	1,396.8	4,125.5	4,084.5
Other operating segments and business activities	8.4	21.0	44.1	62.3
Total revenue *	$1,424.2	$1,417.8	$4,169.6	$4,146.8

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Operating Profit	2018	2017	2018	2017
Segment Profit				
Europe, Middle East & Africa	$46.1	$68.1	$194.9	$222.4
South Latin America *	194.1	66.7	276.5	126.1
North Latin America	14.3	17.6	54.1	57.2
Asia Pacific	9.6	13.8	27.3	37.3
Total profit from reportable segments *	$264.1	$166.2	$552.8	$443.0
Other operating segments and business activities	1.1	.2	2.7	.8
Unallocated global expenses	(58.5)	(72.9)	(216.3)	(239.2)
CTI restructuring initiatives	(19.8)	(6.2)	(54.4)	(36.6)
Loss contingency	—	—	—	(18.2)
Operating profit *	$186.9	$87.3	$284.8	$149.8

* Includes the impact of the Brazil IPI tax release, which was recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively, in our Consolidated Income Statements (See Note 7, Contingencies for further information).

Other operating segments and business activities include markets that have been exited. Effective in the first quarter of 2018, given that we have exited Australia and New Zealand during 2018, the results of Australia and New Zealand are now reported in Other operating segments and business activities for all periods presented, while previously the results had been reported in the Asia Pacific segment. Other operating segments and business activities also include revenue from the sale of products to New Avon since the separation of the Company's North America business into New Avon on March 1, 2016 and ongoing royalties from the licensing of our name and products.

10. SUPPLEMENTAL BALANCE SHEET INFORMATION

At September 30, 2018 and December 31, 2017, prepaid expenses and other included the following:

Components of Prepaid Expenses and Other	September 30, 2018	December 31, 2017
Prepaid taxes and tax refunds receivable	$ 144.5	$ 111.6
Receivables other than trade	59.8	67.2
Prepaid brochure costs, paper and other literature[1]	15.2	64.8
Other	44.7	52.8
Prepaid expenses and other	$ 264.2	$ 296.4

(1) The decrease in prepaid brochure costs, paper and other literature is primarily due to the adoption of ASC 606. Effective January 1, 2018, the costs associated with brochures that will be purchased by the Representative are presented within inventories in our Consolidated Balance Sheets, while the costs associated with brochures that will be given away for free as promotional items are reflected within prepaid expenses and other in our Consolidated Balance Sheets. Previously, the net of the costs and fees charged to Representatives for all brochures were presented within prepaid expenses and other in our Consolidated Balance Sheets. See Note 1, Accounting Policies for further details.

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

At September 30, 2018 and December 31, 2017, other assets included the following:

Components of Other Assets	September 30, 2018	December 31, 2017
Deferred tax assets	$ 203.1	$ 203.8
Net overfunded pension plans	94.2	82.0
Capitalized software	85.5	85.2
Judicial deposits	70.3	82.2
Judicial deposit for Brazil IPI tax on cosmetics (Note 7)[2]	—	73.8
Long-term receivables	68.9	75.6
Trust assets associated with supplemental benefit plans	37.8	37.1
Tooling (plates and molds associated with our beauty products)	10.5	12.5
Other	14.2	14.0
Other assets	$ 584.5	$ 666.2

[2] The decrease in judicial deposit for Brazil IPI tax on cosmetics relates to the withdrawal of the amount held as a judicial deposit, substituted by letter of guarantee, during the second quarter of 2018. See Note 7, Contingencies for more information.

11. RESTRUCTURING INITIATIVES

Transformation Plan and Open Up Avon

Transformation Plan

In January 2016, we initiated a transformation plan (the "Transformation Plan"), in order to enable us to achieve our long-term goals of mid-single-digit Constant $ revenue growth and low double-digit operating margin. The Transformation Plan included three pillars: invest in growth, reduce costs in an effort to continue to improve our cost structure and improve our financial resilience. Under this plan, we had targeted pre-tax annualized cost savings of approximately $350 after three years, which were expected to be achieved through restructuring actions, as well as other cost-savings strategies that would not result in restructuring charges. As part of the Transformation Plan, we identified certain actions, that we believe will reduce ongoing costs, primarily consisting of global headcount reductions relating to operating model changes, as well as the closure of Australia, New Zealand and Thailand, which were smaller, under-performing markets.

As a result of these restructuring actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $203.1 before taxes, of which $36.0 was recorded during the nine months ended September 30, 2018, in our Consolidated Statements of Operations. There are no further restructuring actions to be taken associated with our Transformation Plan, as beginning in the third quarter of 2018, all new restructuring actions approved will operate under our new Open Up Avon plan described below.

Open Up Avon

In September 2018, we initiated a new strategy in order to return Avon to growth ("Open Up Avon"). Under this plan, we are targeting pre-tax annualized cost savings of approximately $400 by 2021, to be generated from efficiencies in manufacturing and sourcing, distribution, general and administrative activities, and back office functions, as well as through revenue management, interest and tax. These savings are expected to be achieved through restructuring actions (that may result in charges related to severance, contract terminations and inventory and other asset write-offs), as well as other cost-savings strategies that would not result in restructuring charges. We initiated Open Up Avon in an attempt to enable us to achieve our goals of low-single-digit constant-dollar revenue growth and low double-digit operating margin by 2021. We plan to reinvest a portion of these cost savings in commercial initiatives, including training for Representatives, and digital and information technology infrastructure initiatives. As a result of these restructuring actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $19.1 before taxes, which was recorded during the nine months ended September 30, 2018, in our Consolidated

Statements of Operations.

Costs to Implement Restructuring Initiatives - Three and Nine Months Ended September 30, 2018

During the three months ended September 30, 2018, we recorded costs to implement of $19.8, of which $.7 related to the Transformation Plan and $19.1 related to Open Up Avon, in our Consolidated Statements of Operations. During the nine months ended September 30, 2018, we recorded costs to implement of $55.1, of which $36.0 related to the Transformation Plan

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

and $19.1 related to Open Up Avon, in our Consolidated Statements of Operations. The costs during the three and nine months ended September 30, 2018 consisted of the following:

- net charges of $6.4 and $31.9, respectively, for employee-related costs, including severance benefits;
- implementation costs of $11.8 and $17.5, respectively, primarily related to professional service fees;
- accelerated depreciation of $.9 and $2.5, respectively;
- asset impairment of $2.5 and $2.5, respectively, primarily related to manufacturing equipment;
- inventory true-up benefit of $.1 and write-off of $1.0, respectively;
- foreign currency translation adjustment charges $.7 for the nine months ended September 30, 2018; and
- contract termination and other net benefits of $1.7 and $1.0, respectively.

Of the total costs to implement during the three months ended September 30, 2018, $19.9 was recorded in selling, general and administrative expenses and a benefit of $.1 was recorded in cost of sales. Of the total costs to implement during the nine months ended September 30, 2018, $54.1 was recorded in selling, general and administrative expenses and $1.0 was recorded in cost of sales.

Costs to Implement Restructuring Initiatives - Three and Nine Months Ended September 30, 2017

During the three and nine months ended September 30, 2017, we recorded costs to implement of $6.5 and $37.5, respectively, related to the Transformation Plan, in the Consolidated Statement of Operations. The costs consisted of the following:

- net charges of $2.3, and $19.4, respectively, for employee-related costs, including severance benefits;
- contract termination and other net charges of $2.0 and $14.2, respectively, associated with vacating our previous corporate headquarters, including the impairment of fixed assets;
- implementation costs of $1.8 and $2.5, respectively, primarily related to professional service fees; and
- accelerated depreciation of $.4 and $1.4, respectively.

Of the total costs to implement during the three months ended September 30, 2017, all $6.5 was recorded in selling, general and administrative expenses in our Consolidated Statement of Operations. Of the total costs to implement during the nine months ended September 30, 2017, $37.6 was recorded in selling, general and administrative expenses and a benefit of $.1 was recorded in cost of sales in our Consolidated Statement of Operations.

The tables below include restructuring costs such as employee-related costs, inventory write-offs, foreign currency translation write-offs and contract terminations, and do not include other costs to implement restructuring initiatives such as professional services fees and accelerated depreciation.

The liability balance for the restructuring actions, primarily associated with our Transformation Plan, as of September 30, 2018 is as follows:

	Employee-Related Costs	Inventory/ Asset Write-offs	Contract Terminations/Other	Foreign Currency Translation Adjustment Write-offs	Total
Balance at December 31, 2017	$ 41.2	$ —	$ 8.0	$ —	$49.2
2018 charges	38.2	3.5	1.4	.7	43.8
Adjustments	(6.3)	—	3.4	—	(2.9)
Cash payments	(21.1)	—	(7.9)	—	(29.0)
Non-cash write-offs	—	(3.5)	—	(.7)	(4.2)
Foreign exchange	(2.2)	—	—	—	(2.2)
Balance at September 30, 2018	$ 49.8	$ —	$ 4.9	$ —	$54.7

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

The following table presents the restructuring charges incurred to date, under the Transformation Plan and Open Up Avon, along with the estimated charges expected to be incurred on approved initiatives under the plans:

	Employee-Related Costs	Inventory/ Asset Write-offs	Contract Terminations/Other	Foreign Currency Translation Adjustment Write-offs	Total
Transformation Plan					
Charges incurred to-date	$ 134.9	$ 1.9	$ 34.7	$ 3.4	$174.9
Estimated charges to be incurred on approved initiatives	.2	—	5.9	—	6.1
Total expected charges on approved initiatives	$ 135.1	$ 1.9	$ 40.6	$ 3.4	$181.0
Open Up Avon					
Charges incurred to-date	$ 8.0	$ 2.5	$ .3	$ —	$10.8
Estimated charges to be incurred on approved initiatives	—	—	—	—	—
Total expected charges on approved initiatives	$ 8.0	$ 2.5	$ .3	$ —	$10.8

The charges, net of adjustments, of initiatives under the Transformation Plan, along with the estimated charges expected to be incurred on approved initiatives under the plans, by reportable segment are as follows:

	Europe, Middle East & Africa	South Latin America	North Latin America	Asia Pacific	Global & Other Operating Segments	Total
Transformation Plan						
2015	$ —	$ —	$ —	$ —	$ 21.4	$21.4
2016	30.9	13.2	4.4	9.1	16.8	74.4
2017	.9	5.6	(.6)	(.5)	49.4	54.8
First quarter 2018	3.2	5.3	.6	—	—	9.1
Second quarter 2018	4.7	(.1)	—	—	14.3	18.9
Third quarter 2018	.2	(.1)	—	—	(3.8)	(3.7)
Charges incurred to-date	39.9	23.9	4.4	8.6	98.1	174.9
Estimated charges to be incurred on approved initiatives	.6	—	—	—	5.5	6.1
Total expected charges on approved initiatives	$ 40.5	$ 23.9	$ 4.4	$ 8.6	$ 103.6	$181.0
Open Up Avon						
Third quarter 2018	$ 1.3	$ 4.3	$ 2.1	$ —	$ 3.1	$10.8
Charges incurred to-date	1.3	4.3	2.1	—	3.1	10.8
Estimated charges to be incurred on approved initiatives	—	—	—	—	—	—
Total expected charges on approved initiatives	$ 1.3	$ 4.3	$ 2.1	$ —	$ 3.1	$10.8

The charges above are not included in segment profit, as this excludes costs to implement restructuring initiatives. The amounts shown in the tables above as charges recorded to-date relate to initiatives that have been approved and recorded in the consolidated 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.

Other Restructuring Initiatives

During the three and nine months ended September 30, 2018, we recorded an immaterial benefit and a benefit of $.7, respectively, in selling, general and administrative expenses, in our Consolidated Statements of Operations, associated with other restructuring initiatives. During the three and nine months ended September 30, 2017, we recorded net benefits of $.3 and

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

$1.0, respectively, in selling, general and administrative expenses, in our Consolidated Statements of Operations, associated with other restructuring initiatives.

