AVON PRODUCTS INC
Form 10-Q
August 01, 2013

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 June 30, 2013
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-4881

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

| | |
|---|---|
| New York | 13-0544597 |
| (State or other jurisdiction of Incorporation or organization) | (I.R.S. Employer Identification No.) |

777 Third Avenue, New York, N.Y. 10017-1307
(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

The number of shares of Common Stock (par value $0.25) outstanding at June 30, 2013 was 433,657,188.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | Three Months Ended | |
|---|---|---|
| (In millions, except per share data) | June 30, 2013 | June 30, 2012 |
| Net sales | $2,466.8 | $2,518.2 |
| Other revenue | 42.1 | 40.0 |
| Total revenue | 2,508.9 | 2,558.2 |
| Costs, expenses and other: | | |
| Cost of sales | 935.4 | 949.7 |
| Selling, general and administrative expenses | 1,371.3 | 1,479.6 |
| Operating profit | 202.2 | 128.9 |
| Interest expense | 31.1 | 24.9 |
| Loss on extinguishment of debt | 13.0 | — |
| Interest income | (2.8) | (2.8) |
| Other expense, net | 15.6 | 13.8 |
| Total other expenses | 56.9 | 35.9 |
| Income from continuing operations, before taxes | 145.3 | 93.0 |
| Income taxes | (60.7) | (27.9) |
| Income from continuing operations, net of tax | 84.6 | 65.1 |
| Loss from discontinued operations, net of tax | (50.4) | (2.4) |
| Net income | 34.2 | 62.7 |
| Net income attributable to noncontrolling interests | (2.3) | (1.1) |
| Net income attributable to Avon | $31.9 | $61.6 |
| Earnings (loss) per share: | | |
| Basic from continuing operations | $0.19 | $0.15 |
| Basic from discontinued operations | $(0.12) | $(0.01) |
| Basic attributable to Avon | $0.07 | $0.14 |
| Diluted from continuing operations | $0.19 | $0.15 |
| Diluted from discontinued operations | $(0.11) | $(0.01) |
| Diluted attributable to Avon | $0.07 | $0.14 |
| Cash dividends per common share | $0.06 | $0.23 |

The accompanying notes are an integral part of these statements.

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

| | Six Months Ended | |
|---|---|---|
| (In millions, except per share data) | June 30, 2013 | June 30, 2012 |
| Net sales | $4,873.9 | $5,019.4 |
| Other revenue | 91.0 | 79.2 |
| Total revenue | 4,964.9 | 5,098.6 |
| Costs, expenses and other: | | |
| Cost of sales | 1,860.8 | 1,944.4 |
| Selling, general and administrative expenses | 2,727.9 | 2,952.6 |
| Operating profit | 376.2 | 201.6 |
| Interest expense | 60.5 | 49.5 |
| Loss on extinguishment of debt | 86.0 | — |
| Interest income | (4.8) | (6.7) |
| Other expense, net | 59.9 | 23.8 |
| Total other expenses | 201.6 | 66.6 |
| Income from continuing operations, before taxes | 174.6 | 135.0 |
| Income taxes | (101.5) | (41.7) |
| Income from continuing operations, net of tax | 73.1 | 93.3 |
| Loss from discontinued operations, net of tax | (51.5) | (3.0) |
| Net income | 21.6 | 90.3 |
| Net income attributable to noncontrolling interests | (3.4) | (2.2) |
| Net income attributable to Avon | $18.2 | $88.1 |
| Earnings (loss) per share: | | |
| Basic from continuing operations | $0.16 | $0.21 |
| Basic from discontinued operations | $(0.12) | $(0.01) |
| Basic attributable to Avon | $0.04 | $0.20 |
| Diluted from continuing operations | $0.16 | $0.21 |
| Diluted from discontinued operations | $(0.12) | $(0.01) |
| Diluted attributable to Avon | $0.04 | $0.20 |
| Cash dividends per common share | $0.12 | $0.46 |

The accompanying notes are an integral part of these statements.

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

| | Three Months Ended | |
|---|---|---|
| (In millions) | June 30, 2013 | June 30, 2012 |
| Net income | $34.2 | $62.7 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (107.7) | (189.7) |
| Change in derivative losses on cash flow hedges, net of taxes of $0.2 and $0.6 | 0.3 | 0.9 |
| Change in derivative losses on net investment hedges | — | — |
| Adjustments of and amortization of net actuarial loss, prior service cost, and transition obligation, net of taxes of $7.1 and $(1.3) | 19.6 | 0.3 |
| Total other comprehensive loss, net of taxes | (87.8) | (188.5) |
| Comprehensive loss | (53.6) | (125.8) |
| Less: comprehensive (loss) income attributable to noncontrolling interests | (0.4) | 0.6 |
| Comprehensive loss attributable to Avon | $(53.2) | $(126.4) |

The accompanying notes are an integral part of these statements.

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

| | Six Months Ended | |
|---|---|---|
| (In millions) | June 30, 2013 | June 30, 2012 |
| Net income | $21.6 | $90.3 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (131.1) | (64.8) |
| Change in derivative losses on cash flow hedges, net of taxes of $0.6 and $1.1 | 1.1 | 1.9 |
| Change in derivative losses on net investment hedge | — | (0.3) |
| Adjustments of and amortization of net actuarial loss, prior service cost, and transition obligation, net of taxes of $12.1 and $3.1 | 29.7 | 9.6 |
| Total other comprehensive loss, net of taxes | (100.3) | (53.6) |
| Comprehensive (loss) income | (78.7) | 36.7 |
| Less: comprehensive income attributable to noncontrolling interests | 0.5 | 1.2 |
| Comprehensive (loss) income attributable to Avon | $(79.2) | $35.5 |

