

AVON PRODUCTS INC  
Form 10-Q  
November 03, 2016

UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2016

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

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

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New York 13-0544597  
(State or other jurisdiction of (I.R.S. Employer  
Incorporation or organization) Identification No.)  
777 Third Avenue, New York, N.Y. 10017-1307  
(Address of principal executive offices) (Zip code)

(914) 935-2000

(Telephone Number, including area code)

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

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

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

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

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

The number of shares of Common Stock (par value \$0.25) outstanding at September 30, 2016 was 437,517,018.

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## 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, 2016 | September 30, 2015 |
| Net sales  | \$1,367.5          | \$ 1,413.3         |
| Other revenue  | 41.3               | 22.9               |
| Total revenue  | 1,408.8            | 1,436.2            |
| Costs, expenses and other:                           |                    |                    |
| Cost of sales  | 550.9              | 559.0              |
| Selling, general and administrative expenses         | 745.9              | 831.9              |
| Operating profit                                     | 112.0              | 45.3               |
| Interest expense                                     | 34.4               | 29.6               |
| (Gain) loss on extinguishment of debt                | (3.9 )             | 5.5 )              |
| Interest income                                      | (3.5 )             | (3.6 )             |
| Other expense, net                                   | 10.4               | 29.0               |
| Gain on sale of business                             | —                  | (46.2 )            |
| Total other expenses                                 | 37.4               | 14.3               |
| Income before taxes                                  | 74.6               | 31.0               |
| Income taxes   | (38.3 )            | (699.0 )           |
| Income (loss) from continuing operations, net of tax | 36.3               | (668.0 )           |
| Loss from discontinued operations, net of tax        | (0.7 )             | (29.0 )            |
| Net income (loss)                                    | 35.6               | (697.0 )           |
| Net loss attributable to noncontrolling interests    | 0.4                | —                  |
| Net income (loss) attributable to Avon               | \$36.0             | \$ (697.0 )        |
| Earnings (loss) per share:                           |                    |                    |
| Basic from continuing operations                     | \$0.07             | \$ (1.51 )         |
| Basic from discontinued operations                   | —                  | (0.06 )            |
| Basic attributable to Avon                           | 0.07               | (1.58 )            |
| Diluted from continuing operations                   | \$0.07             | \$ (1.51 )         |
| Diluted from discontinued operations                 | —                  | (0.06 )            |
| Diluted attributable to Avon                         | 0.07               | (1.58 )            |
| Cash dividends per common share                      | \$—                | \$ 0.06            |

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, 2016 | September 30, 2015 |
| Net sales   | \$4,047.0          | \$ 4,490.7         |
| Other revenue                                       | 102.6              | 62.5               |
| Total revenue                                       | 4,149.6            | 4,553.2            |
| Costs, expenses and other:                          |                    |                    |
| Cost of sales                                       | 1,634.7            | 1,781.7            |
| Selling, general and administrative expenses        | 2,300.0            | 2,669.4            |
| Operating profit                                    | 214.9              | 102.1              |
| Interest expense                                    | 100.3              | 88.2               |
| (Gain) loss on extinguishment of debt               | (3.9               | ) 5.5              |
| Interest income                                     | (12.8              | ) (9.7             |
| Other expense, net                                  | 142.9              | 47.5               |
| Gain on sale of business                            | —                  | (44.9              |
| Total other expenses                                | 226.5              | 86.6               |
| (Loss) income before taxes                          | (11.6              | ) 15.5             |
| Income taxes  | (72.1              | ) (797.2           |
| Loss from continuing operations, net of tax         | (83.7              | ) (781.7           |
| Loss from discontinued operations, net of tax       | (12.9              | ) (32.0            |
| Net loss  | (96.6              | ) (813.7           |
| Net income attributable to noncontrolling interests | (0.3               | ) (1.8             |
| Net loss attributable to Avon                       | \$(96.9            | ) \$ (815.5        |
| Loss per share:                                     |                    |                    |
| Basic from continuing operations                    | \$(0.22            | ) \$ (1.77         |
| Basic from discontinued operations                  | (0.03              | ) (0.07            |
| Basic attributable to Avon                          | (0.25              | ) (1.84            |
| Diluted from continuing operations                  | \$(0.22            | ) \$ (1.77         |
| Diluted from discontinued operations                | (0.03              | ) (0.07            |
| Diluted attributable to Avon                        | (0.25              | ) (1.84            |
| Cash dividends per common share                     | \$—                | \$ 0.18            |

The accompanying notes are an integral part of these statements.

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

| (In millions)   | Three Months Ended |                    |
|---|--------------------|--------------------|
|   | September 30, 2016 | September 30, 2015 |
| Net income (loss)   | \$35.6             | \$ (697.0 )        |
| Other comprehensive income (loss):  |                    |                    |
| Foreign currency translation adjustments  | 15.2               | (150.9 )           |
| Change in derivative losses on cash flow hedges, net of taxes of \$0.0 and \$0.0                              | 1.8                | 0.5                |
| Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of \$0.2 and \$0.3 | 3.6                | 30.0               |
| Total other comprehensive income (loss), net of taxes   | 20.6               | (120.4 )           |
| Comprehensive income (loss)   | 56.2               | (817.4 )           |
| Less: comprehensive loss attributable to noncontrolling interests   | (0.6 )             | (2.3 )             |
| Comprehensive income (loss) attributable to Avon  | \$56.8             | \$ (815.1 )        |

The accompanying notes are an integral part of these statements.

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

| (In millions)  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2016 | September 30,<br>2015 |
| Net loss   | \$(96.6)              | \$ (813.7 )           |
| Other comprehensive income (loss):   |                       |                       |
| Foreign currency translation adjustments   | 103.0                 | (256.4 )              |
| Change in derivative losses on cash flow hedges, net of taxes of \$0.0 and \$0.0                               | 2.7                   | 1.4                   |
| Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of \$10.8 and \$0.9 | 271.8                 | 53.0                  |
| Total other comprehensive income (loss), net of taxes  | 377.5                 | (202.0 )              |
| Comprehensive income (loss)  | 280.9                 | (1,015.7 )            |
| Less: comprehensive loss attributable to noncontrolling interests  | (0.4 )                | (2.4 )                |
| Comprehensive income (loss) attributable to Avon   | \$281.3               | \$ (1,013.3 )         |