12. GOODWILL

	Europe, Middle East & Africa	South Latin America	Asia Pacific	Total
Net balance at December 31, 2017	$ 20.4	$ 72.7	$ 2.6	$ 95.7
Changes during the period ended September 30, 2018:				
Foreign exchange	(2.5)	(.4)	—	(2.9)
Net balance at September 30, 2018	$ 17.9	$ 72.3	$ 2.6	$ 92.8

13. FAIR VALUE

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The assets and liabilities measured at fair value on a recurring basis were immaterial at September 30, 2018 and December 31, 2017.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, available-for-sale securities, short-term investments, accounts receivable, debt maturing within one year, accounts payable, long-term debt and foreign exchange forward contracts. 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, 2018 and December 31, 2017, respectively, consisted of the following:

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale securities	$ 4.0	$ 4.0	$ 3.7	$ 3.7
Debt maturing within one year[1]	(16.3)	(16.3)	(25.7)	(25.7)
Long-term debt[1]	(1,630.8)	(1,598.8)	(1,872.2)	(1,718.6)
Foreign exchange forward contracts	1.8	1.8	—	—

(1) The carrying value of debt maturing within one year and long-term debt is presented net of debt issuance costs and includes any related discount or premium and unamortized deferred gains on terminated interest-rate swap agreements, as applicable.

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

- Available-for-sale securities - 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 our 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.

14. 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, including 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.

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.

Derivatives are recognized in the Consolidated Balance Sheets at their fair values. The derivative instruments outstanding were immaterial at September 30, 2018 and December 31, 2017.

Interest Rate Risk

A portion of our borrowings is subject to interest rate risk. In the past we have 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. As of September 30, 2018, we do not have any interest-rate swap agreements. Approximately 1% of our debt portfolio at September 30, 2018 and December 31, 2017, was exposed to floating interest rates.

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

In March 2012, we terminated two of our interest-rate swap agreements previously 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 was amortized as a reduction of interest expense until repayment of the underlying debt obligations in June 2018, at which point the remaining unamortized balance was fully released to the Consolidated Statement of Operations. The net impact of the gain amortization was zero and $6.0 for the three and nine months ended September 30, 2018, respectively, which included $3.6 related to the extinguishment of debt for the nine months ended September 30, 2018. The net impact of the gain amortization was $1.2 and $3.6 for the three and nine months ended September 30, 2017, respectively. At September 30, 2018, there was no unamortized deferred gain associated with the March 2012 interest-rate swap termination as the underlying debt obligations have been paid.

Foreign Currency Risk

We may use foreign exchange forward contracts to manage a portion of our foreign currency exchange rate exposures. At September 30, 2018, we had outstanding foreign exchange forward contracts with notional amounts totaling approximately $133 for various currencies.

We may use foreign exchange forward contracts to manage foreign currency exposure of certain 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 associated intercompany loans. During the three and nine months ended September 30, 2018, we recorded a gain of $2.0 and a loss of $1.1, respectively, in other expense, net in our Consolidated Statements of Operations related to these undesignated foreign exchange forward contracts. Also during the three and nine months ended September 30, 2018, we recorded a loss of $1.5 and a gain of $2.2, respectively, related to the associated intercompany loans, caused by changes in foreign currency exchange rates. During the three and nine months ended September 30, 2017, we recorded gains of $.5 and $2.8, respectively, in other expense, net in our Consolidated Statements of Operations related to these undesignated foreign exchange forward contracts. Also during the three and nine months ended September 30, 2017, we recorded losses of $.9 and $4.7, respectively, related to the associated intercompany loans, caused by changes in foreign currency exchange rates.

We initiated a new hedging program to hedge foreign exchange risk relating to forecasted transactions during the third quarter of 2018. This did not have a material impact on our Consolidated Financial Statements for the three months ended September 30, 2018.

15. DEBT

Revolving Credit Facility

In June 2015, Avon International Operations, Inc. ("AIO"), a wholly-owned domestic subsidiary of the Company, entered into a five-year $400.0 senior secured revolving credit facility (the "2015 facility"). As of September 30, 2018, there were no amounts outstanding under the 2015 facility. The 2015 facility will terminate in June 2020; provided, however, that it shall terminate on the 91st day prior to the maturity of the 4.60% Notes (as defined below), if on such 91st day, the applicable notes are not redeemed, repaid, discharged, defeased or otherwise refinanced in full.

As of September 30, 2018, we were in compliance with our interest coverage and total leverage ratios under the 2015 facility, as amended. The amount of the facility available to be drawn down on is reduced by any standby letters of credit granted by AIO, which, as of September 30, 2018, was approximately $31. As of September 30, 2018, based on then applicable interest rates, the entire amount of the remaining 2015 facility, which is approximately $369, could have been drawn down without violating any covenant.

Public Notes

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

In March 2009, we issued $350.0 principal amount of 6.50% Notes due March 1, 2019 (the "6.50% Notes"). Interest on the 2013 Notes is payable semi-annually on March 15 and September 15 of each year, and interest on the 6.50% Notes are payable semi-annually on March 1 and September 1 of each year. On June 18, 2018, we prepaid the remaining principal amount of our 6.50% Notes. The prepayment price was equal to the remaining principal amount of $237.8, plus a make-whole premium of $6.2 and accrued interest of $4.6. In connection with the prepayment, we incurred a loss on extinguishment of debt of $2.9 before tax in the second quarter of 2018 consisting of the $6.2 make-whole premium, and the write-off of $.3 of debt issuance costs and discounts related to the initial issuances of the notes that were prepaid, partially offset by a write off of a deferred gain of $3.6 associated with the March 2012 interest-rate swap agreement termination (see Note 14, Derivative Instruments and Hedging Activities).

The indenture governing the 2013 Notes contains interest rate adjustment provisions depending on the long-term credit ratings assigned to the 2013 Notes by S&P and Moody's. As described in the indenture, the interest rates on the 2013 Notes increase by .25% for each one-notch downgrade below investment grade on each of our long-term credit ratings assigned to the 2013 Notes by S&P or Moody's. These adjustments are limited to a total increase of 2% above the respective interest rates in effect on the date of issuance of the 2013 Notes. As a result of the long-term credit rating downgrades by S&P and Moody's since issuance of the 2013 Notes, the interest rates on these notes have increased by the maximum allowable increase.

Senior Secured Notes

In August 2016, AIO issued, in a private placement exempt from registration under the Securities Act of 1933, as amended, $500.0 in aggregate principal amount of 7.875% Senior Secured Notes, which will mature on August 15, 2022 (the "Senior Secured Notes"). Interest on the Senior Secured Notes is payable semi-annually on February 15 and August 15 of each year.

16. INCOME TAXES

Our quarterly income tax provision is calculated using an estimated annual effective income tax approach. The quarterly effective tax rate can differ from our estimated annual effective tax rate as the Company cannot apply an effective tax rate approach for all of its operations. For those entities that can apply an effective tax rate approach, as of September 30, 2018, our annual effective tax rate, excluding discrete items, is 23.8% for 2018, as compared to 24.7% for 2017 as of September 30, 2017. The remaining entities, which are operations that generate pre-tax losses which cannot be tax benefited and/or have an effective tax rate which cannot be reliably estimated, have to account for their income taxes on a discrete year-to-date basis as of the end of each quarter and are excluded from the effective tax rate approach. The estimated annual effective tax rate for 2018 also excludes the unfavorable impact of withholding taxes associated with certain intercompany payments, including royalties, service charges, interest and dividends, which in the aggregate are relatively consistent each year due to the need to repatriate funds to cover U.S.-based costs, such as interest on debt and corporate overhead. Withholding taxes are accounted for discretely and accrued in the provision for income taxes as they become due.

The provision for income taxes for the three months ended September 30, 2018 and 2017 was $68.3 and $36.1, respectively. Our effective tax rates for the three months ended September 30, 2018 and 2017 were 37.5% and 75.2%, respectively. The provision

for income taxes for the nine months ended September 30, 2018 and 2017 was $136.5 and $99.5, respectively. Our effective tax rates for the nine months ended September 30, 2018 and 2017 were 71.0% and 341.9%, respectively. The effective tax rates in 2018 and 2017 were impacted by CTI restructuring charges, country mix of earnings and withholding taxes. The effective tax rate in the third quarter of 2018 was also favorably impacted by the accrual of tax benefits of approximately $14.0 associated with the initial recognition of tax benefits associated with Avon's interpretation of recent case law, net releases of tax reserves of approximately $3.1 associated with our uncertain tax positions and other net benefits of approximately $1.9. The effective tax rate for the first nine months of 2018 was also favorably impacted by the accrual of tax benefits of approximately $14.0 associated with the initial recognition of tax benefits associated with Avon's interpretation of recent case law, the recognition of approximately $4.1 of deferred tax assets that had previously been subject to a full valuation allowance and other net benefits of approximately $1.0 offset with a net increase of approximately $10.9 associated with our uncertain tax positions.

In its initial analysis of the impacts of the Tax Cuts and Job Act (the "Act") at year end 2017, the Company made provisional estimates that may be adjusted in future periods as required. As part of the 2017 provisional estimate, we provided for the Global Intangible Low-Taxed Income tax ("GILTI"), a US tax on certain foreign earnings, as a period cost. While still provisional, the first, second and third-quarter 2018 provisions for income taxes have been calculated treating GILTI as a period cost. The Act has significant complexity. Expected implementation guidance from the Internal Revenue Service, clarifications of state tax law and the information analyzed during the completion of the Company's 2017 tax return filings could impact these provisional estimates.

During the third quarter of 2018, the total amount of unrecognized tax benefits increased by approximately $66.2, associated with the earnings recognized by the Company as a result of its decision to release the liability associated with the Brazil IPI tax on cosmetics. Since the Executive Decree is still in effect and there are ongoing judicial reviews, an income tax uncertainty exists. Given the recognition of earnings before taxes, an income tax reserve has been recorded to accrue the full tax liability associated with the earnings recognized to date.

We anticipate that it is reasonably possible that the total amount of unrecognized tax benefits could increase by up to approximately $20 within the next twelve months. At September 30, 2018, we had $123.1 of total gross unrecognized tax benefits, of which approximately $120.7 that would favorably impact the provision for income taxes, if recognized.

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)

When used in this report, the terms "Avon," "Company," "we," "our" or "us" mean, unless the context otherwise indicates, Avon Products, Inc. and its majority, wholly owned and controlled subsidiaries.

OVERVIEW

We are a global manufacturer and marketer of beauty and related products. Our business is conducted primarily in the direct-selling channel. During 2017, we had sales operations in 56 countries and territories, and distributed products in 18 more. All of our consolidated revenue is derived from operations of subsidiaries outside of the United States ("U.S."). Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa; South Latin America; North Latin America; and Asia Pacific. Our product categories are Beauty and Fashion & Home. Beauty consists of skincare, fragrance and color (cosmetics). Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, 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 Representatives, who are independent contractors and not our employees.

During the nine months ended September 30, 2018, revenue increased 1% compared to the prior-year period, significantly impacted by the Brazil excise (IPI) tax release. Excluding the Brazil IPI release, Adjusted revenue was down 4%, primarily due to the unfavorable impact of foreign exchange. Constant $ Adjusted revenue increased 1%. Revenue and Constant Adjusted $ revenue included a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. The 5% benefit was driven primarily by the reclassification of fees paid by Representatives for brochures, late payments and payment processing, and income from appointment kits, from selling, general and administrative expenses ("SG&A"). The impact of timing of revenue recognition for sales incentives was negligible.

Constant $ Adjusted revenue was impacted by declines primarily in Brazil, which continued to be negatively impacted by competitive pressures, the challenging macroeconomic environment and lower consumption in the market, as well as lower appointments due to the application of strict credit requirements for the acceptance of new Representatives, and to a lesser extent, in the United Kingdom, South Africa and Russia. These declines were partially offset by improved revenue growth management including inflationary pricing in Argentina. Revenue and Constant $ Adjusted revenue were impacted by a decrease in Active Representatives of 4%, which was primarily driven by South Latin America, primarily in Brazil, and to a lesser extent by Europe, Middle East & Africa and North Latin America. Average order in Constant $ increased 5%, including a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. Units sold decreased 5%, driven by a decline in Brazil.