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| (In millions) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $873.2 | $1,206.9 |
| Accounts receivable, net | 691.7 | 752.1 |
| Inventories | 1,154.3 | 1,101.1 |
| Prepaid expenses and other | 707.6 | 827.0 |
| Current assets of discontinued operations | 36.1 | 41.8 |
| Total current assets | 3,462.9 | 3,928.9 |
| Property, plant and equipment, at cost | 2,496.7 | 2,684.8 |
| Less accumulated depreciation | (1,102.8) | (1,158.8) |
| Property, plant and equipment, net | 1,393.9 | 1,526.0 |
| Goodwill | 311.3 | 330.3 |
| Other intangible assets, net | 36.4 | 40.6 |
| Other assets | 1,413.4 | 1,407.9 |
| Noncurrent assets of discontinued operations | 67.4 | 148.8 |
| Total assets | $6,685.3 | $7,382.5 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Debt maturing within one year | $263.2 | $572.0 |
| Accounts payable | 861.1 | 914.3 |
| Accrued compensation | 241.1 | 264.7 |
| Other accrued liabilities | 564.7 | 645.3 |
| Sales and taxes other than income | 187.7 | 210.6 |
| Income taxes | 46.4 | 73.6 |
| Current liabilities of discontinued operations | 16.1 | 24.1 |
| Total current liabilities | 2,180.3 | 2,704.6 |
| Long-term debt | 2,634.8 | 2,623.8 |
| Employee benefit plans | 568.3 | 637.6 |
| Long-term income taxes | 49.8 | 52.0 |
| Other liabilities | 119.0 | 131.1 |
| Noncurrent liabilities of discontinued operations | 0.1 | 0.1 |
| Total liabilities | $5,552.3 | $6,149.2 |
| Contingencies (Note 6) | | |
| Shareholders' Equity | | |
| Common stock | $189.3 | $188.3 |
| Additional paid-in capital | 2,159.5 | 2,119.6 |
| Retained earnings | 4,323.8 | 4,357.8 |
| Accumulated other comprehensive loss | (977.0) | (876.7) |
| Treasury stock, at cost | (4,579.3) | (4,571.9) |
| Total Avon shareholders' equity | 1,116.3 | 1,217.1 |
| Noncontrolling interests | 16.7 | 16.2 |
| Total shareholders' equity | $1,133.0 | $1,233.3 |
| Total liabilities and shareholders' equity | $6,685.3 | $7,382.5 |

The accompanying notes are an integral part of these statements.

7

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

| | Six Months Ended | |
|---|---|---|
| (In millions) | June 30, 2013 | June 30, 2012 |
| Cash Flows from Operating Activities | | |
| Net income | $21.6 | $90.3 |
| Loss from discontinued operations, net of tax | 51.5 | 3.0 |
| Income from continuing operations | $73.1 | $93.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 119.8 | 109.1 |
| Provision for doubtful accounts | 113.4 | 134.5 |
| Provision for obsolescence | 53.7 | 59.7 |
| Share-based compensation | 26.2 | 23.2 |
| Deferred income taxes | (27.4) | (72.0) |
| Charge for Venezuelan monetary assets and liabilities | 34.1 | — |
| Other | 30.1 | 20.9 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (103.3) | (94.4) |
| Inventories | (154.3) | (170.4) |
| Prepaid expenses and other | 67.6 | 45.6 |
| Accounts payable and accrued liabilities | (65.8) | 1.0 |
| Income and other taxes | (28.6) | (70.8) |
| Noncurrent assets and liabilities | (68.9) | (43.0) |
| Net cash provided by operating activities of continuing operations | 69.7 | 36.7 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (75.8) | (87.5) |
| Disposal of assets | 12.8 | 9.5 |
| Purchases of investments | (14.2) | (0.8) |
| Proceeds from sale of investments | 0.2 | — |
| Net cash used by investing activities of continuing operations | (77.0) | (78.8) |
| Cash Flows from Financing Activities* | | |
| Cash dividends | (53.9) | (199.2) |
| Debt, net (maturities of three months or less) | 31.6 | (343.1) |
| Proceeds from debt | 1,478.8 | 638.4 |
| Repayment of debt | (1,796.2) | (71.2) |
| Interest rate swap termination | 88.1 | 43.6 |
| Proceeds from exercise of stock options | 16.8 | 7.6 |
| Excess tax benefit realized from share-based compensation | 0.1 | (2.6) |
| Repurchase of common stock | (7.6) | (8.1) |
| Net cash (used) provided by financing activities of continuing operations | (242.3) | 65.4 |
| Cash Flows from Discontinued Operations | | |
| Net cash (used) provided by operating activities of discontinued operations | (0.5) | 4.4 |
| Net cash used by investing activities of discontinued operations | (0.2) | (0.1) |
| Net cash (used) provided by discontinued operations | (0.7) | 4.3 |
| Effect of exchange rate changes on cash and equivalents | (81.0) | 3.7 |
| Net (decrease) increase in cash and equivalents | (331.3) | 31.3 |
| Cash and equivalents at beginning of year(1) | $1,209.6 | $1,245.1 |
| Cash and equivalents at end of period(2) | $878.3 | $1,276.4 |

8

* Non-cash financing activities in the six months ended June 30, 2013 and 2012 included the change in fair market value of interest-rate swap agreements of $(.7) and $(1.1), respectively.

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

(2) Includes cash and cash equivalents of discontinued operations of $5.1 and $8.0 at the end of the period in 2013 and 2012, respectively.

The accompanying notes are an integral part of these statements.

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

## 1. ACCOUNTING POLICIES

### Basis of Presentation

We prepare our unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"). We consistently applied the accounting policies described in our 2012 Annual Report on Form 10-K, as amended ("2012 Form 10-K") in preparing these unaudited financial statements. In our opinion, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results for a full year. You should read these unaudited interim consolidated financial statements in conjunction with our consolidated financial statements contained in our 2012 Form 10-K. When used in this report, the terms "Avon," "Company," "we" or "us" mean Avon Products, Inc.

For interim consolidated financial statement purposes, our tax provision is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. We also provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense.