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (In millions)                                     | September<br>30,<br>2016 | December<br>31,<br>2015 |
|---|--------------------------|-------------------------|
| Assets  |                          |                         |
| Current Assets                                    |                          |                         |
| Cash and cash equivalents                         | \$ 901.7                 | \$ 686.9                |
| Accounts receivable, net                          | 505.2                    | 443.0                   |
| Inventories                                       | 706.4                    | 624.0                   |
| Prepaid expenses and other                        | 323.5                    | 296.1                   |
| Current assets of discontinued operations         | 4.7                      | 291.1                   |
| Total current assets                              | 2,441.5                  | 2,341.1                 |
| Property, plant and equipment, at cost            | 1,529.4                  | 1,495.7                 |
| Less accumulated depreciation                     | (782.7 )                 | (728.8 )                |
| Property, plant and equipment, net                | 746.7                    | 766.9                   |
| Goodwill  | 98.1                     | 92.3                    |
| Other assets                                      | 619.2                    | 490.0                   |
| Noncurrent assets of discontinued operations      | —                        | 180.1                   |
| Total assets                                      | \$ 3,905.5               | \$ 3,870.4              |
| Liabilities and Shareholders' Deficit             |                          |                         |
| Current Liabilities                               |                          |                         |
| Debt maturing within one year                     | \$ 111.3                 | \$ 55.2                 |
| Accounts payable                                  | 760.1                    | 774.2                   |
| Accrued compensation                              | 156.0                    | 157.6                   |
| Other accrued liabilities                         | 399.7                    | 419.6                   |
| Sales and taxes other than income                 | 144.0                    | 174.9                   |
| Income taxes                                      | 4.4                      | 23.9                    |
| Payable to discontinued operations                | —                        | 100.0                   |
| Current liabilities of discontinued operations    | 12.9                     | 489.7                   |
| Total current liabilities                         | 1,588.4                  | 2,195.1                 |
| Long-term debt                                    | 2,226.8                  | 2,150.5                 |
| Employee benefit plans                            | 162.5                    | 177.5                   |
| Long-term income taxes                            | 77.1                     | 65.1                    |
| Other liabilities                                 | 187.1                    | 78.4                    |
| Noncurrent liabilities of discontinued operations | —                        | 260.2                   |
| Total liabilities                                 | 4,241.9                  | 4,926.8                 |
| Commitments and contingencies (Note 8)            |                          |                         |
| Series C convertible preferred stock              | 439.1                    | —                       |
| Shareholders' Deficit                             |                          |                         |
| Common stock                                      | 188.7                    | 187.9                   |
| Additional paid-in capital                        | 2,272.2                  | 2,254.0                 |
| Retained earnings                                 | 2,338.5                  | 2,448.1                 |
| Accumulated other comprehensive loss              | (989.0 )                 | (1,366.2 )              |
| Treasury stock, at cost                           | (4,599.4 )               | (4,594.1 )              |
| Total Avon shareholders' deficit                  | (789.0 )                 | (1,070.3 )              |
| Noncontrolling interests                          | 13.5                     | 13.9                    |

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|   |           |            |
|---|-----------|------------|
| Total shareholders' deficit   | (775.5 )  | (1,056.4 ) |
| Total liabilities, series C convertible preferred stock and shareholders' deficit | \$3,905.5 | \$3,870.4  |

The accompanying notes are an integral part of these statements.

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

| (In millions)   | Nine Months Ended  |                    |
|---|--------------------|--------------------|
|   | September 30, 2016 | September 30, 2015 |
| Cash Flows from Operating Activities  |                    |                    |
| Net loss  | \$(96.6)           | \$(813.7)          |
| Loss from discontinued operations, net of tax                               | 12.9               | 32.0               |
| Loss from continuing operations, net of tax                                 | \$(83.7)           | \$(781.7)          |
| Adjustments to reconcile net loss to net cash used by operating activities: |                    |                    |
| Depreciation  | 62.5               | 72.0               |
| Amortization  | 22.4               | 25.0               |
| Provision for doubtful accounts   | 114.6              | 105.9              |
| Provision for obsolescence  | 26.6               | 35.2               |
| Share-based compensation  | 23.1               | 28.9               |
| Foreign exchange (gains) losses   | (0.3)              | 27.5               |
| Deferred income taxes   | (16.3)             | 667.1              |
| Charge for Venezuelan monetary assets and liabilities                       | —                  | (4.2)              |
| Charge for Venezuelan non-monetary assets                                   | —                  | 101.7              |
| Loss on deconsolidation of Venezuela  | 120.5              | —                  |
| Pre-tax gain on sale of business  | —                  | (44.9)             |
| Other   | 3.0                | 10.2               |
| Changes in assets and liabilities:  |                    |                    |
| Accounts receivable   | (167.1)            | (117.4)            |
| Inventories   | (109.5)            | (153.5)            |
| Prepaid expenses and other  | (16.8)             | 1.2                |
| Accounts payable and accrued liabilities                                    | (41.7)             | (34.5)             |
| Income and other taxes  | (15.3)             | 18.8               |
| Noncurrent assets and liabilities   | (26.3)             | (47.2)             |
| Net cash used by operating activities of continuing operations              | (104.3)            | (89.9)             |
| Cash Flows from Investing Activities  |                    |                    |
| Capital expenditures  | (68.2)             | (58.4)             |
| Disposal of assets  | 3.3                | 5.7                |
| Net proceeds from sale of business  | —                  | 208.3              |
| Purchases of investments  | —                  | (25.0)             |
| Net proceeds from sale of investments                                       | —                  | 9.0                |
| Reduction of cash due to Venezuela deconsolidation                          | (4.5)              | —                  |
| Other investing activities  | 1.6                | —                  |
| Net cash (used) provided by investing activities of continuing operations   | (67.8)             | 139.6              |
| Cash Flows from Financing Activities  |                    |                    |
| Cash dividends  | —                  | (80.7)             |
| Debt, net (maturities of three months or less)                              | (31.4)             | (4.6)              |
| Proceeds from debt  | 508.7              | 7.6                |
| Repayment of debt   | (311.9)            | (258.7)            |
| Repurchase of common stock  | (5.3)              | (3.0)              |
| Net proceeds from the sale of series C convertible preferred stock          | 426.3              | —                  |
| Other financing activities  | (17.2)             | (5.9)              |
| Net cash provided (used) by financing activities of continuing operations   | 569.2              | (345.3)            |
| Cash Flows from Discontinued Operations                                     |                    |                    |

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|  |          |          |
|--|----------|----------|
| Net cash used by operating activities of discontinued operations | (67.6 )  | (6.8 )   |
| Net cash used by investing activities of discontinued operations | (94.6 )  | (3.4 )   |
| Net cash used by financing activities of discontinued operations | —        | (12.6 )  |
| Net cash used by discontinued operations                         | (162.2 ) | (22.8 )  |
| Effect of exchange rate changes on cash and cash equivalents     | (17.9 )  | (54.7 )  |
| Net increase (decrease) in cash and cash equivalents             | 217.0    | (373.1 ) |
| Cash and cash equivalents at beginning of year <sup>(1)</sup>    | 684.7    | 960.5    |
| Cash and cash equivalents at end of period <sup>(2)</sup>        | \$901.7  | \$ 587.4 |

The accompanying notes are an integral part of these statements.

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

(1) Includes cash and cash equivalents of discontinued operations of \$(2.2) and \$24.1 at the beginning of the year in 2016 and 2015, respectively.

(2) Includes cash and cash equivalents of discontinued operations of \$1.1 at September 30, 2015.