Ending Representatives decreased by 6%. The decrease in Ending Representatives at September 30, 2018 as compared to the prior-year period was attributable to all segments, and primarily in Brazil, Russia, Mexico and South Africa.

The impact of the new revenue recognition standard was primarily driven by the following accounting changes effective as of January 1, 2018:

- Certain of our sales incentives and prospective discounts are now considered to be a separate deliverable, thus initially revenue is deferred generally until delivery of the incentive prize to the Representative or future discounts are realized, and at that time the associated cost is recognized in cost of sales. Historically, the cost of sales incentives was recognized in SG&A over the period that the sales incentive was earned; and
- Fees paid by Representatives to the Company for brochures, late payments and payment processing are now reflected as revenue, rather than reflected as a reduction of SG&A. The associated cost for brochures that are sold is now recognized in cost of sales rather than in SG&A. Further, the fees and costs associated with brochures are now recognized upon delivery to the Representatives, rather than recognized over the campaign length.

See Note 1, Accounting Policies, to the Consolidated Financial Statements included herein for additional information on the new revenue recognition standard.

See "Segment Review" in this management's discussion and analysis of financial condition and results of operations ("MD&A") for additional information related to changes in revenue by segment.

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

Transformation Plan and Open Up Avon

In January 2016, we initiated a transformation plan (the "Transformation Plan"), in order to enable us to achieve our long-term goals of mid-single-digit Constant $ revenue growth and low double-digit operating margin. The Transformation Plan included three pillars: invest in growth, reduce costs in an effort to continue to improve our cost structure and improve our financial resilience. Under this plan, we had targeted pre-tax annualized cost savings of approximately $350 after three years, which were expected to be achieved through restructuring actions, as well as other cost-savings strategies that would not result in restructuring charges. There are no further restructuring actions to be taken associated with our Transformation Plan, as beginning in the third quarter of 2018, all new restructuring actions that are approved will operate under our new Open Up Avon plan described below.

In September 2018, we initiated a new strategy in order to return Avon to growth (“Open Up Avon”). Under this plan, we are targeting pre-tax annualized cost savings of approximately $400 by 2021, to be generated from efficiencies in manufacturing and sourcing, distribution, general and administrative activities, and back office functions, as well as through revenue management, interest and tax. These savings are expected to be achieved through restructuring actions (that may result in charges related to severance, contract terminations and inventory and other asset write-offs), as well as other cost-savings strategies that would not result in restructuring charges. We initiated Open Up Avon in an attempt to enable us to achieve our goals of low-single-digit constant-dollar revenue growth and low double-digit operating margin by 2021. We plan to reinvest a portion of these cost savings in commercial initiatives, including training for Representatives, and digital and information technology infrastructure initiatives.

During the third quarter of 2018, we estimate that we achieved total cost savings of approximately $40 before taxes, of which approximately $20 is attributable to Open Up Avon and approximately $20 is attributable to the Transformation Plan. The estimated $20 of savings attributable to Open Up Avon primarily relates to tax and interest, when comparing to our costs in 2017. As it relates to the Transformation Plan, we expect to achieve our cost savings target of $65 before taxes for full-year 2018. These savings include both run-rate savings from the Transformation Plan from 2017, along with in-year savings from current year initiatives already identified, and are associated with restructuring actions and from other cost-savings strategies that did not result in restructuring charges. As a result of restructuring actions and other cost-savings strategies taken to-date, as it relates to the Transformation Plan, we expect to exit 2018 with run-rate savings equal to our total cumulative cost savings target of $350.

In connection with the actions and associated savings discussed above, we have incurred costs to implement ("CTI") restructuring initiatives of approximately $203 before taxes to-date associated with the Transformation Plan and approximately $19 before taxes to-date associated with Open Up Avon. Of these costs, approximately $36 and approximately $19 was recorded during the nine months ended September 30, 2018 associated with the Transformation Plan and Open Up Avon, respectively. The additional charges not yet incurred associated with the restructuring actions approved to-date of approximately $10 to $15 before taxes are expected to be recorded primarily in 2018, which primarily related to the Transformation Plan. At September 30, 2018, we have liabilities of approximately $55 associated the restructuring actions, primarily associated with our Transformation Plan. The majority of future cash payments associated with these restructuring liabilities are expected to be made during the remainder of 2018 and 2019.

For additional details on restructuring initiatives, see Note 11, Restructuring Initiatives, to the Consolidated Financial Statements included herein.

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—THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

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, Adjusted 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 and underlying business results. 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 constant exchange rates, which are updated on an annual basis as part of

our budgeting process. Foreign currency impact is determined as the difference between actual growth rates and Constant $ growth rates.

We also present revenue, gross margin, SG&A as a percentage of revenue, operating profit, operating margin, income (loss) before taxes, income taxes and effective tax rate 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. See "Reconciliation of Non-GAAP Financial Measures" within "Results of Operations" in this MD&A for this quantitative reconciliation.

The Company uses the Non-GAAP financial measures to evaluate its operating performance. 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. 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 Company believes that it is meaningful for investors to be made aware of the impacts of 1) the Brazil IPI tax release; 2) CTI restructuring initiatives; 3) a charge for a loss contingency related to a non-US pension plan ("Loss contingency") and 4) one-time tax items that are not associated with recurring, normal operations ("Special tax items").

The Brazil IPI tax release includes the impact on the Consolidated Statement of Operations during the third quarter of 2018 of the release of the liability related to IPI tax on cosmetics in Brazil. The release was recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively. The Brazil IPI tax release also includes approximately $66 recorded in income taxes.

The Loss contingency includes the impact on the Consolidated Statements of Operations during the second quarter of 2017 caused by a charge of approximately $18 for a loss contingency related to a non-US pension plan, for which an amendment to the plan that occurred in a prior year many not have been properly implemented.

The Special tax items includes the impact on the provision for income taxes in the Consolidated Statements of Operations during the first, second and third quarters of 2018 due to one-time tax reserves of approximately $9, $6 and $4, respectively, associated with our uncertain tax positions.

See Note 7, Contingencies, Note 11, Restructuring Initiatives, Note 6, Employee Benefit Plans, and Note 16, Income Taxes, to the Consolidated Financial Statements included herein and "Effective Tax Rate" in this MD&A for more information on these items.

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,		
	2018	2017	%/Basis Point Change	2018	2017	%/Basis Point Change
Select Consolidated Financial Information						
Total revenue	$1,424.2	$1,417.8	— %	$4,169.6	$4,146.8	1 %
Cost of sales	538.4	550.0	(2)%	1,657.8	1,592.1	4 %
Selling, general and administrative expenses	698.9	780.5	(10)%	2,227.0	2,404.9	(7)%
Operating profit	186.9	87.3	*	284.8	149.8	90 %
Interest expense	31.3	34.8	(10)%	102.0	106.0	(4)%
Interest income	(4.3)	(3.4)	26 %	(12.0)	(11.2)	7 %
Other (income) expense, net	(22.2)	7.9	*	(.3)	25.9	*
Loss on extinguishment of debt	—	—	*	2.9	—	*
Income before taxes	182.1	48.0	*	192.2	29.1	*
Net income (loss)	113.8	11.9	*	55.7	(70.4)	*
Net income (loss) attributable to Avon	$114.5	$12.5	*	$58.1	$(69.5)	*
Diluted income (loss) per share attributable to Avon	$.21	$.01	*	$.09	$(.20)	*
Advertising expenses[1]	$32.1	$29.6	8 %	$93.2	$93.0	— %
Reconciliation of Non-GAAP Financial Measures						
Total revenue	$1,424.2	$1,417.8	— %	$4,169.6	$4,146.8	1 %
Brazil IPI tax release	(168.4)	—		(168.4)	—	
Adjusted revenue	$1,255.8	$1,417.8	(11)%	$4,001.2	$4,146.8	(4)%
Gross margin	62.2 %	61.2 %	100	60.2 %	61.6 %	(140)
Brazil IPI tax release	(5.1)	—	(510)	(1.6)	—	(160)
CTI restructuring	—	—	—	—	—	—
Adjusted gross margin	57.1 %	61.2 %	(410)	58.6 %	61.6 %	(300)
Selling, general and administrative expenses as a % of total revenue	49.1 %	55.1 %	(600)	53.4 %	58.0 %	(460)
Brazil IPI tax release	6.4	—	640	2.2	—	220
CTI restructuring	(1.4)	(.4)	(100)	(1.3)	(.9)	(40)
Loss contingency	—	—	—	—	(.4)	40
Adjusted selling, general and administrative expenses as a % of Adjusted revenue	54.1 %	54.6 %	(50)	54.3 %	56.7 %	(240)
Operating profit	$186.9	$87.3	*	$284.8	$149.8	90 %
Brazil IPI tax release	(168.4)	—		(168.4)	—	

CTI restructuring	19.8	6.2		54.4	36.5	
Loss contingency	—	—		—	18.2	
Adjusted operating profit	$38.3	$93.5	(59)%	$170.8	$204.5	(16)%
Operating margin	13.1%	6.2%	690	6.8%	3.6%	320
Brazil IPI tax release	(11.5)	—	(1,150)	(3.8)	—	(380)
CTI restructuring	1.4	.4	100	1.3	.9	40
Loss contingency	—	—	—	—	.4	(40)
Adjusted operating margin	3.0%	6.6%	(360)	4.3%	4.9%	(60)
Change in Constant $ Adjusted operating margin[2]			(290)			(50)
Income before taxes	$182.1	$48.0	*	$192.2	$29.1	*
Brazil IPI tax release	(194.7)	—		(194.7)	—	
CTI restructuring	19.8	6.2		54.4	36.5	

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,		
	2018	2017	%/Basis Point Change	2018	2017	%/Basis Point Change
Loss contingency	—	—		—	18.2	
Adjusted income before taxes	$7.2	$54.2	(87)%	$51.9	$83.8	(38)%
Income taxes	$(68.3)	$(36.1)	89 %	$(136.5)	$(99.5)	37 %
Brazil IPI tax release	66.2	—		66.2	—	
CTI restructuring	(2.3)	(.1)		(4.4)	(1.9)	
Special tax items	3.7	—		18.4	—	
Adjusted income taxes	$(.7)	$(36.2)	(98)%	$(56.3)	$(101.4)	(44)%
Effective tax rate	37.5 %	75.2 %		71.0 %	341.9 %	
Adjusted effective tax rate	9.7 %	66.8 %		108.5 %	121.0 %	
Performance Metrics						
Change in Active Representatives			(5)%			(4)%
Change in units sold			(6)%			(5)%
Change in Ending Representatives			(6)%			(6)%

* Calculation not meaningful

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

(1) Advertising expenses are recorded in SG&A.

(2) Change in Constant $ Adjusted operating margin for all years presented is calculated using the current-year Constant $ rates.

Three Months Ended September 30, 2018

Revenue

During the three months ended September 30, 2018, revenue was relatively unchanged compared to the prior-year period, significantly impacted by the Brazil IPI tax release. Excluding the Brazil IPI release, Adjusted revenue was down 11%, primarily due to the unfavorable impact of foreign exchange. Constant Adjusted $ revenue decreased 1%. Revenue and Constant Adjusted $ revenue included a benefit of approximately 3% due to the impact of adopting the new revenue recognition standard. The 3% benefit was driven primarily by (i) the reclassification of fees paid by Representatives for brochures, late payments and payment processing, and income from appointment kits, from SG&A; partially offset by (ii) the timing of revenue recognition for sales incentives, as revenue deferred during the period for sales incentives not yet satisfied exceeded revenue recognized during the period for prior quarter sales incentives.

Constant $ Adjusted revenue declined primarily in Brazil, which continued to be negatively impacted by competitive pressures, the challenging macroeconomic environment and lower consumption in the market, as well as lower appointments due to the application of strict credit requirements for the acceptance of new Representatives, and to a lesser extent, Russia and South Africa. These declines were partially offset by improved revenue growth management including inflationary pricing in Argentina, and by revenue growth in Mexico which benefited from incremental

media investment. Revenue and Adjusted $ Adjusted revenue were impacted by a decrease in Active Representatives of 5%, which was driven by South Latin America, primarily in Brazil, as well as by Europe, Middle East & Africa, primarily in Russia. The decrease in Active Representatives was partially offset by higher average order. Average order in Constant $ increased 4%, including a benefit of approximately 3% due to the impact of adopting the new revenue recognition standard. Units sold decreased 6%, driven by a decline in Brazil.