### Venezuela Currency

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

### New Accounting Standard Implemented

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

## 2. EARNINGS PER SHARE AND SHARE REPURCHASES

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Shares in millions) | 2013 | 2012 | 2013 | 2012 |
| Numerator from continuing operations: | | | | |
| Income from continuing operations less amounts attributable to noncontrolling interests | $82.3 | $64.0 | $69.7 | $91.1 |
| Less: Earnings allocated to participating securities | (.7) | (1.1) | (.6) | (1.9) |
| Income from continuing operations allocated to common shareholders | 81.6 | 62.9 | 69.1 | 89.2 |
| Numerator from discontinued operations: | | | | |
| Loss from discontinued operations | $(50.4) | $(2.4) | $(51.5) | $(3.0) |
| Less: Loss (earnings) allocated to participating securities | .4 | (.6) | .5 | (1.1) |
| Loss allocated to common shareholders | (50.0) | (3.0) | (51.0) | (4.1) |
| Numerator attributable to Avon: | | | | |
| Net income attributable to Avon | $31.9 | $61.6 | $18.2 | $88.1 |
| Less: Earnings allocated to participating securities | (.3) | (1.1) | (.2) | (1.9) |
| Income allocated to common shareholders | 31.6 | 60.5 | 18.0 | 86.2 |
| Denominator: | | | | |
| Basic EPS weighted-average shares outstanding | 433.5 | 432.0 | 433.0 | 431.6 |
| Diluted effect of assumed conversion of stock options | 1.1 | .8 | .9 | .8 |
| Diluted EPS adjusted weighted-average shares outstanding | 434.6 | 432.8 | 433.9 | 432.4 |
| Earnings per Common Share from continuing operations: | | | | |
| Basic | $.19 | $.15 | $.16 | $.21 |
| Diluted | $.19 | $.15 | $.16 | $.21 |
| Loss per Common Share from discontinued operations: | | | | |
| Basic | $(.12) | $(.01) | $(.12) | $(.01) |
| Diluted | $(.11) | $(.01) | $(.12) | $(.01) |
| Earnings per Common Share attributable to Avon: | | | | |
| Basic | $.07 | $.14 | $.04 | $.20 |
| Diluted | $.07 | $.14 | $.04 | $.20 |

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

At June 30, 2013 and 2012, we did not include stock options to purchase 18.2 million shares and 22.2 million shares of Avon common stock, respectively, in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price, and therefore, their inclusion would have been anti-dilutive.

We purchased approximately .4 million shares of Avon common stock for $7.6 during the first six months of 2013, as compared to approximately .4 million shares of Avon common stock for $8.1 during the first six months of 2012, primarily through acquisition of stock from employees in connection with tax payments upon vesting of restricted stock units and private transactions with a broker in connection with stock based obligations under our Deferred Compensation Plan. During the first three months of 2012, shares were also purchased under our previously announced share repurchase program, which expired in the fourth quarter of 2012.

## 3. DISCONTINUED OPERATIONS

On June 30, 2013, the Company entered into an agreement to sell its Silpada jewelry business ("Silpada") for $85, plus an earn-out of up to $15 if Silpada achieves specific earnings targets over two years. Earlier this year, the Company disclosed that it was reviewing strategic alternatives for Silpada. The Company determined as part of this process to divest Silpada because of the timeline and investment required to return the business to historical levels of profitability. Silpada was previously reported within our North America segment and was classified within discontinued operations for all periods presented.

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

The transaction closed on July 3, 2013. The Company expects that the proceeds from the sale will be used for general corporate purposes, including the repayment of outstanding debt. The benefit associated with the earn-out will be recorded in discontinued operations only when it becomes realizable by Avon. In the second quarter of 2013, the Company recorded a pre-tax charge of $79 ($50 net of tax), reflecting the expected loss on sale, which represents the difference between the carrying value of the Silpada business and the expected proceeds.

Summarized financial information for discontinued operations is shown below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Total revenue | $24.7 | $33.5 | $52.3 | $68.5 |
| Operating loss(1) | (80.0) | (2.3) | (81.9) | (3.5) |

(1) Operating loss for the three and six months ended June 30, 2013 includes a pre-tax charge of $79, reflecting the expected loss on sale.

2012 Impairment Assessment

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

Throughout the first nine months of 2012, Silpada continued to perform generally in line with our revenue and earnings forecast and there were no significant changes to our long-term outlook for the business, which was utilized in determining the estimated fair value in our 2011 impairment analysis. Our revenue and earnings forecast for 2012 had projected improvements to the trends (i.e., a reduction of the year-over-year revenue declines) in the latter portion of 2012. In 2012, in an effort to promote sales and grow the business, we made changes to certain members of the Silpada management team, including bringing in personnel who had previously managed other Avon businesses. Among the initiatives implemented by the new Silpada management team was a recruiting incentive program which we had believed would benefit our Representative counts and Representative productivity primarily in the latter portion of 2012, and in turn improve the performance of the business. While we saw improvement in our Representative additions, the recruiting incentive program did not result in the expected Representative productivity. In the fourth quarter of 2012, which is generally the quarter with the largest dollar value of revenue for the Silpada business, it became apparent that we would not achieve our forecasted revenue and earnings for 2012, partially due to the recruiting incentive program not driving the expected Representative productivity, and as a result, Silpada experienced weaker than expected performance in the fourth quarter of 2012. The revenue performance in the fourth quarter of 2012 was approximately 19% less than the estimates utilized in our 2011 impairment analysis. Based on these continued trends, in the latter part of the fourth quarter of 2012, in conjunction with the 2013 planning process and the early stages of our evaluation of strategic alternatives for the business, we lowered our long-term revenue and earnings projections for Silpada in our discounted cash flow ("DCF") model to reflect a more moderate recovery of the business. The more moderate recovery of the business was believed to be appropriate due to the lack of sales momentum in the business and the continued inability of Silpada to achieve our financial performance expectations. The decline in the fair values of the Silpada reporting unit, the trademark, and the customer relationships was primarily driven by the reduction in the forecasted long-term growth rates and cash flows used to estimate fair value. The lower than expected results for fiscal year 2012 served as the baseline for the long-term projections of the business. Fiscal year 2012 revenue for Silpada was approximately 10% less than the estimates utilized in our 2011 impairment analysis and 19% less than fiscal year 2011 results. We forecasted revenue and the resulting cash flows over ten years using a DCF model which included a terminal value at the end of the projection period.