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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 2015 Annual Report on Form 10-K ("2015 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 2015 Form 10-K, portions of which (including Part I, Item 1. Business, and the following items from Part II of the Annual Report: Item 6. Selected Financial Data, Item 7. Management's Discussion and Analysis and Item 8. Financial Statements and Supplementary Data) were recast in the Company's Current Report on Form 8-K filed with the SEC on October 11, 2016. When used in this report, the terms "Avon," "Company," "we" or "us" mean Avon Products, Inc.

For interim consolidated financial statement purposes we provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense. 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 associated with cash repatriations; and
- the impact of loss-making subsidiaries for which we cannot recognize an income tax benefit and subsidiaries that reduce the reliability of the estimated annual consolidated effective tax rate.

Venezuela

Venezuela's restrictive foreign exchange control regulations and our Venezuelan operations' increasingly limited access to U.S. dollars resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and the U.S. dollar, and restricted our Venezuelan operations' ability to pay dividends and settle intercompany obligations. The severe currency controls imposed by the Venezuelan government significantly limited our ability to realize the benefits from earnings of our Venezuelan operations and access the resulting liquidity provided by those earnings. We expected that this other-than-temporary lack of exchangeability would continue for the foreseeable future, and as a result, we concluded that, effective March 31, 2016, we did not meet the accounting criteria of control in order to continue consolidating our Venezuelan operations and, as a result, account for our Venezuelan operations using the cost method of accounting. Our Consolidated Balance Sheets no longer includes the assets and liabilities of our Venezuelan operations, and we no longer include the results of our Venezuelan operations in our Consolidated Financial Statements.

As a result of the change to the cost method of accounting, in the first quarter of 2016, we recorded a loss of approximately \$120 in other expense, net. The loss was comprised of approximately \$39 in net assets of the Venezuelan business and approximately \$81 in accumulated foreign currency translation adjustments within AOCI (shareholders' deficit) associated with foreign currency changes before Venezuela was accounted for as a highly inflationary economy. The net assets of the Venezuelan business were comprised of inventories of approximately \$24, property, plant and equipment, net of approximately \$15, other assets of approximately \$11, cash of approximately \$5, accounts receivable of approximately \$4, and accounts payable and accrued liabilities of approximately \$20.

In February 2015, the Venezuelan government announced the creation of a new foreign exchange system referred to as the SIMADI exchange ("SIMADI"). SIMADI began operating on February 12, 2015. There were multiple legal mechanisms in Venezuela to exchange currency. As SIMADI represented the rate which better reflected the economics of Avon Venezuela's business activity, in comparison to the other available exchange rates, we concluded that we should utilize the SIMADI exchange rate to remeasure our Venezuelan operations effective February 12, 2015. As a result of the change to the SIMADI rate, which caused the recognition of a devaluation of approximately

70% as compared to the exchange rate we had used previously, we recorded an after-tax benefit of approximately \$3 (a benefit of approximately \$4 in other expense, net, and a loss of approximately \$1 in income taxes) in the first quarter of 2015, primarily reflecting the write-down of net monetary assets. In addition, as a result of using the historical U.S. dollar cost basis of non-monetary assets, such as inventories, these assets continued to be remeasured, following the change to the SIMADI rate, at the applicable rate at the time of their acquisition. The remeasurement of non-monetary assets at the historical U.S. dollar cost basis caused a disproportionate expense as these assets

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

were consumed in operations, negatively impacting operating profit and net income by approximately \$6 and approximately \$17 during the three and nine months ended September 30, 2015, respectively. Also as a result of the change to the SIMADI rate, we determined that an adjustment of approximately \$11 to cost of sales was needed to reflect certain non-monetary assets, primarily inventories, at their net realizable value, which was recorded in the first quarter of 2015.

In addition, at February 12, 2015, we reviewed Avon Venezuela's long-lived assets to determine whether the carrying amount of the assets was recoverable. Based on our expected cash flows associated with the asset group, we determined that the carrying amount of the assets, carried at their historical U.S. dollar cost basis, was not recoverable. As such, an impairment charge of approximately \$90 to selling, general and administrative expenses was needed to reflect the write-down of the long-lived assets to their estimated fair value of \$15.7, which was recorded in the first quarter of 2015. The fair value of Avon Venezuela's long-lived assets was determined using both market and cost valuation approaches. The valuation analysis performed required several estimates, including market conditions and inflation rates.

#### Accounting Standards to be Implemented

In February 2016, the FASB issued ASU 2016-02, Leases, which requires all assets and liabilities arising from leases to be recognized in the statement of financial position. This standard is effective as of January 1, 2019. We are currently evaluating the effect that adopting this new accounting guidance will have on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, issued as a new Topic, Accounting Standards Codification Topic 606. The core principle of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Deferral of the Effective Date, which resulted in the standard being effective beginning in 2018, with early adoption permitted in the beginning of 2017. This standard has been amended, and as amended, can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the effect that adopting this new accounting guidance will have 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<br>Ended<br>September 30,<br>2016 |           | Nine Months<br>Ended September<br>30,<br>2015 |           |
|---|--|-----------|---|-----------|
| (Shares in millions)  |  |           |   |           |
| Numerator from continuing operations:   |  |           |   |           |
| Income (loss) from continuing operations, less amounts attributable to noncontrolling interests | \$36.7   | \$(668.0) | \$(84.0)                                      | \$(783.5) |
| Less: (Earnings) loss allocated to participating securities                                     | (.5 )  | 10.7      | 1.1   | 12.3      |
| Less: Earnings allocated to convertible preferred stock   | (6.1 )   | —         | (12.8 )                                       | —         |
| Earnings (loss) from continuing operations allocated to common shareholders                     | 30.1   | (657.3 )  | (95.7 )                                       | (771.2 )  |
| Numerator from discontinued operations:   |  |           |   |           |
| Loss from discontinued operations   | \$(.7 )  | \$(29.0 ) | \$(12.9 )                                     | \$(32.0 ) |
| Less: Loss allocated to participating securities  | —  | .8        | .2  | 1.5       |
| Loss allocated to common shareholders   | (.7 )  | (28.2 )   | (12.7 )                                       | (30.5 )   |
| Numerator attributable to Avon:   |  |           |   |           |
| Net income (loss) attributable to Avon  | \$36.0   | \$(697.0) | \$(96.9)                                      | \$(815.5) |
| Less: (Earnings) loss allocated to participating securities                                     | (.5 )  | 11.1      | 1.3   | 12.8      |
| Less: Earnings allocated to convertible preferred stock   | (6.1 )   | —         | (12.8 )                                       | —         |
| Earnings (loss) allocated to common shareholders  | 29.4   | (685.9 )  | (108.4)                                       | (802.7 )  |
| Denominator:  |  |           |   |           |
| Basic EPS weighted-average shares outstanding   | 437.4  | 435.4     | 436.7   | 435.1     |
| Diluted effect of assumed conversion of stock options   | —  | —         | —   | —         |
| Diluted effect of assumed conversion of preferred stock   | —  | —         | —   | —         |
| Diluted EPS adjusted weighted-average shares outstanding  | 437.4  | 435.4     | 436.7   | 435.1     |
| Earnings (Loss) per Common Share from continuing operations:                                    |  |           |   |           |
| Basic   | \$.07  | \$(1.51 ) | \$(.22 )                                      | \$(1.77 ) |
| Diluted   | .07  | (1.51 )   | (.22 )  | (1.77 )   |
| Loss per Common Share from discontinued operations:   |  |           |   |           |
| Basic   | \$—  | \$(.06 )  | \$(.03 )                                      | \$(.07 )  |
| Diluted   | —  | (.06 )    | (.03 )  | (.07 )    |
| Earnings (Loss) per Common Share attributable to Avon:  |  |           |   |           |
| Basic   | \$.07  | \$(1.58 ) | \$(.25 )                                      | \$(1.84 ) |
| Diluted   | .07  | (1.58 )   | (.25 )  | (1.84 )   |