Ending Representatives decreased by 6%. The decrease in Ending Representatives at September 30, 2018 as compared to the prior-year period was attributable to all segments, and primarily in Brazil, Russia, Mexico and South Africa.

The impact of the new revenue recognition standard was primarily driven by the following accounting changes effective as of January 1, 2018:

- Certain of our sales incentives and prospective discounts are now considered to be a separate deliverable, thus initially revenue is deferred generally until delivery of the incentive prize to the Representative or future discounts are realized, and at that time the associated cost is recognized in cost of sales. Historically, the cost of sales incentives was recognized in SG&A over the period that the sales incentive was earned; and

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

- Fees paid by Representatives to the Company for brochures, late payments and payment processing are now reflected as revenue, rather than reflected as a reduction of SG&A. The associated cost for brochures that are sold is now recognized in cost of sales rather than in SG&A. Further, the fees and costs associated with brochures are now recognized upon delivery to the Representatives, rather than recognized over the campaign length.

See Note 1, Accounting Policies, to the Consolidated Financial Statements included herein for additional information on the new revenue recognition standard.

On a category basis, our net sales from reportable segments and associated growth rates were as follows:

	Three Months Ended September 30,		% Change	
	2018	2017	US$	Constant $
Beauty:				
Skincare	$339.0	$393.7	(14)%	(4)%
Fragrance	331.9	388.1	(14)	(3)
Color	192.0	243.6	(21)	(11)
Total Beauty	862.9	1,025.4	(16)	(5)
Fashion & Home:				
Fashion	174.7	192.9	(9)	(3)
Home	140.1	148.7	(6)	8
Total Fashion & Home	314.8	341.6	(8)	2
Brazil IPI tax release	168.4	—	*	*
Net sales from reportable segments	$1,346.1	$1,367.0	(2)	12
Net sales from Other operating segments and business activities	.2	11.2	(98)	(98)
Net sales	$1,346.3	$1,378.2	(2)	11

* Calculation not meaningful

See “Segment Review” in this MD&A for additional information related to changes in revenue by segment.

Operating Margin

Operating margin increased 690 basis points, significantly impacted by the Brazil IPI release, and Adjusted operating margin decreased 360 basis points, compared to the same period of 2017, including a decline of 80 basis points due to the impact of adopting the new revenue recognition standard. The decline of 80 basis points was driven by the net negative impact to operating margin of prior quarter sales incentives satisfied during the period and sales incentives deferred during the period, impacted by the mix of products. The changes in operating margin and Adjusted operating margin include the benefits associated with the Transformation Plan, primarily reductions in headcount, as well as other cost reductions. These savings were offset by the inflationary impact on costs outpacing revenue growth. The increases in operating margin and Adjusted operating margin are discussed further below in "Gross Margin" and "Selling, General and Administrative Expenses."

Gross Margin

Gross margin increased 100 basis points, significantly impacted by the Brazil IPI release, and Adjusted gross margin decreased 410 basis points, compared to the same period of 2017, including a decline of 420 basis points due to the impact of adopting the new revenue recognition standard. The decline of 420 basis points was driven by (i) the reclassification of sales incentive costs from SG&A to cost of sales; (ii) the reclassification of fees paid by Representatives for late payments, payment processing and brochures from SG&A to other revenue; and (iii) the

reclassification of income from appointment kits from SG&A to net sales.

Gross margin and Adjusted gross margin were primarily impacted by the following:

- an increase of 140 basis points due to the favorable net impact of mix and pricing, driven by inflationary pricing in Argentina.

This item was partially offset by the following:

- a decrease of 70 basis points due to higher supply chain costs, driven by higher material costs primarily in South Latin America;
- a decrease of 30 basis points due to the unfavorable impact as a result of hyperinflationary accounting in Argentina effective July 1, 2018, primarily due to inventory being accounted for at its historical dollar cost; and

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

- a decrease of 30 basis points due to the net unfavorable impact of foreign currency transaction losses and foreign currency translation.

Selling, General and Administrative Expenses

SG&A as a percentage of revenue decreased 600 basis points, significantly impacted by the Brazil IPI release as well as higher CTI restructuring, and Adjusted SG&A as a percentage of Adjusted revenue decreased 50 basis points, compared to the same period of 2017, in each case including a benefit of 330 basis points due to the impact of adopting the new revenue recognition standard. The 330 basis point benefit was driven by (i) the reclassification of sales incentive costs from SG&A to cost of sales; (ii) the reclassification of fees paid by Representatives for late payments, payment processing and brochures from SG&A to other revenue; and (iii) the reclassification of income from appointment kits from SG&A to net sales.

SG&A as a percentage of revenue and Adjusted SG&A as a percentage of revenue were primarily impacted by the following:

- an increase of 100 basis points due to higher Representative, sales leader and field expense, across South Latin America, Europe, Middle East & Africa, and North Latin America. The most significant market driving this increase was Brazil, due to investments aimed at recovering activity levels that were disrupted by the national transportation strike in the second quarter of 2018;
- an increase of 60 basis points from higher advertising expense as compared to the prior-year period, across South Latin America, Europe, Middle East & Africa, and North Latin America. The most significant market driving this increase was Mexico, due to incremental media investment in the Color and Fragrance categories to support new product launches;
- an increase of 60 basis points from higher net brochure cost, primarily in Brazil due to an increase in brochure volumes, and to a lesser extent, in the United Kingdom, South Africa and Russia;
- an increase of 50 basis points from higher transportation costs, mainly in Brazil, primarily driven by an increase in fuel prices;
- a net increase of 50 basis points primarily due to the impact of the Constant $ Adjusted revenue decline causing deleverage of our fixed expenses; and
- an increase of approximately 40 basis points due to the net unfavorable impact of foreign currency transaction losses and foreign currency translation.

These items were partially offset by the following:

- a decrease of 60 basis points from our expenses associated with employee incentive compensation plans; and
- a decrease of 40 basis points from lower bad debt, driven by Europe, Middle East & Africa, most significantly in Russia and South Africa. Bad debt expense in Russia in the prior-period was negatively impacted by a payment facilitation agency that had not remitted to us the funds it received from certain Representatives. In South Africa, the year-over-year bad debt expense comparison benefited from stricter credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year.

Other Expenses

Interest expense decreased by approximately $4 and interest income increased by approximately $1 compared to the prior-year period.

Other income, net, of $22 increased by approximately $30 compared to other expense, net of $8 in the prior-year period, primarily due to the impact of the Brazil IPI tax release of $27. Other income, net also benefited from lower expenses associated with employee benefit plans of $6, including the impact of a $3 settlement charge recorded in the third quarter of 2017 associated with the United Kingdom pension plan. This was partially offset by an approximate $3 unfavorable impact of higher foreign exchange net losses. See Note 7, Contingencies to the Consolidated Financial

Statements included herein for more information on the Brazil IPI tax release.

Effective Tax Rate

The effective tax rates and the Adjusted effective tax rates in 2018 and 2017 continue to be impacted by our inability to recognize additional deferred tax assets in various jurisdictions related to our current-year operating results. In addition, the effective tax rates and the Adjusted effective tax rates in 2018 and 2017 continue to be impacted by withholding taxes associated with certain intercompany payments, including royalties, service charges, interest and dividends, which in the aggregate are relatively consistent each year due to the need to repatriate funds to cover U.S.-based costs, such as interest on debt and corporate overhead. These factors resulted in unusually high effective tax rates and the Adjusted effective tax rates in 2018 and 2017.

Our effective tax rates for the three months ended September 30, 2018 and 2017 were 37.5% and 75.2%, respectively. The effective tax rates in 2018 and 2017 were also impacted by CTI restructuring charges, country mix of earnings and withholding taxes. In addition the effective tax rate in the third quarter of 2018 was favorably impacted by the accrual of tax benefits of approximately $14 associated with the initial recognition of tax benefits associated with Avon's interpretation of recent case law, releases of tax reserves of approximately $3 associated with our uncertain tax positions and other net benefits of approximately $2.

Our Adjusted effective tax rates for the three months ended September 30, 2018 and 2017 were 9.7% and 66.8%, respectively. The Adjusted effective tax rate in the third quarter of 2018 was also favorably impacted by the accrual of tax benefits of approximately $14 associated with the initial recognition of tax benefits associated with Avon's interpretation of recent case law, releases of tax reserves of approximately $7 associated with our uncertain tax positions and other net benefits of approximately $2. The Adjusted effective tax rate in the third quarter of 2017 was also impacted by a net increase of approximately $6 associated with our uncertain tax positions offset with the accrual of $4 of other tax benefits.

See Note 16, Income Taxes, to the Consolidated Financial Statements included herein for more information on the effective tax rate, and Note 11, Restructuring Initiatives, to the Consolidated Financial Statements included herein for more information on CTI restructuring.

Impact of Foreign Currency

As compared to the prior-year period, foreign currency has impacted our consolidated financial results in the form of:

- foreign currency transaction losses (classified within cost of sales, and SG&A in our Consolidated Statements of Operations), which had an unfavorable impact to operating profit and Adjusted operating profit of approximately $5, or approximately 40 basis points to operating margin and Adjusted operating margin;
- foreign currency translation, which had an unfavorable impact to operating profit and Adjusted operating profit of approximately $60 and approximately $15, respectively, or approximately 200 basis points and approximately 60 basis points, respectively, to operating margin and Adjusted operating margin; and
- higher foreign exchange net losses on our working capital (classified within other expense, net in our Consolidated Statements of Operations) as compared to the prior year, resulting in an unfavorable impact of approximately $5 before tax on both a reported and Adjusted basis.

Nine Months Ended September 30, 2018

Revenue

During the nine months ended September 30, 2018, revenue increased 1% compared to the prior-year period, significantly impacted by the Brazil IPI tax release. Excluding the Brazil IPI release, Adjusted revenue was down 4%, primarily due to the unfavorable impact of foreign exchange. Constant $ Adjusted revenue increased 1%. Revenue and Constant $ Adjusted revenue included a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. The 5% benefit was driven primarily by the reclassification of fees paid by Representatives for brochures, late payments and payment processing, and income from appointment kits, from SG&A. The impact of timing of revenue recognition for sales incentives was negligible.

Constant $ Adjusted revenue was impacted by declines primarily in Brazil, which continued to be negatively impacted by competitive pressures, the challenging macroeconomic environment and lower consumption in the market, as well as lower appointments due to the application of strict credit requirements for the acceptance of new Representatives, and to a lesser extent, in the United Kingdom, South Africa and Russia. These declines were partially offset by improved revenue growth management including inflationary pricing in Argentina. Revenue and Constant $ Adjusted revenue were impacted by a decrease in Active Representatives of 4%, which was primarily driven by South Latin

America, primarily in Brazil, and to a lesser extent by Europe, Middle East & Africa and North Latin America. Average order in Constant $ increased 5%, including a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. Units sold decreased 5%, driven by a decline in Brazil.

On a category basis, our net sales from reportable segments and associated growth rates were as follows:

	Nine Months Ended September 30,		% Change	
	2018	2017	US$	Constant $
Beauty:				
Skincare	$1,100.5	$1,171.7	(6)%	(2)%
Fragrance	1,033.7	1,096.8	(6)	(1)
Color	640.0	716.9	(11)	(7)
Total Beauty	2,774.2	2,985.4	(7)	(3)
Fashion & Home:				
Fashion	549.2	585.6	(6)	(4)
Home	413.8	427.3	(3)	4
Total Fashion & Home	963.0	1,012.9	(5)	(1)
Brazil IPI tax release	168.4	—	*	*
Net sales from reportable segments	$3,905.6	$3,998.3	(2)	3
Net sales from Other operating segments and business activities	19.1	31.5	(39)	(40)
Net sales	$3,924.7	$4,029.8	(3)	3

* Calculation not meaningful

See “Segment Review” in this MD&A for additional information related to changes in revenue by segment.