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

4. INVENTORIES

| Components of Inventories | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Raw materials | $382.2 | $393.4 |
| Finished goods | 772.1 | 707.7 |
| Total | $1,154.3 | $1,101.1 |

5. EMPLOYEE BENEFIT PLANS

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | Pension Benefits | | | | | |
| Net Periodic Benefit Costs | U.S. Plans | | Non-U.S. Plans | | Postretirement Benefits | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Service cost | $3.4 | $3.7 | $2.8 | $4.5 | $.5 | $.5 |
| Interest cost | 7.0 | 7.4 | 9.0 | 9.7 | 1.1 | 1.4 |
| Expected return on plan assets | (9.4) | (8.8) | (10.1) | (9.8) | — | — |
| Amortization of prior service credit | (.1) | — | — | (.4) | (1.2) | (3.3) |
| Amortization of net actuarial losses | 12.0 | 10.1 | 2.7 | 4.4 | .6 | 1.0 |
| Curtailments | — | — | (7.5) | — | — | (1.0) |
| Net periodic benefit costs | $12.9 | $12.4 | $(3.1) | $8.4 | $1.0 | $(1.4) |
| | Six Months Ended June 30, | | | | | |
| | Pension Benefits | | | | | |
| Net Periodic Benefit Costs | U.S. Plans | | Non-U.S. Plans | | Postretirement Benefits | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Service cost | $8.4 | $7.5 | $7.6 | $9.0 | $1.0 | $1.0 |
| Interest cost | 13.6 | 14.8 | 18.1 | 19.5 | 2.5 | 2.9 |
| Expected return on plan assets | (18.8) | (18.0) | (19.9) | (19.6) | — | — |
| Amortization of prior service credit | (.2) | (.1) | (.3) | (.8) | (2.4) | (6.6) |
| Amortization of net actuarial losses | 23.3 | 21.9 | 7.3 | 8.8 | 1.4 | 2.0 |
| Curtailments | — | — | (7.5) | — | — | (1.0) |
| Net periodic benefit costs | $26.3 | $26.1 | $5.3 | $16.9 | $2.5 | $(1.7) |

The curtailment gain recognized in the second quarter of 2013 is due to the decision to freeze our defined benefit pension plan in the United Kingdom.

As of June 30, 2013, we made approximately $12 and $47 of contributions to the U.S. and non-U.S. pension and postretirement plans, respectively. During the remainder of 2013, we anticipate contributing approximately $43 to $48 and $18 to $23 to fund our U.S. and non-U.S. pension and postretirement plans, respectively. The contributions made as of June 30, 2013 to the non-U.S. pension and postretirement plans include $25 as a result of our decision to freeze our defined benefit pension plan in the United Kingdom. All future pension benefits in the United Kingdom will now accrue on a defined contribution basis rather than on a defined benefit basis. Our funding requirements may be impacted by regulations or interpretations thereof.

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

## 6. CONTINGENCIES

### FCPA Investigations

As previously reported, we have engaged outside counsel to conduct an internal investigation and compliance reviews focused on compliance with the Foreign Corrupt Practices Act ("FCPA") and related U.S. and foreign laws in China and additional countries. The internal investigation, which is being conducted under the oversight of our Audit Committee, began in June 2008.

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

As previously reported in October 2008, we voluntarily contacted the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") to advise both agencies of our internal investigation. We have cooperated and continue to cooperate with investigations of these matters by the SEC and the DOJ. We have, among other things, signed tolling agreements, responded to inquiries, translated and produced documents, assisted with interviews, and provided information on our internal investigation and compliance reviews, personnel actions taken and steps taken to enhance our ethics and compliance program. As previously reported in August 2012, we are in discussions with the SEC and the DOJ regarding resolving the government investigations. Our factual presentations as part of these discussions are substantially complete. In June 2013, we made an offer of settlement to the DOJ and the SEC that, among other terms, included payment of monetary penalties of approximately $12. The DOJ and the SEC have rejected the terms of our offer. Although we expect that the DOJ and the SEC will make a counterproposal to our offer, they have not yet done so. Our discussions with the DOJ and the SEC are ongoing.

There can be no assurance that a settlement with the SEC and the DOJ will be reached or, if a settlement is reached, the timing of any such settlement or the terms of any such settlement. We expect any such settlement will include civil and/or criminal fines and penalties, and may also include non-monetary remedies, such as oversight requirements and additional remediation and compliance requirements. We may be required to incur significant future costs to comply with the non-monetary terms of any settlement with the SEC and the DOJ. Under certain circumstances, we may also be required to advance significant professional fees and expenses to certain current and former Company employees in connection with these matters. Until any settlement or other resolution of these matters, we expect to continue to incur costs, primarily professional fees and expenses, which may be significant, in connection with the government investigations.

At this point we are unable to predict the developments in, outcome of, and economic and other consequences of the government investigations or their impact on our earnings, cash flows, liquidity, financial condition and ongoing business. However, based on our most recent discussions with the DOJ and the SEC, the Company believes that it is probable that the Company will incur a loss upon settlement that is higher than the offer made by the Company of approximately $12, which was accrued by the Company as of June 30, 2013. We are unable to reasonably estimate the amount of any additional loss above the amount accrued to date; however it is reasonably possible that such additional loss will be material.

Litigation Matters

In July and August 2010, derivative actions were filed in state court against certain present or former officers and/or directors of the Company (Carol J. Parker, derivatively on behalf of Avon Products, Inc. v. W. Don Cornwell, et al. and Avon Products, Inc. as nominal defendant (filed in the New York Supreme Court, Nassau County, Index No. 600570/2010); Lynne Schwartz, derivatively on behalf of Avon Products, Inc. v. Andrea Jung, et al. and Avon Products, Inc. as nominal defendant (filed in the New York Supreme Court, New York County, Index No. 651304/2010)). These actions allege breach of fiduciary duty, abuse of control, waste of corporate assets, and, in one complaint, unjust enrichment, relating to the Company's compliance with the FCPA, including the adequacy of the Company's internal controls. The relief sought against the individual defendants in one or

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

both of these derivative complaints includes certain declaratory and equitable relief, restitution, damages, exemplary damages and interest. The Company is a nominal defendant, and no relief is sought against the Company itself. In the Parker case, plaintiff has agreed that defendants' time to file an answer, motion to dismiss or other response is adjourned until plaintiff files an amended pleading. In Schwartz, the parties have agreed to defer the filing of an amended complaint and the defendants' response thereto until the parties submit a further stipulation addressing the scheduling of proceedings. On May 14, 2012, County of York Retirement Plan ("County of York") - which had been a plaintiff in a previously-filed but now discontinued derivative action - filed a complaint against the Company seeking enforcement of its demands for the inspection of certain of the Company's books and records (County of York Retirement Plan v. Avon Products, Inc., New York Supreme Court, New York County, Index No. 651673/2012). On July 10, 2012, the Company moved to dismiss County of York's complaint. We are unable to predict the outcome of these matters.