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

During the three months ended September 30, 2016, we did not include stock options to purchase 15.0 million shares of Avon common stock in the calculation of diluted EPS because the exercise prices of those options were greater than the average market price, and therefore, their inclusion would be anti-dilutive. During the nine months ended September 30, 2016, we did not include stock options to purchase 14.2 million shares of Avon common stock in the calculation of diluted EPS as we had a loss from continuing operations, net of tax. During the three and nine months ended September 30, 2015, we did not include stock options to purchase 11.9 million shares and 13.2 million shares, respectively, of Avon common stock in the calculation of diluted EPS as we had a loss from continuing operations, net of tax. For the nine months ended September 30, 2016 and the three and nine months ended September 30, 2015, when we had a loss from continuing operations, net of tax, the inclusion of these shares would decrease the net loss per share, and therefore, their inclusion would be anti-dilutive.

For the three and nine months ended September 30, 2016, it is more dilutive to assume the Series C Convertible Preferred Stock is not converted into common stock and therefore the weighted-average outstanding shares outstanding was not adjusted by the as-if converted Series C Convertible Preferred Stock because the effect would decrease the net loss per share, and therefore, their inclusion would be anti-dilutive. 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, 2016. See Note 7, Series C Convertible Preferred Stock.



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We purchased approximately 1.3 million shares of Avon common stock for \$5.3 during the first nine months of 2016, as compared to approximately .4 million shares of Avon common stock for \$3.0 during the first nine months of 2015, through acquisition of stock from employees in connection with tax payments upon vesting of restricted stock units in 2016 and 2015 and performance restricted stock units in 2016.

### 3. DISCONTINUED OPERATIONS AND DIVESTITURES

#### Discontinued Operations

##### North America

On December 17, 2015, the Company entered into definitive agreements with affiliates controlled by Cerberus Capital Management, L.P. ("Cerberus"). The agreements include an investment agreement providing for a \$435 investment by Cleveland Apple Investor L.P. (f/k/a Cleveland Apple Investor LLC) ("Cerberus Investor") (an affiliate of Cerberus) in the Company through the purchase of perpetual convertible preferred stock (see Note 7, Series C Convertible Preferred Stock) and a separation and investment agreement providing for the separation of the Company's North America business, which represented the Company's operations in the United States, Canada and Puerto Rico, from the Company into New Avon LLC ("New Avon") a privately-held company that is majority-owned and managed by Cleveland NA Investor LLC ("Cerberus NA") (an affiliate of Cerberus). These transactions closed on March 1, 2016. Cerberus NA contributed \$170 of cash into New Avon in exchange for 80.1% of its ownership interests. The Company contributed the North America business, certain pension and postretirement liabilities and \$100 of cash into New Avon in exchange for a 19.9% ownership interest of New Avon. The Company received \$6 of cash from New Avon at closing as part of a customary working capital adjustment.

During the fourth quarter of 2015, the Company recorded an estimated loss on sale of discontinued operations of approximately \$340 before tax (approximately \$340 after tax) as the carrying value exceeded the estimated fair value less costs to sell. During the three and nine months ended September 30, 2016, the Company recognized a reduction to the loss on sale of less than \$1 before tax (less than \$1 after tax) and an additional loss on sale of approximately \$16 before tax (approximately \$6 after tax), respectively. The cumulative loss on sale of approximately \$356 before tax (approximately \$346 after tax) represents the net assets contributed into New Avon, including certain pension and postretirement benefit plan liabilities and amounts in AOCI associated with the North America business, which were primarily unrecognized losses associated with our U.S. defined benefit pension plan, and costs to sell, as compared to the implied value of our ownership interests in New Avon, at closing, which was approximately \$43.

New Avon entered into a perpetual, irrevocable royalty-free licensing agreement with the Company for the use of the Avon brand and certain other intellectual property. Avon and New Avon also entered into a transition services agreement which covers, among other things, information technology, financial services and human resources, as well as other commercial agreements, including for research and development and product supply. In addition, the Company subleases office space to New Avon. See Note 4, Related Party Transactions.

The Company accounts for its ownership interests in New Avon using the equity method of accounting, which results in the Company recognizing its proportionate share of New Avon's income or loss. The Company's proportionate share of the post-separation losses of New Avon was \$4.5 and \$9.0 during the three and nine months ended September 30, 2016, respectively, and was recorded within other expense, net.

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The major classes of financial statement components comprising the loss on discontinued operations, net of tax for North America are shown below:

|  | Three Months  |           | Nine Months   |           |
|--|---------------|-----------|---------------|-----------|
|  | Ended         |           | Ended         |           |
|  | September 30, |           | September 30, |           |
|  | 2016          | 2015      | 2016          | 2015      |
| Total revenue  | \$—           | \$230.7   | \$135.2       | \$731.3   |
| Cost of sales  | —             | 93.7      | 53.2          | 291.6     |
| Selling, general and administrative expenses               | 1.0           | 155.9     | 90.0          | 461.2     |
| Operating loss   | (1.0)         | (18.9 )   | (8.0 )        | (21.5 )   |
| Other (expense) income items                               | —             | (4.3 )    | .6            | (5.7 )    |
| Gain (loss) on sale of discontinued operations, before tax | .3            | —         | (16.0 )       | —         |
| Loss from discontinued operations, before tax              | (.7 )         | (23.2 )   | (23.4 )       | (27.2 )   |
| Income taxes   | —             | (5.8 )    | 10.5          | (4.8 )    |
| Loss from discontinued operations, net of tax              | \$(.7)        | \$(29.0 ) | \$(12.9 )     | \$(32.0 ) |

#### Divestitures

##### Liz Earle

On July 9, 2015, the Company sold Liz Earle Beauty Co. Limited (“Liz Earle”) for approximately \$215, less expenses of approximately \$5. Liz Earle was previously reported within our Europe, Middle East & Africa segment. In 2015, we recorded a gain on sale of \$44.9 before tax, which was reported separately in the Consolidated Statements of Operations, and \$51.6 after tax, representing the difference between the proceeds, including the expected working capital settlement, and the carrying value of the Liz Earle business on the date of sale. Proceeds from the sale of Liz Earle were used to fund a portion of the Company’s redemption of the \$250 principal amount of its 2.375% Notes due March 15, 2016, which occurred on August 10, 2015. See Note 16, Debt for additional information.

