AVON PRODUCTS INC
Form 10-K
February 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018

OR

o 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)

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

Building 6, Chiswick Park, London W4 5HR
(Address of principal executive offices)
+44-1604-232425
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common stock (par value $.25) | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller

reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of voting and non-voting Common Stock (par value $.25) held by non-affiliates at June 30, 2018 (the last business day of our most recently completed second quarter) was $0.7 billion.

The number of shares of Common Stock (par value $.25) outstanding at January 31, 2019, was 442,426,520

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Documents Incorporated by Reference

Part III - Portions of the registrant’s Proxy Statement relating to the 2019 Annual Meeting of Shareholders.

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

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

- our ability to improve our financial and operational performance and execute fully our global business strategy, including our ability to implement the key initiatives of, and/or realize the projected benefits (in the amounts and time schedules we expect) from Open Up Avon, stabilization strategies, cost savings initiatives, restructuring and other initiatives, product mix and pricing strategies, enterprise resource planning, customer service initiatives, sales and operation planning process, outsourcing strategies, digital strategies, Internet platform and technology strategies including e-commerce, marketing and advertising strategies, information technology and related system enhancements and cash management, tax, foreign currency hedging and risk management strategies, and any plans to invest these projected benefits ahead of future growth;
- our ability to achieve the anticipated benefits of our strategic partnership with Cerberus Capital Management, L.P.;
- our broad-based geographic portfolio, which is heavily weighted towards emerging markets, a general economic downturn, a recession globally or in one or more of our geographic regions or markets, such as Brazil, Mexico or Russia, or sudden disruption in business conditions, and the ability to withstand an economic downturn, recession, cost inflation, commodity cost pressures, economic or political instability (including fluctuations in foreign exchange rates), competitive or other market pressures or conditions;
- the effect of economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates; as well as the designation of Argentina as a highly inflationary economy, and the potential effect of such factors on our business, results of operations and financial condition;
- the possibility of business disruption in connection with our Transformation Plan, Open Up Avon, stabilization strategies, cost savings initiatives, or restructuring and other initiatives;
- our ability to reverse declining revenue, to improve margins and net income, or to achieve profitable growth, particularly in our largest markets and developing and emerging markets, such as Brazil, Mexico, Russia and the United Kingdom;
- our ability to improve working capital and effectively manage doubtful accounts and inventory and implement initiatives to reduce inventory levels, including through our recent structural reset of inventory processes, and the potential impact on cash flows and obsolescence;
- our ability to reverse declines in Active Representatives, to enhance our sales leadership programs, to generate Representative activity, to increase the number of consumers served per Representative and their engagement online,

to enhance branding and the Representative and consumer experience and increase Representative productivity through field activation and segmentation programs and technology tools and enablers, to invest in the direct-selling channel, to offer a more social selling experience, and to compete with other direct-selling organizations to recruit, retain and service Representatives and to continue to innovate the direct-selling model;

- general economic and business conditions in our markets, including social, economic and political uncertainties, such as in Russia and Ukraine or elsewhere, and any potential sanctions, restrictions or responses to such conditions imposed by other markets in which we operate;

- the effect of political, legal, tax, including changes in tax rates, and other regulatory risks imposed on us abroad and in the U.S., our operations or the Representatives, including foreign exchange, pricing, data privacy or other restrictions,
- the adoption, interpretation and enforcement of foreign laws, including in jurisdictions such as Brazil and Russia, and any changes thereto, as well as reviews and investigations by government regulators that have occurred or may occur from time to time, including, for example, local regulatory scrutiny;
- competitive uncertainties in our markets, including competition from companies in the consumer packaged goods industry, some of which are larger than we are and have greater resources;
- the impact of the adverse effect of volatile energy, commodity and raw material prices, changes in market trends, purchasing habits of our consumers and changes in consumer preferences, particularly given the global nature of our business and the conduct of our business in primarily one channel;
- our ability to attract and retain key personnel;
- other sudden disruption in business operations beyond our control as a result of events such as acts of terrorism or war, natural disasters, pandemic situations, large-scale power outages and similar events;
- key information technology systems, process or site outages and disruptions, and any cyber security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of Representative, customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident which could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations, and related costs to address such malicious intentional acts and to implement adequate preventative measures against cyber security breaches;
- our ability to comply with various data privacy laws affecting the markets in which we do business;
- the risk of product or ingredient shortages resulting from our concentration of sourcing in fewer suppliers;
- any changes to our credit ratings and the impact of such changes on our financing costs, rates, terms, debt service obligations, access to lending sources and working capital needs;
- the impact of our indebtedness, our access to cash and financing, and our ability to secure financing or financing at attractive rates and terms and conditions;
- the impact of our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), on our ability to comply with certain covenants in our revolving credit facility;
- our ability to successfully identify new business opportunities, strategic alliances and strategic alternatives and identify and analyze alliance candidates, secure financing on favorable terms and negotiate and consummate alliances;
- disruption in our supply chain or manufacturing and distribution operations;
- the quality, safety and efficacy of our products;
- the success of our research and development activities;
- our ability to protect our intellectual property rights, including in connection with the separation of the North America business;
- our ability to repurchase the series C preferred stock in connection with a change of control; and
- the risk of an adverse outcome in any material pending and future litigation or with respect to the legal status of Representatives.