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

Operating Margin

Operating margin increased 320 basis points, significantly impacted by the Brazil IPI release, and Adjusted operating margin decreased 60 basis points, compared to the same period of 2017, including a benefit of 20 basis points due to the impact of adopting the new revenue recognition standard. The benefit of 20 basis points was driven by the net positive contribution to operating margin of fourth quarter 2017 sales incentives satisfied during the nine months ended September 30, 2018 and sales incentives deferred during the period, impacted by the mix of products. The changes in operating margin and Adjusted operating margin include the benefits associated with the Transformation Plan, primarily reductions in headcount, as well as other cost reductions. These savings were offset by the inflationary impact on costs outpacing revenue growth. The increases in operating margin and Adjusted operating margin are discussed further below in "Gross Margin" and "Selling, General and Administrative Expenses."

Gross Margin

Gross margin decreased 140 basis points, significantly impacted by the Brazil IPI release, and Adjusted gross margin decreased 300 basis points, compared to the same period of 2017, including a decline of 350 basis points due to the impact of adopting the new revenue recognition standard. The 350 basis point decline was driven by (i) the reclassification of sales incentive costs from SG&A to cost of sales; (ii) the reclassification of fees paid by Representatives for late payments, payment processing and brochures from SG&A to other revenue; and (iii) the reclassification of income from appointment kits from SG&A to net sales.

Gross margin and Adjusted gross margin were primarily impacted by the following:

- an increase of 110 basis points due to the favorable net impact of mix and pricing, driven by inflationary pricing in Argentina.

This item was partially offset by the following:

- a decrease of 60 basis points due to higher supply chain costs, driven by higher material costs primarily in South Latin America.

Selling, General and Administrative Expenses

SG&A as a percentage of total revenue decreased 460 basis points, significantly impacted by the Brazil IPI release, a loss contingency recorded in the prior-year period related to a non-U.S. pension plan, and higher CTI restructuring. Adjusted SG&A as a percentage of Adjusted revenue decreased 240 basis points, compared to the same period of 2017. SG&A as a percentage of total revenue and Adjusted SG&A as a percentage of Adjusted revenue include a benefit of 360 basis points due to the impact of adopting the new revenue recognition standard. The 360 basis point benefit was driven by (i) the reclassification of sales incentive costs from SG&A to cost of sales; (ii) the reclassification of fees paid by Representatives for late payments, payment processing and brochures from SG&A to other revenue; and (iii) the reclassification of income from appointment kits from SG&A to net sales.

SG&A as a percentage of total revenue and Adjusted SG&A as a percentage of total revenue were primarily impacted by the following:

- an increase of 50 basis points from higher transportation costs, mainly in Brazil primarily driven by inefficiencies caused by the national transportation strike and an increase in fuel prices, in Mexico due to an increase in fuel prices and by further increases in delivery rates in Russia;
- an increase of approximately 30 basis points due to the net unfavorable impact of foreign currency transaction losses and foreign currency translation;
- an increase of 40 basis points due to higher net brochure expense primarily due to an increase in brochure volumes in Brazil; and
- an increase of 40 basis points due to to the net impact of declining revenue with respect to Representative, sales leader and field expense.

These items were partially offset by the following:

- a decrease of 50 basis points from lower bad debt expense, primarily in Brazil, as the prior-year period was impacted by lower than anticipated collection of receivables; and
- a decrease of 30 basis points from our expenses associated with employee incentive compensation plans (see further details below).

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

Our expenses associated with employee incentive compensation plans had year-on-year benefit of approximately 30 basis points, as a benefit of approximately $19 mainly associated with a change in the way that we record our accrual in interim periods for 2018 employee incentive compensation plans was offset by an approximate $6 true-up to the accrual for 2017 employee incentive compensation plans which were paid in 2018. Our accrual for 2018 employee incentive compensation plan uses a phased approach that takes into account the relative contribution of the quarter's performance to the total annual target. In both the nine month ended September 30, 2018 and 2017, the accrual was adjusted for the latest estimate of bonus payout (based on full year performance), resulting in a year-on-year benefit of approximately 30 basis points.

Other Expenses

Interest expense decreased by approximately $4 and interest income increased by $1 compared to the prior-year period.

A loss on extinguishment of debt of approximately $3 before tax was recorded in the second quarter of 2018 in connection with the prepayment of our 6.50% Notes. The loss of approximately $3 consisted primarily of the approximate $6 make-whole premium, partially offset by a write off of a deferred gain of approximately $4 associated with the March 2012 interest-rate swap agreement termination (see Note 15, Debt, to the Consolidated Financial Statements).

Other expense, net, decreased by approximately $26 compared to the prior-year period, including the impact of the Brazil IPI tax release of $27. Other expense, net was negatively impacted by foreign exchange net losses of $16 in the current period as compared to net gains of $2 in the prior-year period, and other miscellaneous unfavorable impacts totaling $4. This was partially offset by (i) approximately $12 recorded for our proportionate share of New Avon's losses during the nine months ended September 30, 2017, and (ii) lower expenses associated with employee benefit plans of $10, including the impact of a $3 settlement charge recorded in the third quarter of 2017 associated with the United Kingdom pension. As the recorded investment balance in New Avon was zero at the end of the third quarter of 2017, we have not recorded any additional losses associated with New Avon since the third quarter of 2017. See Note 3, Investment in New Avon and Note 7, Contingencies to the Consolidated Financial Statements included herein for more information on New Avon and the Brazil IPI tax release.

Effective Tax Rate

The effective tax rates and the Adjusted effective tax rates in 2018 and 2017 continue to be impacted by our inability to recognize additional deferred tax assets in various jurisdictions related to our current-year operating results. In addition, the effective tax rates and the Adjusted effective tax rates in 2018 and 2017 continue to be impacted by withholding taxes associated with certain intercompany payments, including royalties, service charges, interest and dividends, which in the aggregate are relatively consistent each year due to the need to repatriate funds to cover U.S.-based costs, such as interest on debt and corporate overhead. These factors resulted in unusually high effective tax rates and the Adjusted effective tax rates in 2018 and 2017.

Our effective tax rates for the nine months ended September 30, 2018 and 2017 were 71.0% and 341.9%, respectively. The effective tax rates in 2018 and 2017 were also impacted by CTI restructuring charges, country mix of earnings and withholding taxes. In addition, the effective tax rate in 2018 was favorably impacted by the accrual of tax benefits of approximately $14 associated with the initial recognition of tax benefits associated with Avon's interpretation of recent case law, the recognition of approximately $4 of deferred tax assets that had previously been subject to a full valuation allowance and other net benefits of approximately $1 offset with an increase of approximately $11 associated with our uncertain tax positions.

Our Adjusted effective tax rates for the nine months ended September 30, 2018 and 2017 were 108.5% and 121.0%, respectively. While the Adjusted effective tax rate was still high during the nine months ended September 30, 2018,

both the Adjusted effective tax rate and the absolute amount of Adjusted income taxes declined relative to 2017. In addition, the Adjusted effective tax rate in 2018 was also favorably impacted by the accrual of tax benefits of approximately $14 associated with the initial recognition of tax benefits associated with Avon's interpretation of recent case law, releases of tax reserves of approximately $8 associated with our uncertain tax positions and the recognition of $4 of deferred tax assets that had previously been subject to a full valuation allowance offset with other net charges of approximately $1.

See Note 16, Income Taxes, to the Consolidated Financial Statements included herein for more information on the effective tax rate, and Note 11, Restructuring Initiatives, to the Consolidated Financial Statements included herein for more information on CTI restructuring.

Impact of Foreign Currency

As compared to the prior-year period, foreign currency has impacted our consolidated financial results in the form of:

- foreign currency transaction gains (classified within cost of sales, and SG&A), which had an unfavorable impact to operating profit and Adjusted operating profit of an estimated $15, or approximately 30 basis points to operating margin and Adjusted operating margin;
- foreign currency translation, which had an unfavorable impact to operating profit and Adjusted operating profit of approximately $60 and approximately $15, respectively, or approximately 100 basis points and approximately 20 basis points, respectively, to operating margin and Adjusted operating margin; and
- foreign exchange net losses on our working capital (classified within other expense, net) as compared to net gains in the prior year, resulting in a year-over-year unfavorable impact of approximately $20 before tax on both a reported and Adjusted basis.

Segment Review

We determine segment profit by deducting the related costs and expenses from segment revenue. Segment profit includes an allocation of global marketing expenses based on actual revenues. Segment profit excludes global expenses other than the allocation of marketing, CTI restructuring initiatives, a loss contingency related to a non U.S. pension plan, certain significant asset impairment charges, and other items, which are not allocated to a particular segment, if applicable. This is consistent with the manner in which we assess our performance and allocate resources. See Note 9, Segment Information, to the Consolidated Financial Statements included herein for a reconciliation of segment profit to operating profit.

Europe, Middle East & Africa

	Three Months Ended September 30,				Nine Months Ended September 30,			
			%/Basis Point Change				%/Basis Point Change	
	2018	2017	US$	Constant $	2018	2017	US$	Constant $
Total revenue	$442.9	$482.8	(8)%	(3)%	$1,512.0	$1,484.9	2 %	— %
Segment profit	46.1	68.1	(32)%	(28)%	194.9	222.4	(12)%	(15)%
Segment margin	10.4 %	14.1 %	(370)	(370)	12.9 %	15.0 %	(210)	(220)
Change in Active Representatives				(4)%				(3)%
Change in units sold				(7)%				(3)%
Change in Ending Representatives				(5)%				(5)%

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

Three Months Ended September 30, 2018

Total revenue decreased 8% compared to the prior-year period, primarily due to the unfavorable impact of foreign exchange which was driven by the strengthening of the U.S. dollar relative to multiple currencies, primarily the Turkish lira and Russian ruble. On a Constant $ basis, revenue decreased 3%. Revenue and Constant $ revenue included a benefit of approximately 2% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue were negatively impacted primarily by a decrease in Active Representatives, as well as lower average order. The decline in both Active Representatives and Ending Representatives was primarily driven by a

decline in Russia, and to a lesser extent, a decline in South Africa.

In Russia, revenue decreased 16%, unfavorably impacted by foreign exchange. On a Constant $ basis, Russia's revenue decreased 7%. Russia's revenue and Constant $ revenue included a benefit of approximately 2% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in Russia were negatively impacted by a decrease in Active Representatives. Revenue and Constant $ revenue in Russia was also impacted by lower consumption in the market.

In the United Kingdom, revenue and Constant $ revenue decreased 5%. The United Kingdom's revenue and Constant $ revenue included a benefit of 5% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in the United Kingdom were negatively impacted by a decrease in Active Representatives, driven by the continuation of underlying field issues, partially offset by higher average order.

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

In South Africa, revenue decreased 15%, unfavorably impacted by foreign exchange. On a Constant $ basis, South Africa's revenue decreased 10%. South Africa's revenue and Constant $ revenue included a benefit of 2% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in South Africa were negatively impacted by a decrease in Active Representatives, resulting from the challenging macroeconomic environment and the application of stricter credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year.

Segment margin decreased 370 basis points on both a reported and Constant $ basis, including a decline of 110 basis points due to the impact of the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a net decline of 170 basis points primarily due to higher fixed expenses and the impact of the Constant $ revenue decline causing deleverage of our fixed expenses. Higher fixed expenses were primarily driven by inflationary cost increases, such as labor costs in our manufacturing facility in Poland, as well as higher investments in information technology;
- a decline of 80 basis points due to higher Representative, sales leader and field expense, driven by increased investment in Central Europe, and higher pay-outs to the field compared to the prior-year period and in line with revenue performance in Turkey;
- a decline of 60 basis points due to higher net brochure cost, primarily in the United Kingdom, South Africa, and Russia;
- a decline of 60 basis points from higher advertising expense, driven by increased spend in South Africa and Central Europe to support new product launches;
- a decline of 60 basis points from higher variable distribution cost, primarily relating to increased flexibility in order processing in the United Kingdom;
- a decline of 50 basis points from higher transportation costs, driven by further increases in delivery rates in Russia and increased flexibility in order processing in the United Kingdom;
- a benefit of 130 basis points due to higher gross margin primarily caused by 140 basis points from the favorable net impact of mix and pricing and 50 basis points from lower supply chain costs driven by lower material costs, partially offset by an estimated 60 basis points from the unfavorable impact of foreign currency net losses; and
- a benefit of 80 basis points due to lower net bad debt expense, driven by Russia and South Africa. Bad debt expense in Russia in the prior-period was negatively impacted by a payment facilitation agency that had not remitted to us the funds it received from certain Representatives. In South Africa, the year-over-year bad debt expense comparison benefited from stricter credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year.