#### 4. RELATED PARTY TRANSACTIONS

As discussed in Note 3, Discontinued Operations and Divestitures, the Company has entered into a transition services agreement to provide certain services to New Avon, as well as an agreement for research and development and subleases for office space. In addition, New Avon is performing certain services for the Company under a similar transition services agreement. The Company recorded a net \$10.2 and \$25.1 reduction of selling, general and administrative expenses associated with these agreements during the three and nine months ended September 30, 2016, respectively.

The Company also supplies product to New Avon as part of these transition services. The Company recorded revenues of \$6.9 and \$20.4 and gross profit of \$.5 and \$1.4 associated with this supply arrangement during the three and nine months ended September 30, 2016, respectively. In addition, New Avon also supplies product to the Company as part of these transition services. The Company purchased \$1.0 and \$4.6 from New Avon associated with this supply arrangement during the three and nine months ended September 30, 2016, respectively.

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 transformation plan (the "Transformation Plan") announced in January 2016. The Company recorded \$.8 and \$1.8 in selling, general and administrative expenses associated with these agreements during the three and nine months ended September 30, 2016, respectively. See Note 12, Restructuring Initiatives for additional information related to the Transformation Plan.

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, 2016 the Company has a liability \$2.1 for the estimated value of such standby letters of credit. The

recognition of the liability was included in the estimated loss on sale of the North America business in loss from discontinued operations, net of tax.

See Note 7, Series C Convertible Preferred Stock, for discussion of preferred shares issued to Cerberus Investor.

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## 5. INVENTORIES

| Components of Inventories | September 30, December 31, |          |
|---------------------------|----------------------------|----------|
|                           | 2016                       | 2015     |
| Raw materials             | \$ 208.1                   | \$ 180.5 |
| Finished goods            | 498.3                      | 443.5    |
| Total                     | \$ 706.4                   | \$ 624.0 |

## 6. EMPLOYEE BENEFIT PLANS

Three Months Ended September 30,  
Pension Benefits

| Net Periodic Benefit Costs                | U.S. Plans |        | Non-U.S. Plans |        | Postretirement Benefits |        |
|---|------------|--------|----------------|--------|-------------------------|--------|
|   | 2016       | 2015   | 2016           | 2015   | 2016                    | 2015   |
| Service cost                              | \$1.3      | \$3.3  | \$1.2          | \$1.2  | \$ —                    | \$ .2  |
| Interest cost                             | .8         | 6.2    | 4.9            | 5.9    | .3                      | .9     |
| Expected return on plan assets            | (1.0 )     | (8.3 ) | (7.5 )         | (9.2 ) | —                       | —      |
| Amortization of prior service credit      | —          | (.2 )  | —              | —      | (.2 )                   | (1.0 ) |
| Amortization of net actuarial losses      | 1.5        | 11.6   | 1.5            | 2.1    | .1                      | .4     |
| Settlements/curtailments                  | —          | 23.8   | —              | —      | —                       | —      |
| Net periodic benefit costs <sup>(1)</sup> | \$2.6      | \$36.4 | \$1            | \$—    | \$ .2                   | \$ .5  |

Nine Months Ended September 30,  
Pension Benefits

| Net Periodic Benefit Costs                | U.S. Plans |         | Non-U.S. Plans |         | Postretirement Benefits |        |
|---|------------|---------|----------------|---------|-------------------------|--------|
|   | 2016       | 2015    | 2016           | 2015    | 2016                    | 2015   |
| Service cost                              | \$4.9      | \$9.8   | \$3.8          | \$4.1   | \$ .1                   | \$ .5  |
| Interest cost                             | 5.9        | 18.7    | 16.6           | 17.5    | 1.2                     | 2.7    |
| Expected return on plan assets            | (7.2 )     | (24.9 ) | (25.0 )        | (27.4 ) | —                       | —      |
| Amortization of prior service credit      | (.1 )      | (.6 )   | —              | —       | (1.1 )                  | (3.0 ) |
| Amortization of net actuarial losses      | 9.2        | 34.7    | 4.9            | 6.3     | .2                      | 1.4    |
| Settlements/curtailments                  | .1         | 23.8    | —              | —       | —                       | —      |
| Net periodic benefit costs <sup>(1)</sup> | \$12.8     | \$61.5  | \$3            | \$5     | \$ .4                   | \$ 1.6 |

<sup>(1)</sup> Includes \$26.3 of U.S. pension for the three months ended September 30, 2015 and \$4.4 and \$43.5 of U.S. pension for the nine months ended September 30, 2016 and 2015, respectively. Immaterial amounts of the postretirement benefit plans (related to the U.S.) are included in discontinued operations for the three months ended September 30, 2015 and for the nine months ended September 30, 2016 and 2015. Amounts associated with the pension and postretirement benefit plans in Canada and the postretirement benefit plan in Puerto Rico, which are included in discontinued operations, have been excluded from all amounts in the tables above.

As part of the separation of the North America business, we transferred \$499.6 of pension liabilities under the U.S. defined benefit pension plan associated with current and former employees of the North America business and certain other former Avon employees, along with \$355.9 of assets held by the U.S. defined benefit pension plan, to a defined benefit pension plan sponsored by New Avon. We also transferred \$60.4 of other postretirement liabilities (namely, retiree medical and supplemental pension liabilities) in respect of such employees and former employees. See Note 3, Discontinued Operations and Divestitures. We continue to retain certain U.S. pension and other postretirement liabilities primarily associated with employees who are actively employed by Avon outside of the North America business.

As a result of lump-sum payments made to former employees that were vested and participated in the U.S. defined benefit pension plan, in the third quarter of 2015, we recorded a settlement charge of \$23.8. These lump sum payments were made from our plan assets and were not the result of a specific offer to participants of the U.S. defined benefit pension plan. Such payments fully settled our pension plan obligation to those participants who elected to receive such payment. This settlement charge was allocated between Global and Discontinued Operations.

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During the nine months ended September 30, 2016, we made approximately \$26 and approximately \$14 of contributions to the U.S. and non-U.S. defined benefit pension and postretirement benefit plans, respectively. During the remainder of 2016, we anticipate contributing approximately \$1 and approximately \$6 to \$11 to fund our U.S. and non-U.S. defined benefit pension and postretirement benefit plans, respectively.