Additional information identifying such factors is contained in Item 1A of our Form 10-K for the year ended December 31, 2018, and other reports and documents we file with the SEC. We undertake no obligation to update any such forward-looking statements.

PART I

ITEM 1. BUSINESS

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

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

General

We are a global manufacturer and marketer of beauty and related products. We commenced operations in 1886 and were incorporated in the State of New York on January 27, 1916. We conduct our business in the highly competitive beauty industry and compete against other consumer packaged goods ("CPG") and direct-selling companies to create, manufacture and market beauty and non-beauty-related products. Our product categories are Beauty and Fashion & Home. Beauty consists of skincare, fragrance and color (cosmetics). Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, gift and decorative products, housewares, entertainment and leisure products, children’s products and nutritional products.

Our business is conducted primarily in one channel, direct selling. Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa; South Latin America; North Latin America; and Asia Pacific. Financial information relating to our reportable segments is included in "Segment Review" within Management’s Discussion and Analysis of Financial Condition and Results of Operations, which we refer to in this report as "MD&A," on pages 27 through 54 of this Annual Report on Form 10-K for the year ended December 31, 2018, which we refer to in this report as our "2018 Annual Report," and in Note 15, Segment Information, to the Consolidated Financial Statements on pages F-50 through F-52 of our 2018 Annual Report. We refer to each of the Notes to the Consolidated Financial Statements in this 2018 Annual Report as a "Note." Information about geographic areas is included in Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report. All of our consolidated revenue is derived from operations of subsidiaries outside of the United States ("U.S.").

In December 2015, we entered into definitive agreements with affiliates of Cerberus Capital Management L.P. ("Cerberus"), which included a $435 investment in Avon by an affiliate of Cerberus through the purchase of our convertible preferred stock and the separation of the North America business (including approximately $100 of cash, subject to certain adjustments) from Avon into New Avon LLC ("New Avon"), a privately-held company that is majority-owned and managed by an affiliate of Cerberus. These transactions closed in March 2016 and Avon retained approximately 20% ownership in New Avon. Our North America business had consisted of the Company's operations in the U.S., Canada and Puerto Rico; this business was previously its own reportable segment, and has been presented as discontinued operations for all periods presented. Refer to Note 3, Discontinued Operations and Assets and Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report and Note 4, Investment in New Avon on page F-26 of our 2018 Annual Report for additional information regarding the investment by an affiliate of Cerberus and the separation of the North America business.

Distribution

During 2018, we had sales operations in 56 countries and territories, and distributed our products in 21 other countries and territories.

Unlike most of our CPG competitors, which sell their products through third-party retail establishments (e.g., drug stores and department stores), we primarily sell our products to the ultimate consumer through the direct-selling channel. In our case, sales of our products are made to the ultimate consumer principally through direct selling by Representatives, who are independent contractors and not our employees. As of December 31, 2018, we had approximately 5 million active Representatives which represents the number of Representatives submitting an order in a sales campaign, totaled for all campaigns during the year and then divided by the number of campaigns. Representatives earn by purchasing products directly from us at a discount from a published brochure price and selling them to their customers, the ultimate consumer of our products. Representatives can start their Avon businesses for a nominal fee, or in some markets, for no fee at all. We generally have no arrangements with end users of our products beyond the Representative, except as described below. No single Representative accounts for more than 10% of our net sales globally.