Nine Months Ended September 30, 2018

Total revenue increased 2% compared to the prior-year period, primarily due to the favorable impact of foreign exchange which was driven by the strengthening of the U.S. dollar relative to multiple currencies, primarily the Turkish lira and Russian ruble. On a Constant $ basis, revenue was relatively unchanged. Revenue and Constant $ revenue included a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue were negatively impacted primarily by a decrease in Active Representatives,

In Russia, revenue decreased 2%, unfavorably impacted by foreign exchange. On a Constant $ basis, Russia's revenue increased 1%. Russia's revenue and Constant $ revenue included a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in Russia were negatively impacted by a decrease in Active Representatives. Revenue and Constant $ revenue in Russia was also negatively impacted by continued competitive pressures and lower consumption in the market.

In the United Kingdom, revenue decreased 2%, despite the favorable impact of foreign exchange. On a Constant $ basis, the United Kingdom's revenue declined 8%. The United Kingdom's revenue and Constant $ revenue included a benefit of 4% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in the United Kingdom were negatively impacted by a decrease in Active Representatives, driven by the continuation of underlying field issues, partially offset by higher average order.

In South Africa, revenue decreased 2%, primarily due to the favorable impact of foreign exchange. On a Constant $ basis, South Africa's revenue declined 5%. South Africa's revenue and Constant $ revenue included a benefit of 3% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in South Africa were negatively impacted

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

by a decrease in Active Representatives, resulting from the challenging macroeconomic environment and the application of stricter credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year.

Segment margin decreased 210 basis points, or 220 basis points on a Constant $ basis, including a decline of 20 basis points due to the impact of the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a net decline of 70 basis points primarily due to the impact of the Constant $ revenue decline causing deleverage of our fixed expenses;
- a decline of 50 basis points from higher transportation costs, driven by further increases in delivery rates in Russia and increased flexibility in order processing in the United Kingdom;
- a decline of 40 basis points from higher variable distribution cost primarily relating to increased flexibility in order processing in the United Kingdom;
- a decline of 40 basis points due to to the net impact of declining revenue with respect to Representative, sales leader and field expense, as well as driven by increased investment in Central Europe, and higher pay-outs to the field compared to the prior-year period and in line with revenue performance in Turkey;
- a decline of 30 basis points due to higher net brochure cost, primarily in the United Kingdom and in South Africa;
- a decline of 30 basis points from higher advertising expense, primarily due to increased investments in the United Kingdom, South Africa and Russia; and
- a benefit of 40 basis points due to lower net bad debt expense, driven by Russia and South Africa. Bad debt expense in Russia in the prior-period was negatively impacted by a payment facilitation agency that had not remitted to us the funds it received from certain Representatives. In South Africa, the year-over-year bad debt expense comparison benefited from stricter credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year.

South Latin America

	Three Months Ended September 30,				Nine Months Ended September 30,			
			%/Basis Point Change				%/Basis Point Change	
	2018	2017	US$	Constant $	2018	2017	US$	Constant $
Total revenue	$645.4	$589.7	9 %	37 %	$1,658.6	$1,647.0	1 %	13 %
Brazil IPI tax release	(168.4)	—			(168.4)	—		
Adjusted revenue	$477.0	$589.7	(19)%	— %	$1,490.2	$1,647.0	(10)%	2 %
Segment profit	194.1	66.7	*	*	276.5	126.1	*	*
Brazil IPI tax release	(168.4)	—			(168.4)	—		
Adjusted segment profit	$25.7	$66.7	(61)%	(46)%	$108.1	$126.1	(14)%	— %
Segment margin	30.1 %	11.3 %	1,880	2,020	16.7 %	7.7 %	900	1,040
Brazil IPI tax release	(24.7)	—			(9.4)	—		
Adjusted segment margin	5.4 %	11.3 %	(590)	(510)	7.3 %	7.7 %	(40)	(20)
Change in Active Representatives				(7)%				(6)%
Change in units sold				(10)%				(7)%

Change in Ending Representatives	(7)%	(7)%

* Calculation not meaningful

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

Three Months Ended September 30, 2018

Total revenue increased 9% compared to the prior-year period, significantly impacted by the Brazil IPI tax release. Excluding the Brazil IPI release, Adjusted revenue for the region was down 19%. The unfavorable impact of foreign exchange, which was primarily driven by the strengthening of the U.S. dollar relative to the Brazilian real and the Argentinian peso, partially offset the increase in total revenue. On a Constant $ basis, Adjusted revenue was relatively unchanged. Revenue and Constant $

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

Adjusted revenue included a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ Adjusted revenue were negatively impacted by a decrease in Active Representatives, partially offset by higher average order driven by Argentina. The decline in both Active Representatives and Ending Representatives was primarily driven by a decline in Brazil.

Revenue in Brazil increased 27%, significantly impacted by the Brazil IPI release. Excluding the Brazil IPI release, Adjusted revenue in Brazil decreased 23%, unfavorably impacted by foreign exchange, while Brazil's Constant $ Adjusted revenue decreased 5%. Brazil's revenue and Adjusted Constant $ revenue included a benefit of approximately 7% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ Adjusted revenue in Brazil were negatively impacted by a decrease in Active Representatives, as well as lower average order. On an Constant $ Adjusted basis, Brazil’s sales from Beauty products and Fashion & Home products declined 12% and 2%, respectively, including an immaterial impact in both categories due to the impact of the new revenue recognition standard. The decline in Constant $ Beauty sales in Brazil was driven by weaker performance in Color, which was negatively impacted by competition. Revenue and Constant $ Adjusted revenue in Brazil, as well as Active Representatives and Ending Representatives continued to be negatively impacted by competitive pressures, the challenging macroeconomic environment and lower consumption in the market, as well as lower appointments due to the application of strict credit requirements for the acceptance of new Representatives.

Revenue in Argentina declined 33%, unfavorably impacted by foreign exchange. On a Constant $ basis, Argentina's revenue grew 19%. Argentina's revenue and Constant $ revenue included an immaterial benefit due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in Argentina benefited from higher average order, which was impacted by improved revenue growth management including inflationary pricing.

Segment margin increased 1,880 basis points, significantly impacted by the Brazil IPI release. Partially offsetting the Brazil IPI release was the unfavorable impact of approximately 90 basis points as a result of hyperinflationary accounting in Argentina effective July 1, 2018, primarily due to inventory being accounted for at its historical dollar cost. The reported segment margin increase and the Constant $ Adjusted segment margin decrease of 510 basis points both included a decline of 100 basis points due to the impact of adopting the new revenue recognition standard. The remaining decrease in reported and the decrease of Constant $ Adjusted segment margin was primarily as a result of:

- a decline of 130 basis points due to higher Representative, sales leader and field expense, primarily in Brazil due to investments aimed at recovering activity levels that were disrupted by the national transportation strike in the second quarter of 2018;
- a decline of 100 basis points due to higher net brochure cost, primarily in Brazil due to an increase in brochure volumes;
- a net decline of 90 basis points primarily due to the impact of the Constant $ Adjusted revenue decline causing deleverage of our fixed expenses;
- a decline of 70 basis points from higher advertising expense as compared to the prior-year period, primarily in Brazil for a new product launch in the Fragrance category; and
- a decline of 70 basis points due to higher transportation costs in Brazil, primarily driven by an increase in fuel prices in Brazil.

In addition, gross margin was relatively unchanged as compared to the prior-year period, as the favorable net impact of mix and pricing, driven by inflationary pricing in Argentina, was offset by higher supply chain costs driven by higher material costs.

Brazil IPI tax discussion

In May 2015, an Executive Decree on certain cosmetics went into effect in Brazil which increased the amount of IPI taxes that are to be remitted by Avon Brazil to the taxing authority on the sales of cosmetic products subject to IPI. As

of September 30, 2018, due in part, to recent judicial decisions across the industry and other developments, we have concluded, supported by the opinion of legal counsel, that the Executive Decree is unconstitutional. We have therefore assessed the IPI tax under ASC 450, Contingencies and determined that the risk of loss during ongoing judicial reviews is reasonably possible but not probable, and accordingly, we have released our liability accrued to-date of $195. We have considered the release of the liability as a non-GAAP adjustment, and therefore, we have adjusted for the IPI tax of $168 (which was recorded in net sales in our Consolidated Income Statements) and the associated interest of $27 (which was recorded in other (income) expense, net in our Consolidated Income Statements) in our Adjusted non-GAAP results during the three and nine months ended September 30, 2018. The accrual for the Brazil IPI tax negatively impacted total revenue in the nine months ended September 30, 2018 for Brazil, South Latin America, and total Avon by approximately 4-5%, approximately 2-3% and approximately 1%, respectively. For additional

details on the IPI tax on cosmetics increase in Brazil, see Note 7, Contingencies, to the Consolidated Financial Statements included herein.

Argentina discussion

During the quarter ended June 30, 2018, based on published official exchange rates which indicate that Argentina's three-year cumulative inflation rate has exceeded 100%, we concluded that Argentina had become a highly inflationary economy. From July 1, 2018, we have applied highly inflationary accounting for our Argentinian subsidiary. As such, the functional currency for Argentina has changed to the U.S. dollar, which is the consolidated group's reporting currency. When an entity operates in a highly inflationary economy, exchange gains and losses associated with monetary assets and liabilities resulting from changes in the exchange rate are recorded in income. Nonmonetary assets and liabilities, which include inventories, property, plant and equipment and contract liabilities, are carried forward at their historical dollar cost, which was calculated using the exchange rate at June 30, 2018.

As a result of the devaluation of the Argentinian peso of approximately 30% from June 30, 2018 to September 30, 2018, operating profit was negatively impacted by approximately $4, largely in cost of sales in our Consolidated Income Statements, primarily due to inventory being accounted for at its historical dollar cost. During the three months ended September 30, 2018, we also recorded a benefit during the period of approximately $9 in other expense, net primarily associated with the net monetary liability position of Argentina, and an approximate $2 negative impact on income taxes, both in our Consolidated Income Statements.

Our Argentinian operations contributed approximately $67, or approximately 5% of revenues and approximately 8% of Constant $ Adjusted revenue during the three months ended September 30, 2018. Our Argentinian operations contributed approximately $217, or approximately 5% of revenues, or approximately 7% of Constant $ Adjusted revenue during the nine months ended September 30, 2018. As of September 30, 2018, the net Argentine peso-denominated monetary liability position of Argentina was $27 and the net Argentine peso-denominated non-monetary asset position was $55, primarily consisting of inventory balances of $37.

Nine Months Ended September 30, 2018

Total revenue increased 1% compared to the prior-year period, significantly impacted by the Brazil IPI tax release. Excluding the Brazil IPI release, Adjusted revenue for the region was down 10%. The unfavorable impact of foreign exchange, which was primarily driven by the strengthening of the U.S. dollar relative to the Brazilian real and the Argentinian peso, more than offset the increase in total revenue. On a Constant $ basis, Adjusted revenue increased 2%. Revenue and Constant $ Adjusted revenue included a benefit of approximately 6% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ Adjusted revenue were negatively impacted by a decrease in Active Representatives, partially offset by higher average order driven by Argentina.