#### 7. SERIES C CONVERTIBLE PREFERRED STOCK

On March 1, 2016, we issued and sold to Cerberus Investor 435,000 shares of newly issued Series C Preferred Stock for an aggregate purchase price of \$435.0 pursuant to an Investment Agreement, dated as of December 17, 2015, between the Company and Cerberus Investor. In connection with the issuance of the Series C Preferred Stock, the Company incurred direct and incremental expenses of \$8.7, comprised of financial advisory fees and legal expenses, which reduced the carrying value of the Series C Preferred Stock. The Series C Preferred Stock has accrued dividends daily since March 1, 2016 at a rate of 1.25% per quarter, and as of September 30, 2016, had accrued unpaid dividends of \$12.8. There were no cash dividends declared in the nine months ended September 30, 2016.

**Dividend Rights.** The Series C Preferred Stock ranks senior to the shares of our common stock with respect to dividend rights and rights on the distribution of assets on any liquidation, dissolution or winding up of our affairs. The Series C Preferred Stock has a liquidation preference of \$1,000 per share, representing an aggregate liquidation preference of \$435.0 upon issuance. Holders of Series C Preferred Stock are entitled to participate on an as-converted basis in any cash dividends paid to the holders of shares of the Company's common stock. In addition, cumulative preferred dividends accrue daily on the Series C Preferred Stock and are payable at a rate of 1.25% per quarter (net of any dividends on the Company's common stock and subject to increase up to a maximum rate of 5.00% per quarter if the Company breaches certain obligations). Except to the extent not otherwise previously paid by the Company, preferred dividends are payable on the seventh anniversary of the issuance date of the Series C Preferred Stock as and when declared by the Board of Directors and at the end of each quarter thereafter. Accrued and unpaid preferred dividends may be paid, at the Company's option, (i) in cash, (ii) subject to certain conditions, in shares of the Company's common stock or (iii) upon conversion of shares of Series C Preferred Stock, in shares of the Company's non-voting, non-convertible Series D Preferred Stock. Any such shares of Series D Preferred Stock issued would have similar preferential rights.

**Conversion Features.** Series C Preferred Stock is convertible at the option of the holders at any time into shares of the Company's common stock at an initial conversion price of \$5.00 per share, subject to certain anti-dilution adjustments. Prior to receipt of applicable shareholder approval, shares of Series C Preferred Stock are not convertible into more than 19.99% of the number of shares of common stock outstanding immediately prior to the issuance of the Series C Preferred Stock, subject to certain anti-dilution adjustments. As of September 30, 2016, Series C Preferred Stock was convertible into 87,051,524 shares of common stock. If at any time the volume weighted average price of the common stock exceeds \$10.00 per share (subject to certain anti-dilution adjustments) for a period of 30 consecutive trading days, the Company may cause all of the Series C Preferred Stock to be converted into shares of common stock based on the then applicable conversion price.

**Voting Rights.** Holders of Series C Preferred Stock are entitled to vote generally with the holders of common stock on an as-converted basis. Holders of Series C Preferred Stock are also entitled to a separate class vote with respect to (i) the election of up to three directors to the Board of Directors, subject to maintaining certain levels of beneficial ownership of Series C Preferred Stock and/or common stock, (ii) amendments to the Company's organizational documents that have an adverse effect on the Series C Preferred Stock, (iii) issuances by the Company of securities that are senior to, or equal in priority with, the Series C Preferred Stock or (iv) the delisting of the Company's common stock, other than in connection with a change of control event.

**Change of Control Put.** Upon certain change of control events involving the Company, holders of Series C Preferred Stock can require the Company to repurchase the Series C Preferred Stock for an amount equal to the greater of (i) an amount in cash equal to 100% of the liquidation preference thereof plus all accrued but unpaid dividends or (ii) the

consideration the holders would have received if they had converted their shares of Series C Preferred Stock into common stock immediately prior to the change of control event.

#### 8. CONTINGENCIES

##### Settlements of FCPA Investigations

As previously reported, we 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 was conducted under the oversight of our Audit Committee, began in June 2008 and along with the compliance reviews, was completed in 2014.

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Following our voluntary reporting of the internal investigation to both the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") and our subsequent cooperation with those agencies, 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 DOJ related to charges of violations of the books and records and internal controls provisions of the 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 and was sentenced by the USDC to pay a \$68 fine. The SEC also filed a complaint against the Company charging violations of the books and records and internal controls provisions of the FCPA and the Consent which was approved in a judgment entered by the USDC in January 2015, and included \$67 in disgorgement and prejudgment interest. The DPA, the above-mentioned guilty plea and the Consent resolved the SEC's and the DOJ's investigations of the Company's compliance with the FCPA and related U.S. laws in China and additional countries. The fine was paid in December 2014 and the payment to the SEC was made in January 2015. Under the DPA, the DOJ will defer criminal prosecution of the Company for a term of three years. If the Company remains in compliance with the DPA during its term, the charges against the Company will be dismissed with prejudice. Under the DPA, the Company also represented that it has implemented and agreed that it will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws throughout its operations.

Under the DPA and the Consent, among other things, the Company agreed to have a compliance monitor (the "monitor"). During July 2015, the Company engaged a monitor, who had been approved by the DOJ and SEC. With the approval of the DOJ and the SEC, the monitor can be replaced by the Company no earlier than 18 months after their engagement, if the Company agrees to undertake self-reporting obligations for the remainder of the monitoring period. The monitoring period is scheduled to expire in July 2018. There can be no assurance as to whether or when the DOJ and the SEC will approve replacing the monitor with the Company's self-reporting. If the DOJ determines that the Company has knowingly violated the DPA, the DOJ may commence prosecution or extend the term of the DPA, including the monitoring provisions described above, for up to one year.

The monitor is assessing and monitoring the Company's compliance with the terms of the DPA and the Consent by evaluating, among other things, the Company's internal accounting controls, recordkeeping and financial reporting policies and procedures. The monitor has recommended some changes to our policies and procedures that we are in the process of adopting, and may make additional recommendations that we must adopt unless they are unduly burdensome or otherwise inadvisable, in which case we may propose alternatives, which the DOJ and the SEC may or may not accept. In addition, operating under the oversight of the monitor may result in additional time and attention on these matters by members of our management, which may divert their time from the operation of our business. Assuming the monitor is replaced by a self-reporting period, the Company's self-reporting obligations may be costly or time-consuming.

The costs incurred in connection with ongoing compliance with the DPA and the Consent, including the monitorship, have not been material to date and we do not anticipate material costs going forward. We currently cannot estimate the costs that we are likely to incur in connection with self-reporting, if applicable, and any additional costs of implementing the changes, if any, to our policies and procedures required by the monitor.