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

Under some circumstances, any losses incurred in connection with adverse outcomes in the litigation matters described above could be material.

In April 2012, several purported shareholders' actions were filed against the Company and certain present or former directors of the Company in New York Supreme Court, New York County (Pritika v. Jung, et al., Index No. 651072/2012; Feinman v. Avon Products, Inc., et al., Index No. 651087/2012; Gaines v. Jung, et al., Index No. 651097/2012; Schwartz v. Avon Products, Inc., et al., Index No. 651152/2012; Robaczynki, individually and on behalf of all others similarly situated and derivatively on behalf of Avon Products, Inc. v. Jung, et al., Index No. 651176/2012). On April 26, 2012, the actions were consolidated in New York Supreme Court, New York County (In re Avon Products, Inc. Shareholder Litigation, Consolidated Index No. 651087/2012E). An amended consolidated complaint was filed on May 18, 2012. The amended consolidated complaint asserts a derivative claim against the individual defendants based on alleged breaches of fiduciary duties in connection with indications of interest by Coty, Inc. in acquiring the Company. The Company is named as a nominal defendant on the purported derivative claim, and no relief appears to be sought against the Company on that claim. The amended consolidated complaint also asserts a purported direct claim on behalf of a class of shareholders against the individual defendants based on alleged breaches of such fiduciary duties. Plaintiffs seek compensatory damages as well as injunctive relief. On June 27, 2012, defendants moved to dismiss the consolidated action. By decision and order dated March 5, 2013, the court granted defendants' motion to dismiss the complaint with prejudice. On April 1, 2013, plaintiffs filed a notice of appeal from the court's order dismissing the complaint. On July 1, 2013, plaintiffs' appeal was withdrawn with prejudice.

Brazilian Tax Matters

In 2002, our Brazilian subsidiary received an excise tax (IPI) assessment from the Brazilian tax authorities for alleged tax deficiencies during the years 1997-1998. In December 2012, additional assessments were received for the year

2008 with respect to excise tax (IPI) and taxes charged on gross receipts (PIS and COFINS), totaling approximately $373, $56 and $258 each, including penalties and accrued interest, at the exchange rate on June 30, 2013. The 2002 and the 2012 assessments assert that the establishment in 1995 of separate manufacturing and distribution companies in that country was done without a valid business purpose and that Avon Brazil did not observe minimum pricing rules to define the taxable basis of excise tax. The structure adopted in 1995 is comparable to that used by many other companies in Brazil. We believe that our Brazilian corporate structure is appropriate, both operationally and legally, and that the 2002 and 2012 assessments are unfounded.

These matters are being vigorously contested. In January 2013, we filed a protest seeking a first administrative level review with respect to the 2012 assessments. In July 2013, the 2012 IPI assessment was upheld at the first administrative level (decisions regarding the 2012 PIS and COFINS assessments remain pending). We intend to appeal the decision to the second administrative level. In October 2010, the 2002 assessment was upheld at the first administrative level at an amount reduced to approximately $30 from approximately $71, including penalties and accruing interest, at the exchange rate on June 30, 2013. We have appealed this decision to the second administrative level. In the event that the 2002 or 2012 assessments are upheld at

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

the third and last administrative level, it may be necessary for us to provide security to pursue further appeals, which, depending on the circumstances, may result in a charge to earnings.

It is not possible to reasonably estimate the amount or range of potential loss that we could incur related to the 2002 and 2012 assessments or any additional assessments that may be issued for subsequent periods (tax years up through 2007 are closed by statute). However, other similar excise tax (IPI) assessments involving different periods (1998-2001) have been canceled and officially closed in our favor by the second administrative level, and management believes that the likelihood that the 2002 and 2012 assessments will be upheld is remote.

Other Matters

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

## 7. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

| Three Months Ended June 30, 2013: | Foreign Currency Translation Adjustments | Cash Flow Hedges | Net Investment Hedges | Pension and Postretirement Benefits | Total |
|---|---|---|---|---|---|
| Balance at March 31, 2013 | $ (341.0) | $ (6.0) | $ (4.3) | $ (537.9) | $ (889.2) |
| Other comprehensive loss other than reclassifications | (107.7) | — | — | — | (107.7) |
| Reclassifications into earnings: | | | | | |
| Derivative losses on cash flow hedges, net of tax of $.2[1] | — | .3 | — | — | .3 |
| Adjustments of and amortization of net actuarial loss, prior service costs, and transition obligation, net of tax of $7.1[2] | — | — | — | 19.6 | 19.6 |
| Total reclassifications into earnings | — | .3 | — | 19.6 | 19.9 |
| Balance at June 30, 2013 | $ (448.7) | $ (5.7) | $ (4.3) | $ (518.3) | $ (977.0) |

| Six Months Ended June 30, 2013: | Foreign Currency Translation Adjustments | Cash Flow Hedges | Net Investment Hedges | Pension and Postretirement Benefits | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2012 | $ (317.6) | $ (6.8) | $ (4.3) | $ (548.0) | $ (876.7) |
| Other comprehensive loss other than reclassifications | (131.1) | — | — | — | (131.1) |
| Reclassifications into earnings: | | | | | |
| Derivative losses on cash flow hedges, net of tax of $.6[1] | — | 1.1 | — | — | 1.1 |
| Adjustments of and amortization of net actuarial loss, prior service costs, and transition obligation, net of tax of $12.1[2] | — | — | — | 29.7 | 29.7 |
| Total reclassifications into earnings | — | 1.1 | — | 29.7 | 30.8 |

| | | | | | |
|---|---|---|---|---|---|
| Balance at June 30, 2013 | $ (448.7 ) | $ (5.7 ) | $ (4.3 ) | $ (518.3 ) | $ (977.0 ) |