Revenue in Brazil increased 4%, significantly impacted by the Brazil IPI release. Excluding the Brazil IPI release, Adjusted revenue in Brazil decreased 14%, unfavorably impacted by foreign exchange. Brazil's Constant $ Adjusted revenue decreased 3%. Brazil's revenue and Constant $ Adjusted revenue included a benefit of approximately 9% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ Adjusted revenue in Brazil were negatively impacted by a decrease in Active Representatives, as well as lower average order. On an Adjusted Constant $ basis, Brazil’s sales from Beauty products and Fashion & Home products declined 9% and 5%, respectively, including a 2% benefit in both categories due to the impact of the new revenue recognition standard. The decline in Constant $ Beauty sales in Brazil was driven by weaker performance in Color, which was negatively impacted by competition. Revenue and Constant $ Adjusted revenue in Brazil, as well as Active Representatives and Ending Representatives continued to be negatively impacted by competitive pressures, the challenging macroeconomic environment and lower consumption in the market, as well as lower appointments due to the application of strict credit requirements for the acceptance of new Representatives. In addition, revenue and Constant

$ Adjusted revenue in Brazil, as well as Active Representatives and Ending Representatives, were also impacted by a national transportation strike which affected sales and distribution in the second quarter of 2018.

Revenue in Argentina declined 18%, unfavorably impacted by foreign exchange. On a Constant $ basis, Argentina's revenue grew 22%. Argentina's revenue and Constant $ revenue included a benefit of approximately 1% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in Argentina benefited from higher average order, which was impacted by improved revenue growth management including inflationary pricing.

Segment margin increased 900 basis points, significantly impacted by the Brazil IPI release. Partially offsetting the Brazil IPI release was the unfavorable impact of approximately 30 basis points as a result of hyperinflationary accounting in Argentina effective July 1, 2018, primarily due to inventory being accounted for at its historical dollar cost. The reported segment margin increase and the Constant $ Adjusted segment margin decrease of 20 basis points both included a decline of 30 basis points due

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

to the impact of adopting the new revenue recognition standard. The remaining increase in reported and Constant $ Adjusted segment margin was primarily as a result of:

- a benefit of 130 basis points due to higher gross margin of 140 basis points from the favorable net impact of mix and pricing, driven by inflationary pricing in Argentina, and 60 basis points due to non-recurring net tax recoveries in Brazil. These items were partially offset by 110 basis points due to higher supply chain costs driven by higher material costs;
- a benefit of 100 basis points from lower net bad debt expense, primarily in Brazil, as the prior-year period was impacted by lower than anticipated collection of receivables;
- a decline of 80 basis points due to higher net brochure cost, primarily due to an increase in brochure volumes in Brazil;
- a decline of 70 basis points due to higher transportation costs in Brazil, primarily driven by inefficiencies caused by the national transportation strike and an increase in fuel prices; and
- a decline of 60 basis points due to higher Representative, sales leader and field expense, primarily in Brazil due to investments aimed at recovering activity levels that were disrupted by the national transportation strike in the second quarter of 2018.

North Latin America

	Three Months Ended September 30,				Nine Months Ended September 30,			
			%/Basis Point Change				%/Basis Point Change	
	2018	2017	US$	Constant $	2018	2017	US$	Constant $
Total revenue	$207.0	$206.0	— %	5 %	$609.9	$607.0	— %	2 %
Segment profit	14.3	17.6	(19)%	(18)%	54.1	57.2	(5)%	(6)%
Segment margin	6.9 %	8.5 %	(160)	(190)	8.9 %	9.4 %	(50)	(70)
Change in Active Representatives				(3)%				(5)%
Change in units sold				4 %				(4)%
Change in Ending Representatives				(9)%				(9)%

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

Three Months Ended September 30, 2018

North Latin America consists largely of our Mexico business. Total revenue for the segment was relatively unchanged compared to the prior-year period, unfavorably impacted by foreign exchange, which was primarily driven by the strengthening of the U.S. dollar relative to the Mexican peso. On a Constant $ basis, revenue increased 5%. Revenue and constant dollar revenue included a benefit of approximately 3% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue benefited from higher average order, partially offset by a decrease in Active Representatives. The decline in Ending Representatives was primarily driven by a decline in Mexico.

Revenue in Mexico increased 3%, despite the unfavorable impact of foreign exchange. On a Constant $ basis, Mexico's revenue increased 10%. Mexico's revenue and Constant $ revenue included a benefit of approximately 3% due to the impact of the new revenue recognition standard. Constant $ revenue growth in Mexico was primarily due to higher average order which benefited from incremental media investment in the Color and Fragrance categories, partially offset by a decrease in Active Representatives. Revenue in Mexico continues to be impacted by lower than expected service levels in both the current-year and prior-year periods.

Segment margin decreased 160 basis points, or 190 basis points on a Constant $ basis, including a decline of 90 basis points due to the impact of adopting the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a net decline of 130 basis points due to higher fixed expenses, primarily related to personnel cost;
- a decline of 130 basis points from higher advertising expense, primarily in Mexico due to incremental media investment in the Color and Fragrance categories to support new product launches;
- a decline of 80 basis points due to higher Representative, sales leader and field expense to support recruitment in Central America;

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

- a decline of 40 basis points due to higher transportation costs, primarily related to an increase in fuel prices and additional security costs associated with transportation providers in Mexico;
- a benefit of 200 basis points due to higher gross margin primarily due to 100 basis points from the favorable net impact of mix and pricing, 70 basis points from the favorable impact of foreign currency net gains and 60 basis points from lower supply chain costs driven by lower obsolescence; and
- a benefit of 60 basis points due to lower net bad debt expense primarily driven by the comparison to the higher bad debt levels in the prior-year period.

Nine Months Ended September 30, 2018

North Latin America consists largely of our Mexico business. Total revenue for the segment remained relatively unchanged compared to the prior-year period. On a Constant $ basis, revenue increased 2%. Revenue and Constant $ revenue included a benefit of approximately 5% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue were negatively impacted by a decrease in Active Representatives, partially offset by higher average order.

Revenue in Mexico increased 4%, which was favorably impacted by foreign exchange. On a Constant $ basis, Mexico's revenue increased 5%. Mexico's revenue and Constant $ revenue included a benefit of approximately 5% due to the impact of the new revenue recognition standard. Revenue and Constant $ revenue in Mexico were negatively impacted by a decrease in Active Representatives primarily due to quality issues in the Fashion & Home category in the first quarter of 2018, offset by higher average order which benefited from incremental media investment in the Color and Fragrance categories in the third quarter of 2018.

Segment margin decreased 50 basis points, or 70 basis points on a Constant $ basis, including a benefit of 20 basis points due to the impact of adopting the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a net decline of 170 basis points primarily due to higher fixed expenses, primarily related to personnel cost;
- a decline of 50 basis points due to higher transportation costs, primarily related to an increase in fuel prices in Mexico;
- a benefit of 70 basis points due to higher gross margin primarily due to 90 basis points from the favorable net impact of mix and pricing and 70 basis points from the favorable impact of foreign currency net gains, partially offset by 90 basis points from higher supply chain costs driven by higher material costs; and
- a benefit of 60 basis points due to lower Representative, sales leader and field expense in line with sales performance for the region.

Asia Pacific

	Three Months Ended September 30,				Nine Months Ended September 30,			
			%/Basis Point Change				%/Basis Point Change	
	2018	2017	US$	Constant $	2018	2017	US$	Constant $
Total revenue	$120.5	$118.3	2 %	6 %	$345.0	$345.6	— %	2 %
Segment profit	9.6	13.8	(30)%	(25)%	27.3	37.3	(27)%	(21)%
Segment margin	8.0 %	11.7 %	(370)	(340)	7.9 %	10.8 %	(290)	(240)
Change in Active Representatives				(2)%				(2)%
Change in units sold				6 %				— %
Change in Ending Representatives				(2)%				(2)%

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

Effective from the first quarter of 2018, given that we have exited Australia and New Zealand during 2018, the results of Australia and New Zealand are now reported in Other operating segments and business activities for all periods presented, while previously the results had been reported in the Asia Pacific segment. The impact was not material to Asia Pacific or Other operating segments and business activities and is consistent with how we present other market exits.

Three Months Ended September 30, 2018

Total revenue increased 2% compared to the prior-year period, despite the unfavorable impact of foreign exchange. On a Constant $ basis, revenue increased 6%. Revenue and Constant $ revenue included a benefit of 2% due to the impact of

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

adopting the new revenue recognition standard. Revenue and Constant $ revenue benefited from higher average order, partially offset by a decrease in Active Representatives, most significantly in Malaysia. The decline in Ending Representatives was primarily driven by a decline in Malaysia.

Revenue in the Philippines increased 1%, despite the unfavorable impact of foreign exchange. On a Constant $ basis, revenue in the Philippines increased 7%. Revenue and Constant $ revenue in the Philippines included a benefit of 3% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in the Philippines benefited from higher average order, which was primarily due to the market's initiative to grow the Skincare category and improvements in service, partially offset by a decrease in Active Representatives.

Segment margin decreased 370 basis points, or 340 basis points on a Constant $ basis, including an immaterial impact of adopting the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a decline of 320 basis points from lower gross margin, primarily due to 200 basis points from higher supply chain costs, 90 basis points from the unfavorable net impact of mix and pricing and 40 basis points from the unfavorable impact of foreign currency net losses. Higher supply chain costs were primarily due to higher logistics cost in the Philippines to address service disruptions caused by the inventory system implementation earlier in the year, as well as due to fuel and price increases; and
- a decline of 40 basis points due to higher fixed expenses primarily relating to higher warehousing cost in the Philippines as a result of service disruptions caused by the inventory system implementation earlier in the year.

Nine Months Ended September 30, 2018

Total revenue was relatively unchanged compared to the prior-year period, unfavorably impacted by foreign exchange. On a Constant $ basis, revenue increased 2%. Revenue and Constant $ revenue included a benefit of 1% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue benefited from higher average order, partially offset by a decrease in Active Representatives, most significantly in Malaysia.

Revenue in the Philippines decreased 2%, negatively impacted by the unfavorable impact of foreign exchange. On a Constant $ basis, revenue in the Philippines increased 2%. Revenue and Constant $ revenue in the Philippines included a benefit of 1% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in the Philippines benefited from an increase in Active Representatives and the market's initiative to grow the Skincare category, mainly in the third quarter of 2018. Revenue and Constant $ revenue in the region and the Philippines was also negatively impacted by inventory system implementation issues resulting in service disruption during the first half of 2018.

Segment margin decreased 290 basis points, or 240 basis points on a Constant $ basis, including a decline of 20 basis points due to the impact of adopting the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a decline of 90 basis points due to higher gross margin primarily caused by 50 basis points from higher supply chain costs due to higher logistics cost in the Philippines to address service disruptions caused by the inventory system implementation earlier in the year, which was partially offset by lower obsolescence;
- a decline of 50 basis points due to higher fixed expenses primarily relating to higher warehousing cost in the Philippines as a result of service disruptions caused by the inventory system implementation earlier in the year;
- a decline of 40 basis points related to higher Representative, sales leader and field expense, primarily due to investments in store upgrades and e-commerce in China; and
- a decline of 30 basis points due to higher advertising expense, primarily in China, related to celebrity and digital advertising to support growth.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds historically have been cash flows from operations, public offerings of notes, bank financings, issuance of commercial paper, borrowings under lines of credit and a private placement of notes. At September 30, 2018, we had cash and cash equivalents totaling approximately $453. We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months. On June 12, 2018, we received a decision authorizing Avon to withdraw the amount held as a judicial deposit relating to Brazil IPI taxes, substituting it by letter of guarantee, which was presented; on July 30, 2018, $68 was received (described more fully in Note 7, Contingencies, to the Consolidated Financial Statements included herein). We may seek to repurchase our equity or to retire our outstanding debt in open market purchases, privately negotiated transactions, through derivative instruments, cash tender offers or otherwise. Repurchases of equity and debt may be funded by the incurrence of additional debt or the issuance of equity (including shares of preferred stock) or convertible securities and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material. We may also elect to incur additional debt or issue equity (including shares of preferred stock) or convertible securities to finance ongoing operations or to meet our other liquidity needs. Any issuances of equity (including shares of preferred stock) or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact earnings per share in future periods. Our credit ratings were downgraded during the past several years, which may impact our ability to access such transactions on favorable terms, if at all. For more information, see "Risk Factors - Our credit ratings were downgraded during the past several years, which could limit our access to financing, affect the market price of our financing and increase financing costs. A further downgrade in our credit ratings may adversely affect our access to liquidity," "Risk Factors - Our indebtedness and any future inability to meet any of our obligations under our indebtedness, could adversely affect us by reducing our flexibility to respond to changing business and economic conditions," and "Risk Factors - A general economic downturn, a recession globally or in one or more of our geographic regions or markets or sudden disruption in business conditions or other challenges may adversely affect our business, our access to liquidity and capital, and our credit ratings" contained in our 2017 Form 10-K.