#### 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)). On November 22, 2013, a derivative action was filed in federal court against certain present or former



officers and/or directors of the Company and following the federal court's dismissal, an additional action was subsequently filed in New York state court on May 1, 2015 (Sylvia Pritika, 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. 651479/2015)). The claims asserted in one or more of these actions include alleged breach of fiduciary duty, abuse of control, waste of corporate assets, and 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 more of these derivative actions include 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. On April 28, 2015, an action was filed to seek enforcement of demands for the inspection of certain of the Company's books and records (Belle Cohen v. Avon Products, Inc. (filed in the New York Supreme Court, New York County, Index No. 651418/2015)). The parties reached agreements to settle the derivative and books and records actions. The terms of settlement include certain corporate governance measures as well as releases of claims and payment of plaintiffs' attorneys' fees in the

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amount of \$4. On March 30, 2016, the court granted preliminary approval of the settlement, and on August 1, 2016, the court entered an order and judgment granting final approval of the settlement. The \$4 was paid by the Company's insurers. The order and judgment approving the settlement has become final and Avon has until November 1, 2016 to implement the agreed corporate governance measures. In light of the settlement, stipulations voluntarily dismissing or discontinuing the actions with prejudice have been filed in the Pritika and Parker actions.

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 the Company and 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 filed an amended complaint, and the defendants moved to dismiss the amended complaint on June 14, 2012. On September 29, 2014, the Court granted the defendants' motion to dismiss and also granted the plaintiffs leave to amend their complaint. On October 24, 2014, plaintiffs filed their second 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 second amended complaint names as defendants the Company and two individuals 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 and declaratory, injunctive, and other equitable relief. Defendants moved to dismiss the Second Amended Complaint on November 21, 2014. The parties reached an agreement on a settlement of this class action. The terms of settlement include releases by members of the class of claims against the Company and the individual defendants and payment of \$62.

Approximately \$60 of the settlement was paid by the Company's insurers and approximately \$2 was paid by the Company (which represented the remaining deductible under the Company's applicable insurance policy). On August 21, 2015, the court granted preliminary approval of the settlement, and on August 24, 2016, the court entered an order and judgment granting final approval of the settlement. There has been an appeal of the court's separate order relating to plaintiffs' attorneys' fees, dated August 25, 2016. However, no appeal was filed from the court's August 24, 2016 order and judgment approving the settlement and thus that judgment has now become final.

Between December 23, 2014 and March 12, 2015, two purported class actions were filed in the United States District Court for the Southern District of New York -- *Poovathur v. Avon Products, Inc., et al.* (No. 14-CV-10083) and *McCoy et al. v. Avon Products, Inc., et al.* (No. 15-CV-01828) asserting claims under the Employee Retirement Income Security Act ("ERISA") against the Company, the Plan's administrator, benefits board and investment committee, and certain individuals alleged to have served as Plan fiduciaries. On April 8, 2015, the Court consolidated the two actions and recaptioned the consolidated case as *In re 2014 Avon Products, Inc. ERISA Litigation*, (No. 14-CV-10083). On May 8, 2015, plaintiffs filed a consolidated complaint, asserting claims for alleged breach of fiduciary duty and failure to monitor under ERISA on behalf of a purported class of participants in and beneficiaries of the Plan who invested in and/or held shares of the Avon Common Stock Fund between July 31, 2006 and May 1, 2014 and between December 14, 2011 and the present. Plaintiffs seek, inter alia, certain monetary relief, damages, and declaratory, injunctive and other equitable relief. On July 9, 2015, Defendants moved to dismiss the consolidated complaint. The parties reached an agreement on a settlement of this class action. The terms of settlement include releases by members of the class of claims against the Company and the individual defendants and payment of approximately \$6. Approximately \$5 of the settlement was paid by the Company's insurer and approximately \$1 was paid by the Company (which represented the remaining deductible under the Company's applicable insurance policy). On June 7, 2016, the court granted preliminary approval of the settlement, and on October 11, 2016, the court held a hearing to consider final approval of the settlement and ordered the parties to submit additional documentation in support of the settlement by November 4, 2016. If the settlement is not approved by the court, or is otherwise

terminated before it is finalized, the Company will be unable to predict the outcome of this matter. Furthermore, in that event, it is reasonably possible that the Company may incur a loss in connection with this matter, which the Company is unable to reasonably estimate.

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

#### Brazilian Tax Assessments

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). In the second quarter of 2014, the PIS and COFINS assessments were officially closed in favor of Avon Brazil. The 2002 and the 2012 IPI assessments assert 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

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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 IPI 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 IPI assessment. In July 2013, the 2012 IPI assessment was upheld at the first administrative level and we have appealed this decision to the second administrative level. The 2012 IPI assessment totals approximately \$331, including penalties and accrued interest. In October 2010, the 2002 IPI assessment was upheld at the first administrative level at an amount reduced to approximately \$29 from approximately \$68, including penalties and accrued interest. We appealed this decision to the second administrative level, which ruled in favor of Avon in March 2015 and canceled the 2002 IPI assessment. The Brazilian tax authorities' appeal to this favorable decision regarding the 2002 IPI assessment is still pending.

In the event that the 2002 or 2012 IPI assessments are upheld at the 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 likelihood or potential amount of assessments that may be issued for subsequent periods (tax years up through 2010 are closed by statute). However, other similar IPI assessments involving different periods (1998-2001) have been canceled and officially closed in our favor by the second administrative level. We believe that the likelihood that the 2002 IPI assessment will be upheld on any further appeal is remote and the likelihood that the 2012 IPI assessment will be upheld is reasonably possible. As stated above, we believe that the 2002 and 2012 IPI assessments are unfounded.

#### 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. 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 is no longer required to remit the taxes associated with IPI into a judicial deposit. As the IPI tax increase remains in effect, Avon Brazil is continuing to recognize the IPI taxes associated with the May 2015 Executive Decree as a liability. At September 30, 2016, the liability to the taxing authorities for this IPI tax increase was approximately \$105 and was classified within other liabilities in the Consolidated Balance Sheets, and the judicial deposit was approximately \$68 and was classified within other assets in the Consolidated Balance Sheets. The net liability that does not have a corresponding judicial deposit was \$37 at September 30, 2016, and the accretion expense associated with this net liability will be recognized in other expense, net.

An unfavorable ruling to our objection of this IPI tax increase would have an adverse effect on our consolidated cash flows as Avon Brazil would have to remit the liability owed to the taxing authorities. This amount would be partially offset by the amount of the judicial deposit held by Avon Brazil. We are not able to reliably predict the timing of the outcome of our objection to this tax increase.

#### 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, 2016, is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.