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

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

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

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Revenue | Operating Profit (Loss) | Revenue | Operating Profit (Loss) |
| Latin America | $1,252.1 | $147.8 | $1,242.8 | $114.9 |
| Europe, Middle East & Africa | 678.4 | 104.1 | 663.1 | 71.3 |
| North America | 380.3 | (11.5) | 433.9 | (1.6) |
| Asia Pacific | 198.1 | 16.4 | 218.4 | 11.1 |
| Total from operations | $2,508.9 | $256.8 | $2,558.2 | $195.7 |
| Global and other | — | (54.6) | — | (66.8) |
| Total | $2,508.9 | $202.2 | $2,558.2 | $128.9 |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Revenue | Operating Profit (Loss) | Revenue | Operating Profit (Loss) |
| Latin America | $2,396.5 | $249.2 | $2,392.3 | $165.7 |
| Europe, Middle East & Africa | 1,411.5 | 215.5 | 1,387.7 | 127.8 |
| North America | 758.8 | (20.8) | 878.5 | 3.4 |
| Asia Pacific | 398.1 | 27.5 | 440.1 | 26.5 |
| Total from operations | $4,964.9 | $471.4 | $5,098.6 | $323.4 |
| Global and other | — | (95.2) | — | (121.8) |
| Total | $4,964.9 | $376.2 | $5,098.6 | $201.6 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Beauty(1) | $1,787.5 | $1,854.5 | $3,555.7 | $3,713.1 |
| Fashion(2) | 414.7 | 430.1 | 819.6 | 848.1 |
| Home(3) | 264.6 | 233.6 | 498.6 | 458.2 |
| Net sales | $2,466.8 | $2,518.2 | $4,873.9 | $5,019.4 |
| Other revenue(4) | 42.1 | 40.0 | 91.0 | 79.2 |
| Total revenue | $2,508.9 | $2,558.2 | $4,964.9 | $5,098.6 |

(1) Beauty includes color cosmetics, fragrances, skincare and personal care.
(2) Fashion includes jewelry, watches, apparel, footwear, accessories and children’s products.
(3) Home includes gift and decorative products, housewares, entertainment and leisure products, children's products and nutritional products.
(4) Other revenue primarily includes shipping and handling and order processing fees billed to Representatives.

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

## 9. SUPPLEMENTAL BALANCE SHEET INFORMATION

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

| Components of Prepaid Expenses and Other | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Deferred tax assets | $233.1 | $273.5 |
| Prepaid taxes and tax refunds receivable | 135.2 | 141.1 |
| Prepaid brochure costs, paper, and other literature | 101.0 | 111.8 |
| Receivables other than trade | 80.0 | 131.6 |
| Short-term investments | 30.7 | 16.5 |
| Healthcare trust assets | 14.7 | 26.9 |
| Interest-rate swap agreements, including interest (Notes 12 and 13) | — | 19.5 |
| Other | 112.9 | 106.1 |
| Prepaid expenses and other | $707.6 | $827.0 |

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

| Components of Other Assets | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Deferred tax assets | $900.1 | $826.9 |
| Capitalized software | 242.5 | 235.4 |
| Long-term receivables | 173.4 | 174.9 |
| Investments | 46.4 | 44.5 |
| Interest-rate swap agreements (Notes 12 and 13) | — | 94.8 |
| Other | 51.0 | 31.4 |
| Other assets | $1,413.4 | $1,407.9 |

## 10. RESTRUCTURING INITIATIVES

### $400M Cost Savings Initiative

In 2012, we announced a cost savings initiative (the "$400M Cost Savings Initiative") in an effort to stabilize the business and return Avon to sustainable growth, which is expected to be achieved through restructuring actions as well as other cost-savings strategies that will not result in restructuring charges. The $400M Cost Savings Initiative is designed to reduce our operating expenses as a percentage of total revenue to help us achieve a targeted low double-digit operating margin by 2016. The restructuring actions under the $400M Cost Savings Initiative primarily consist of global headcount reductions and related actions, as well as the restructuring or closure of certain smaller, under-performing markets, including our exit from the South Korea, Vietnam and Republic of Ireland markets.

As a result of the actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $79.5 before taxes, of which $28.8 before taxes was recorded in the first half of 2013. For the actions approved to-date, we expect our total costs to implement to be in the range of $105 to $115 before taxes. The additional charges not yet incurred associated with the actions approved to-date of approximately $26 to $36 before taxes are expected to be recorded primarily in 2013. At this time we are unable to quantify the total costs that will be incurred through the time the initiative is fully implemented. In connection with the restructuring actions approved to-date associated with the $400M Cost Savings Initiative, we expect to realize annualized savings of approximately $125 before taxes. For market closures, the annualized savings represent the foregone selling, general and administrative expenses as a result of no longer operating in the respective markets. For actions that did not result in the closure of a market, the annualized savings represent the net reduction of expenses that will no longer be incurred by Avon. The annualized savings do not incorporate the impact of the decline in revenue associated with these actions (including market closures), which is not expected to be material.

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

During the three and six months ended June 30, 2013, we recorded costs to implement of $8.5 and $28.8, respectively, related to the $400M Cost Savings Initiative, and the costs consisted of the following:

- net charges of $3.2 and $16.5, respectively, primarily for employee-related costs, including severance benefits;
- contract termination and other charges of $3.9 and $3.9, respectively, primarily related to the costs associated with our exit from the Republic of Ireland market;
- accelerated depreciation of $4.9 and $11.8, respectively, associated with the closure and rationalization of certain facilities;
- net benefit of $3.5 and $3.5, respectively, primarily related to the accumulated foreign currency translation adjustments associated with our exit from the Vietnam market;
- implementation costs of $.4 and $.8, respectively, for professional service fees; and
- net benefits of $.4 and $.7, respectively, related to inventory adjustments.

For the three months ended June 30, 2013, $8.9 of the total costs to implement was recorded in selling, general and administrative expenses and a net benefit of $.4 was recorded in cost of sales. For the six months ended June 30, 2013, $29.5 of the total costs to implement was recorded in selling, general and administrative expenses and a net benefit of $.7 was recorded in cost of sales. The majority of cash payments associated with these charges are expected to be made during 2013.