AVON PRODUCTS, INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(U.S. dollars in millions, except per share data)

Our liquidity could also be negatively impacted by restructuring initiatives, dividends, capital expenditures, acquisitions, and certain contingencies, including any legal or regulatory settlements, described more fully in Note 7, Contingencies, to the Consolidated Financial Statements included herein. See our Cautionary Statement for purposes of the “Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995 contained in this report.

Cash Flows

Net Cash (Used) Provided by Continuing Operating Activities

Net cash used by continuing operating activities during the first nine months of 2018 was approximately $68 as compared to net cash provided by continuing operating activities of approximately $35 during the first nine months of 2017, a decrease of approximately $103. The year-over-year comparison of net cash used by continuing operating activities was unfavorably impacted by higher inventory purchases, lower cash-related earnings, a timing difference of approximately $34 relating to refundable indirect taxes, and the payment of $5 accrued interest related to the 2019 bond prepayment. These unfavorable impacts to the year-over-year comparison of cash from operating activities were partially offset by the judicial deposit receipt of approximately $68 relating to Brazil IPI taxes (described more fully in Note 7, Contingencies, to the Consolidated Financial Statements included herein) and lower net receivables.

Net Cash Used by Continuing Investing Activities

Net cash used by continuing investing activities during the first nine months of 2018 was approximately $72, as compared to approximately $42 during the first nine months of 2017. The approximate $30 increase to net cash used by continuing investing activities was primarily due to an approximate $22 cash distribution received from New Avon LLC in the third quarter of 2017.

Net Cash Used by Continuing Financing Activities

Net cash used by continuing financing activities during the first nine months of 2018 was approximately $255, as compared to approximately $10 during the first nine months of 2017. The approximate $245 unfavorable impact to net cash used by continuing financing activities was primarily due to repayment of debt in the second quarter of 2018.

In our second quarter 2018 Form 10-Q, our Consolidated Statements of Cash Flows presented the payment of a make-whole premium of $6.2, relating to the prepayment of our 6.50% Notes, within cash flows from operating activities; however, this amount should have been presented within cash flows from financing activities. This has been reclassified to cash flows from financing activities for the nine months ended September 30, 2018. We determined that the effect of this revision was not material to our second quarter 2018 Form 10-Q.

Capital Resources

Revolving Credit Facility

In June 2015, Avon International Operations, Inc. ("AIO"), a wholly-owned domestic subsidiary of the Company, entered into a five-year $400.0 senior secured revolving credit facility (the “2015 facility”). As of September 30, 2018, there were no amounts outstanding under the 2015 facility. The 2015 facility will terminate in June 2020; provided, however, that it shall terminate on the 91st day prior to the maturity of the 4.60% Notes (as defined below), if on such 91st day, the applicable notes are not redeemed, repaid, discharged, defeased or otherwise refinanced in full.

As of September 30, 2018, we were in compliance with our interest coverage and total leverage ratios under the 2015 facility, as amended. The amount of the facility available to be drawn down on is reduced by any standby letters of credit granted by AIO, which, as of September 30, 2018, was approximately $31. As of September 30, 2018, based on then applicable interest rates, the entire amount of the remaining 2015 facility, which is approximately $369, could have been drawn down without violating any covenant. Depending on our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), it is possible that we may be non-compliant with our interest coverage or total leverage ratio absent the Company undertaking other alternatives to avoid noncompliance, such as obtaining additional amendments to the 2015 facility or repurchasing certain debt. If we

were to be non-compliant with our interest coverage or total leverage ratio, we would no longer have access to our 2015 facility and our credit ratings may be downgraded. As of June 30, 2018, there were no amounts outstanding under the 2015 facility.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT STRATEGIES

Interest Rate Risk

In the past we have used interest-rate swaps to manage our interest rate exposure. The interest-rate swaps were used to either convert our fixed rate borrowing to a variable interest rate or to unwind an existing variable interest-rate swap on a fixed rate borrowing. As of September 30, 2018, we do not have any interest-rate swap agreements. Approximately 1% of our debt portfolio at September 30, 2018 and December 31, 2017, was exposed to floating interest rates.

Foreign Currency Risk

We conduct business globally, with operations in various locations around the world. Over the past three years, all of our consolidated revenue was derived from operations of subsidiaries outside of the U.S. The functional currency for most of our foreign operations is their local currency. We may reduce our exposure to fluctuations in cash flows associated with changes in foreign exchange rates by creating offsetting positions, including through the use of derivative financial instruments.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements in this report (or in the documents it incorporates by reference) that are not historical facts or information may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimate," "project," "forecast," "plan," "believe," "may," "expect," "anticipate," "intend," "planned," "potential," "can," "expectation," "could," "will," "would" and similar expressions, or the negative of those expressions, may identify forward looking statements. They include, among other things, statements regarding our anticipated or expected results, future financial performance, various strategies and initiatives (including our Transformation Plan, Open Up Avon, stabilization strategies, cost savings initiatives, restructuring and other initiatives and related actions), costs and cost savings, competitive advantages, impairments, the impact of foreign currency, including devaluations, and other laws and regulations, government investigations, results of litigation, contingencies, taxes and tax rates, potential alliances or divestitures, liquidity, cash flow, uses of cash and financing, hedging and risk management strategies, pension, postretirement and incentive compensation plans, supply chain and the legal status of the Representatives. Such forward-looking statements are based on management's reasonable current assumptions, expectations, plans and forecasts regarding the Company's current or future results and future business and economic conditions more generally. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, levels of activity, performance or achievement of Avon to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ

materially from management's expectations. Therefore, you should not rely on any of these forward-looking statements as predictors of future events. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to improve our financial and operational performance and execute fully our global business strategy, including our ability to implement the key initiatives of, and/or realize the projected benefits (in the amounts and time schedules we expect) from, our Transformation Plan, Open Up Avon, stabilization strategies, cost savings initiatives, restructuring and other initiatives, product mix and pricing strategies, enterprise resource planning, customer service initiatives, sales and operation planning process, outsourcing strategies, Internet platform and technology strategies including e-commerce, marketing and advertising strategies, information technology and related system enhancements and cash management, tax, foreign currency hedging and risk management strategies, and any plans to invest these projected benefits ahead of future growth;
- our ability to achieve the anticipated benefits of our strategic partnership with Cerberus Capital Management, L.P.;
- our broad-based geographic portfolio, which is heavily weighted towards emerging markets, a general economic downturn, a recession globally or in one or more of our geographic regions or markets, such as Brazil, Mexico or

Russia, or sudden disruption in business conditions, and the ability to withstand an economic downturn, recession, cost inflation, commodity cost pressures, economic or political instability (including fluctuations in foreign exchange rates), competitive or other market pressures or conditions;

- the effect of economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates; as well as the designation of Argentina as a highly inflationary economy, and the potential effect of such factors on our business, results of operations and financial condition;
- the possibility of business disruption in connection with our Transformation Plan, Open Up Avon, stabilization strategies, cost savings initiatives, or restructuring and other initiatives;
- our ability to reverse declining revenue, to improve margins and net income, or to achieve profitable growth, particularly in our largest markets and developing and emerging markets, such as Brazil, Mexico and Russia;
- our ability to improve working capital and effectively manage doubtful accounts and inventory and implement initiatives to reduce inventory levels, including the potential impact on cash flows and obsolescence;
- our ability to reverse declines in Active Representatives, to enhance our sales leadership programs, to generate Representative activity, to increase the number of consumers served per Representative and their engagement online, to enhance branding and the Representative and consumer experience and increase Representative productivity through field activation and segmentation programs and technology tools and enablers, to invest in the direct-selling channel, to offer a more social selling experience, and to compete with other direct-selling organizations to recruit, retain and service Representatives and to continue to innovate the direct-selling model;
- general economic and business conditions in our markets, including social, economic and political uncertainties, such as in Russia and Ukraine or elsewhere, and any potential sanctions, restrictions or responses to such conditions imposed by other markets in which we operate;
- the effect of political, legal, tax, including changes in tax rates, and other regulatory risks imposed on us abroad and in the U.S., our operations or the Representatives, including foreign exchange, pricing, data privacy or other restrictions, the adoption, interpretation and enforcement of foreign laws, including in jurisdictions such as Brazil and Russia, and any changes thereto, as well as reviews and investigations by government regulators that have occurred or may occur from time to time, including, for example, local regulatory scrutiny;
- competitive uncertainties in our markets, including competition from companies in the consumer packaged goods industry, some of which are larger than we are and have greater resources;
- the impact of the adverse effect of volatile energy, commodity and raw material prices, changes in market trends, purchasing habits of our consumers and changes in consumer preferences, particularly given the global nature of our business and the conduct of our business in primarily one channel;
- our ability to attract and retain key personnel;
- other sudden disruption in business operations beyond our control as a result of events such as acts of terrorism or war, natural disasters, pandemic situations, large-scale power outages and similar events;

- key information technology systems, process or site outages and disruptions, and any cyber security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of Representative, customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident which could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations, and related costs to address such malicious intentional acts and to implement adequate preventative measures against cyber security breaches;
- our ability to comply with various data privacy laws affecting the markets in which we do business;
- the risk of product or ingredient shortages resulting from our concentration of sourcing in fewer suppliers;
- any changes to our credit ratings and the impact of such changes on our financing costs, rates, terms, debt service obligations, access to lending sources and working capital needs;
- the impact of our indebtedness, our access to cash and financing, and our ability to secure financing or financing at attractive rates and terms and conditions;
- the impact of our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), on our ability to comply with certain covenants in our revolving credit facility;
- our ability to successfully identify new business opportunities, strategic alliances and strategic alternatives and identify and analyze alliance candidates, secure financing on favorable terms and negotiate and consummate alliances;
- disruption in our supply chain or manufacturing and distribution operations;
- the quality, safety and efficacy of our products;
- the success of our research and development activities;
- our ability to protect our intellectual property rights, including in connection with the separation of the North America business;
- our ability to repurchase the series C preferred stock in connection with a change of control; and
- the risk of an adverse outcome in any material pending and future litigation or with respect to the legal status of Representatives.

Additional information identifying such factors is contained in Item 1A of our 2017 Form 10-K for the year ended December 31, 2017, and other reports and documents we file with the SEC. We undertake no obligation to update any such forward-looking statements.

AVON PRODUCTS, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our 2017 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our principal executive and principal financial officers carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon their evaluation, the principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of September 30, 2018, at the reasonable assurance level. Disclosure controls and procedures are designed to ensure that information relating to Avon (including our consolidated subsidiaries) required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

Our management has evaluated, with the participation of our principal executive and principal financial officers, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, our management has concluded that no such changes have occurred.

AVON PRODUCTS, INC.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 7, Contingencies, to the Consolidated Financial Statements included herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Repurchases

The following table provides information about our purchases of our common stock during the quarterly period ended September 30, 2018:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
7/1 - 7/31/18	—	$ —	*	*
8/1 - 8/31/18	—	—	*	*
9/1 - 9/30/18	5,097 (1)	2.53	*	*
Total	5,097	$ 2.53	*	*

*These amounts are not applicable as the Company does not have a share repurchase program in effect.

(1) All shares were repurchased by the Company in connection with employee elections to use shares to pay withholding taxes upon the vesting of their restricted stock units and performance restricted stock units. Some of these share repurchases may reflect a delay from the actual transaction date.

AVON PRODUCTS, INC.
ITEM 6. EXHIBITS

10.1	Amendment, dated August 6, 2018, to Miguel Fernandez Relocation Letter dated June 12, 2017.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Loss, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements

AVON PRODUCTS, INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVON PRODUCTS, INC.
(Registrant)

Date: November 2, 2018 /s/ Laura Barbrook
Laura Barbrook
Vice President and Corporate
Controller - Principal Accounting Officer

Signed both on behalf of the
registrant and as chief
accounting officer.

55