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9. 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, 2016 and 2015:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Cash<br>Flow<br>Hedges | Net<br>Investment<br>Hedges | Pension and<br>Postretirement<br>Benefits | Total         |
|--|---|------------------------|-----------------------------|---|---------------|
| <b>Three Months Ended September 30, 2016:</b>  |   |                        |                             |   |               |
| Balance at June 30, 2016   | \$ (862.7 )                                       | \$ (.4 )               | \$ (4.3 )                   | \$ (142.4 )                               | \$ (1,009.8 ) |
| Other comprehensive income other than reclassifications                                      | 15.4  | —                      | —                           | .7  | 16.1          |
| Reclassifications into earnings:   |   |                        |                             |   |               |
| Derivative losses on cash flow hedges, net of tax of \$0.0 <sup>(1)</sup>                    | —   | 1.8                    | —                           | —   | 1.8           |
| Amortization of net actuarial loss and prior service cost, net of tax of \$.2 <sup>(2)</sup> | —   | —                      | —                           | 2.9                                       | 2.9           |
| Total reclassifications into earnings  | —   | 1.8                    | —                           | 2.9                                       | 4.7           |
| Balance at September 30, 2016  | \$ (847.3 )                                       | \$ 1.4                 | \$ (4.3 )                   | \$ (138.8 )                               | \$ (989.0 )   |
| <b>Three Months Ended September 30, 2015:</b>  |   |                        |                             |   |               |
| Balance at June 30, 2015   | \$ (781.7 )                                       | \$ (2.3 )              | \$ (4.3 )                   | \$ (510.1 )                               | \$ (1,298.4 ) |
| Other comprehensive loss other than reclassifications  | (149.5 )  | —                      | —                           | (9.4 )                                    | (158.9 )      |
| Reclassifications into earnings:   |   |                        |                             |   |               |
| Derivative losses on cash flow hedges, net of tax of \$0.0 <sup>(1)</sup>                    | —   | .5                     | —                           | —   | .5            |
| Amortization of net actuarial loss and prior service cost, net of tax of \$.3 <sup>(2)</sup> | —   | —                      | —                           | 39.4                                      | 39.4          |
| Total reclassifications into earnings  | —   | .5                     | —                           | 39.4                                      | 39.9          |
| Balance at September 30, 2015  | \$ (931.2 )                                       | \$ (1.8 )              | \$ (4.3 )                   | \$ (480.1 )                               | \$ (1,417.4 ) |
| <b>Nine Months Ended September 30, 2016:</b>   |   |                        |                             |   |               |
| Balance at December 31, 2015   | \$ (950.0 )                                       | \$ (1.3 )              | \$ (4.3 )                   | \$ (410.6 )                               | \$ (1,366.2 ) |
| Other comprehensive income (loss) other than reclassifications                               | 31.4  | —                      | —                           | (10.6 )                                   | 20.8          |
| Reclassifications into earnings:   |   |                        |                             |   |               |
| Derivative losses on cash flow hedges, net of tax of \$0.0 <sup>(1)</sup>                    | —   | 2.7                    | —                           | —   | 2.7           |
| Amortization of net actuarial loss and prior service cost, net of tax of \$.6 <sup>(2)</sup> | —   | —                      | —                           | 12.4                                      | 12.4          |
| Deconsolidation of Venezuela, net of tax of \$0.0  | 81.3  | —                      | —                           | .8  | 82.1          |
| Separation of North America, net of tax of \$10.2  | (10.0 )   | —                      | —                           | 269.2                                     | 259.2         |
| Total reclassifications into earnings  | 71.3  | 2.7                    | —                           | 282.4                                     | 356.4         |
| Balance at September 30, 2016  | \$ (847.3 )                                       | \$ 1.4                 | \$ (4.3 )                   | \$ (138.8 )                               | \$ (989.0 )   |



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| Nine Months Ended September 30, 2015:  | Foreign<br>Currency<br>Translation<br>Adjustments | Cash<br>Flow<br>Hedges | Net<br>Investment<br>Hedges | Pension and<br>Postretirement<br>Benefits | Total         |
|--|---|------------------------|-----------------------------|---|---------------|
| Balance at December 31, 2014   | \$ (677.0 )                                       | \$ (3.2 )              | \$ (4.3 )                   | \$ (533.1 )                               | \$ (1,217.6 ) |
| Other comprehensive loss other than reclassifications  | (254.2 )  | —                      | —                           | (13.0 )                                   | (267.2 )      |
| Reclassifications into earnings:   |   |                        |                             |   |               |
| Derivative losses on cash flow hedges, net of tax of \$0.0 <sup>(1)</sup>                    | —   | 1.4                    | —                           | —   | 1.4           |
| Amortization of net actuarial loss and prior service cost, net of tax of \$.9 <sup>(2)</sup> | —   | —                      | —                           | 66.0                                      | 66.0          |
| Total reclassifications into earnings  | —   | 1.4                    | —                           | 66.0                                      | 67.4          |
| Balance at September 30, 2015  | \$ (931.2 )                                       | \$ (1.8 )              | \$ (4.3 )                   | \$ (480.1 )                               | \$ (1,417.4 ) |

(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.

Foreign exchange net losses of \$1.9 and of \$7.3 for the three months ended September 30, 2016 and 2015, respectively, and foreign exchange net losses of \$12.8 and of \$15.6 for the nine months ended September 30, 2016 and 2015, respectively, resulting from the translation of actuarial losses and prior service cost recorded in AOCI are included in changes in foreign currency translation adjustments in the Consolidated Statements of Comprehensive Income (Loss).

#### 10. SEGMENT INFORMATION

We determine segment profit by deducting the related costs and expenses from segment revenue. In order to ensure comparability between periods, 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 12, Restructuring Initiatives), 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                   |           | Nine Months                    |           |
|--|--------------------------------|-----------|--------------------------------|-----------|
|  | Ended September<br>30,<br>2016 | 2015      | Ended September<br>30,<br>2016 | 2015      |
| Total Revenue                                    | \$476.4                        | \$497.5   | \$1,517.7                      | \$1,559.8 |
| Europe, Middle East & Africa                     | 594.8                          | 570.8     | 1,556.9                        | 1,769.2   |
| South Latin America                              | 196.8                          | 209.7     | 625.9                          | 675.0     |
| North Latin America                              | 132.8                          | 145.8     | 411.4                          | 467.9     |
| Asia Pacific                                     | 1,400.8                        | 1,423.8   | 4,111.9                        | 4,471.9   |
| Total revenue from reportable segments           | 8.0                            | 12.4      | 37.7                           | 81.3      |
| Other operating segments and business activities | \$1,408.8                      | \$1,436.2 | \$4,149.6                      | \$4,553.2 |
| Total revenue                                    |                                |           |                                |           |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|                                       | Three Months  |         | Nine Months   |         |
|---------------------------------------|---------------|---------|---------------|---------|
|                                       | Ended         |         | Ended         |         |
|                                       | September 30, |         | September 30, |         |
|                                       | 2016          | 2015    | 2016          | 2015    |
| Operating Profit                      |               |         |               |         |
| Segment Profit                        |               |         |               |         |
| Europe, Middle East & Africa          | \$66.2        | \$69.5  | \$218.3       | \$206.6 |
| South Latin America                   | 73.8          | 52.8    | 157.9         | 189.7   |
| North Latin America                   | 24.4          | 17.9    | 85.0          | 78.1    |
| Asia Pacific                          | 12.7          | 15.5    | 42.2          | 54.2    |
| Total profit from reportable segments | \$177.1       | \$155.7 |               |         |