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

| | Employee-Related Costs | Inventory/Asset Write-offs | Currency Translation Adjustment Write-offs | Contract Terminations/Other | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2012 | $41.3 | $— | $— | $ 1.7 | $43.0 |
| 2013 charges | 17.5 | .2 | (3.5) | 4.4 | 18.6 |
| Adjustments | (1.0) | (.9) | — | (.5) | (2.4) |
| Cash payments | (31.9) | — | — | (4.3) | (36.2) |
| Non-cash write-offs | — | .7 | 3.5 | — | 4.2 |
| Balance at June 30, 2013 | $25.9 | $— | $— | $ 1.3 | $27.2 |

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

| | Employee-Related Costs | Inventory/Asset Write-offs | Currency Translation Adjustment Write-offs | Contract Terminations/Other | Total |
|---|---|---|---|---|---|
| Charges incurred to date | $61.7 | $ .7 | $(3.5) | $ 5.8 | $64.7 |
| Estimated charges to be incurred on approved initiatives | 5.0 | — | 6.0 | 8.3 | 19.3 |
| Total expected charges on approved initiatives | $66.7 | $ .7 | $2.5 | $ 14.1 | $84.0 |

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

| | Latin America | Europe, Middle East & Africa | North America | Asia Pacific | Corporate | Total |
|---|---|---|---|---|---|---|
| 2012 | $12.9 | $1.1 | $18.0 | $12.9 | $3.6 | $48.5 |
| First quarter 2013 | (1.1) | 9.0 | 1.5 | 1.5 | 2.1 | 13.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Second quarter 2013 | 3.8 | 3.4 | (.1 ) | (3.9 ) | — | 3.2 |
| Charges incurred to date | 15.6 | 13.5 | 19.4 | 10.5 | 5.7 | 64.7 |
| Estimated charges to be incurred on approved initiatives | 5.0 | 14.2 | — | .1 | — | 19.3 |
| Total expected charges on approved initiatives | $20.6 | $27.7 | $19.4 | $10.6 | $5.7 | $84.0 |

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

As noted previously, for the initiatives approved to date, we expect to record total costs to implement in the range of $105 to $115 before taxes under the $400M Cost Savings Initiative. The amounts shown in the tables above as charges recorded to date relate to initiatives that have been approved and recorded in the financial statements as the costs are probable and estimable. The amounts shown in the tables above as total expected charges on approved initiatives represent charges recorded to date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording an expense have not yet been met. In addition to the charges included in the tables above, we have incurred and will incur other costs to implement restructuring initiatives such as other professional services and accelerated depreciation.

Additional Restructuring Charges

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

Restructuring Charges – First and Second Quarter 2013

As a result of the analysis and the actions taken, during the three and six months ended June 30, 2013, we recorded benefits of $.4 and $.2, respectively, in selling, general and administrative expenses.

Restructuring Charges – First and Second Quarter 2012

During the three and six months ended June 30, 2012, we recorded total costs to implement of $39.2 and $61.0, respectively, associated with previously approved initiatives, and the costs consisted of the following:

- net charges of $37.2 and $56.0, respectively, primarily for employee-related costs;
- implementation costs of $.9 and $3.9, respectively, for professional service fees; and
- accelerated depreciation of $1.1 and $1.1, respectively, associated with the relocation our corporate headquarters.

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

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

| | Employee-Related Costs | Contract Terminations/Other | Total |
|---|---|---|---|
| Balance at December 31, 2012 | $17.6 | $ 11.8 | $29.4 |
| 2013 charges | .3 | .3 | .6 |
| Adjustments | (.9) | — | (.9) |
| Cash payments | (11.4) | (2.8) | (14.2) |
| Foreign exchange | (.1) | — | (.1) |
| Balance at June 30, 2013 | $5.5 | $ 9.3 | $14.8 |

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

2005 and 2009 Restructuring Programs

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

Restructuring Charges – First and Second Quarter 2013

During the three and six months ended June 30, 2013, we have recorded total costs to implement these restructuring initiatives of $.4 and $.2, respectively, primarily in selling, general and administrative expenses, associated with previously approved initiatives that are part of our 2005 and 2009 Restructuring Programs.

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

Restructuring Charges – First and Second Quarter 2012

During the three and six months ended June 30, 2012, we recorded a net benefit of $1.0 and total costs to implement of $4.5, respectively, associated with previously approved initiatives that are part of our 2005 and 2009 Restructuring Programs, and the costs consisted of the following:

- net benefits of $4.7 and $5.8, respectively, as a result of adjustments to the reserve, partially offset by employee-related costs;
- implementation costs of $2.9 and $7.3, respectively, for professional service fees, primarily associated with our initiatives to outsource certain finance processes and realign certain distribution operations; and
- accelerated depreciation of $.8 and $3.0, respectively, associated with our initiatives to realign certain distribution operations.

For the three months ended June 30, 2012, a net benefit of $1.7 was recorded in selling, general and administrative expenses and total costs to implement of $.7 were recorded in cost of sales. For the six months ended June 30, 2012, total costs to implement of $1.1 were recorded in selling, general and administrative expenses and $3.4 were recorded in cost of sales.

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

| | Total |
|---|---|
| Balance December 31, 2012 | $21.0 |
| 2013 charges | .7 |
| Adjustments | (.9) |
| Cash payments | (14.2) |
| Foreign exchange | (.1) |
| Balance at June 30, 2013 | $6.5 |

The 2005 and 2009 Restructuring Programs are substantially complete.

## 11. GOODWILL AND INTANGIBLE ASSETS

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

Goodwill

| | Latin America | Europe, Middle East & Africa | Asia Pacific | Total |
|---|---|---|---|---|
| Gross balance at December 31, 2012 | $122.8 | $167.3 | $84.2 | $374.3 |
| Accumulated impairments | — | — | (44.0) | (44.0) |
| Net balance at December 31, 2012 | $122.8 | $167.3 | $40.2 | $330.3 |
| Changes during the period ended June 30, 2013: | | | | |
| Other(1) | (10.2) | (9.4) | .6 | (19.0) |
| Gross balance at June 30, 2013 | $112.6 | $157.9 | $84.8 | $355.3 |
| Accumulated impairments | — | — | (44.0) | (44.0) |
| Net balance at June 30, 2013 | $112.6 | $157.9 | $40.8 | $311.3 |

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

21

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

Other intangible assets

| | June 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Finite-Lived Intangible Assets | | | | |
| Customer relationships | $49.4 | $(44.2) | $52.7 | $(46.0) |
| Licensing agreements | 58.6 | (50.6) | 62.8 | (53.6) |
| Noncompete agreements | 8.1 | (8.1) | 8.6 | (8.6) |
| Trademarks | 6.6 | (6.6) | 6.6 | (6.3) |
| Indefinite-Lived Trademarks | 23.2 | — | 24.4 | — |
| Total | $145.9 | $(109.5) | $155.1 | $(114.5) |

Aggregate amortization expense was $1.1 and $.8 for the three months ended June 30, 2013 and 2012, respectively, and $2.2 and $1.9 for the six months ended June 30, 2013 and 2012, respectively.

Estimated Amortization Expense:

| | |
|---|---|
| Remainder of 2013 | $2.0 |
| 2014 | 3.3 |
| 2015 | 2.7 |
| 2016 | 1.9 |
| 2017 | 1.5 |

Actual amortization expense may differ from the amounts above due to, among other things, future acquisitions, disposals, impairments, accelerated amortization or fluctuations in foreign currency exchange rates.

12. FAIR VALUE

Assets and Liabilities Recorded at Fair Value

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

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Assets: | | | |
| Money market funds | $14.7 | $— | $14.7 |
| Available-for-sale securities | 2.1 | — | 2.1 |
| Foreign exchange forward contracts | — | .3 | .3 |
| Total | $16.8 | $.3 | $17.1 |
| Liabilities: | | | |
| Foreign exchange forward contracts | $— | $5.3 | $5.3 |
| Total | $— | $5.3 | $5.3 |

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

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

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

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

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

September 30, 2012 - China
The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2012, and indicates the placement in the fair value hierarchy of the valuation techniques utilized to determine such fair value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| China goodwill | $— | $— | $37.3 | $37.3 |
| Total | $— | $— | $37.3 | $37.3 |

In the third quarter of 2012, we completed an interim impairment assessment of the fair value of goodwill related to China and subsequently determined that the goodwill associated with China was impaired. As a result, the carrying amount of China's goodwill was reduced from $81.3 to its estimated fair value of $37.3, resulting in a non-cash impairment charge of $44.0.

Fair Value Measurement - China
The impairment analyses performed for goodwill and intangible assets require several estimates in computing the estimated fair value of a reporting unit, an indefinite-lived intangible asset, and a finite-lived intangible asset. We use a DCF approach to estimate the fair value of a reporting unit, which we believe is the most reliable indicator of fair value of a business, and is most consistent with the approach a marketplace participant would use. The estimation of fair value utilizing a DCF approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, among other factors. Key assumptions used in measuring the fair value of China included the discount rate (based on the weighted-average cost of capital) and revenue growth. A significant decline in expected future cash flows and growth rates, which may result from an increased competitive landscape, or a change in the discount rate used to fair value expected future cash flows, may result in future impairment charges.

Fair Value of Financial Instruments

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

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

| | June 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Available-for-sale securities | $2.1 | $2.1 | $1.9 | $1.9 |
| Money market funds | 14.7 | 14.7 | 26.9 | 26.9 |
| Debt maturing within one year[1] | (263.2) | (263.2) | (572.0) | (572.2) |
| Long-term debt[1] | (2,634.8) | (2,620.6) | (2,623.8) | (2,547.7) |
| Foreign exchange forward contracts | (5.0) | (5.0) | 3.4 | 3.4 |
| Interest-rate swap agreements | — | — | 93.1 | 93.1 |

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

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

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

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

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

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

13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

We do not enter into derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives. The master agreements governing our derivative contracts generally contain standard provisions that could trigger early termination of the contracts in certain circumstances, including if we were to merge with another entity and the creditworthiness of the surviving entity were to be "materially weaker" than that of Avon prior to the merger.

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

| | Asset | | Liability | |
|---|---|---|---|---|
| | Balance Sheet Classification | Fair Value | Balance Sheet Classification | Fair Value |
| Derivatives not designated as hedges: | | | | |
| Foreign exchange forward contracts | Prepaid expenses and other | $.3 | Accounts payable | $5.3 |
| Total derivatives not designated as hedges | | $.3 | | $5.3 |

| | | |
|---|---|---|
| Total derivatives | $.3 | $5.3 |

24

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

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

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

Accounting Policies

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

- Changes in the fair value of a derivative that is designated as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk are recorded in earnings.
- Changes in the fair value of a derivative that is designated as a cash flow hedge are recorded in AOCI to the extent effective and reclassified into earnings in the same period or periods during which the transaction hedged by that derivative also affects earnings.
- Changes in the fair value of a derivative that is designated as a hedge of a net investment in a foreign operation are recorded in foreign currency translation adjustments within AOCI to the extent effective as a hedge.
- Changes in the fair value of a derivative not designated as a hedging instrument are recognized in earnings in other expense, net in the Consolidated Statements of Income.

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

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

Interest Rate Risk

A portion of our borrowings is subject to interest rate risk. We previously used interest-rate swap agreements, which effectively converted the fixed rate on long-term debt to a floating interest rate, to manage our interest rate exposure. The agreements were designated as fair value hedges. At December 31, 2012, we held interest-rate swap agreements that effectively converted approximately 62% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR. As of June 30, 2013, all designated interest-rate swap agreements have been terminated either in conjunction with repayment of the associated debt or in the January 2013 and March 2012 transactions described below. Our total exposure to floating interest rates was approximately 13% at June 30, 2013, and 69% at December 31, 2012.

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

In January 2013, we terminated eight of our interest-rate swap agreements designated as fair value hedges, with notional amounts totaling $1,000. As of the interest-rate swap agreements' termination date, the aggregate favorable adjustment to the carrying value (deferred gain) of our debt was $90.4, which is being amortized as a reduction to interest expense over the remaining term of the underlying debt obligations. We incurred termination fees of $2.3 which were recorded in other expense, net. For the three and six months ended June 30, 2013, the net impact of the gain amortization was $13.8 and $19.0, respectively. The interest-rate swap agreements were terminated in order to improve our capital structure, including increasing our ratio of fixed-rate debt. At June 30, 2013, the unamortized deferred gain associated with the January 2013 interest-rate swap termination was $71.4, and w