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

We employ certain web-enabled systems to increase Representative support, which allow a Representative to run her or his business more efficiently and also allow us to improve our order-processing accuracy. For example, in many countries, Representatives can utilize the Internet to manage their business electronically, including order submission, order tracking, payment and communications with us. In addition, in many markets, Representatives can further build their own business through personalized web pages provided by us, enabling them to sell a complete line of our products online. Self-paced online training also is available in certain markets. We are actively deploying and training the Representatives on additional digital tools and sales methods to help increase her customer reach.

In some markets, particularly in Asia Pacific, we use decentralized branches, satellite stores and independent retail operations (e.g., beauty boutiques) to serve Representatives and other customers. Representatives come to a branch to place and pick up product orders for their customers. The branches also create visibility of the Avon brand and channel with consumers and help reinforce our beauty image. In certain markets, we allow our beauty centers and other retail-oriented and direct-to-consumer opportunities to reach new customers in complementary ways to direct selling. In the United Kingdom ("UK") and certain other markets, we also utilize e-commerce and market our products through consumer websites.

The recruiting or appointing and training of Representatives are the primary responsibilities of independent leaders supported by zone managers. Depending on the market and the responsibilities of the role, some of these individuals are our employees and some are independent contractors. Those who are employees are paid a salary and an incentive based primarily on the achievement of a sales objective in their district. Those who are independent contractors are rewarded primarily based on total sales achieved in their zones or downline team of recruited, trained and managed Representatives. Personal contacts, including recommendations from current Representatives (including the sales leadership program), and local market advertising constitute the primary means of obtaining new Representatives. The sales leadership program is a multi-level compensation program which gives Representatives, known as independent leaders, the opportunity to earn discounts on their own sales of our products, as well as commissions based on the net sales made by Representatives they have recruited and trained. This program generally limits the number of levels on which commissions can be earned to three. The primary responsibilities of independent leaders are the prospecting, appointing, training and development of their downline Representatives while maintaining a certain level of their own sales. As described above, the Representative is the "store" through which we primarily sell our products and, given the high rate of turnover among Representatives, which is a common characteristic of direct selling, it is critical that we recruit, retain and service Representatives on a continuing basis in order to maintain and grow our business.

From time to time, local governments and others question the legal status of Representatives or impose burdens inconsistent with their status as independent contractors, often in regard to possible coverage under social benefit laws that would require us (and, in most instances, the Representatives) to make regular contributions to government social benefit funds. Although we have generally been able to address these questions in a satisfactory manner, these questions can be raised again following regulatory changes in a jurisdiction or can be raised in other jurisdictions. If there should be a final determination adverse to us in a country, the cost for future, and possibly past, contributions could be so substantial in the context of the volume and profitability of our business in that country that we would consider discontinuing operations in that country.

Promotion and Marketing

Sales promotion and sales development activities are directed at assisting Representatives, through sales aids such as brochures, product samples and demonstration products. In order to support the efforts of Representatives to reach new customers, specially designed sales aids, digital content and tools, promotional pieces, customer flyers and various forms of advertising may be used. In addition, we seek to motivate the Representatives through the use of special incentive programs that reward superior sales performance. Periodic sales meetings with Representatives are conducted by the district sales or zone managers. We believe that the training meetings are an integral part of enabling the Representatives to provide customers with the advice and tools to better service her customer base as well as teach sales techniques and provide recognition for sales performance.

We use a number of merchandising techniques, including promotional pricing for new products, combination offers, trial sizes and samples, and the promotion of products packaged as gift items. In most markets, for each sales campaign, we publish a distinctive brochure (whether paper or online), in which we introduce new products and

special promotions on selected items, or give particular prominence to a particular category. Key priorities for our merchandising include the delivering of product bundles and regimens that help improve average order size and the continued use of analytical tools to enable a deeper, fact-based understanding of the role and impact of pricing within our product portfolio.

Competitive Conditions

We face competition from various products and product lines. The beauty and beauty-related products industry is highly competitive and the number of competitors and degree of competition that we face in this industry varies widely from country to country. We compete against products sold to consumers in a number of distribution methods, including direct selling, through the Internet, and through the mass market retail and prestige retail channels.

Specifically, due to the nature of the direct-selling channel, we often compete on a country-by-country basis, with our direct-selling competitors. Unlike a typical CPG company which operates within a broad-based consumer pool, direct sellers compete for representative or entrepreneurial talent by providing a more competitive earnings opportunity or "better deal" than that offered by the competition as well as significant competition from other non-direct selling earnings opportunities for which the existing Representatives or potential Representatives could avail themselves. Providing a compelling earnings opportunity for the Representatives is as critical as developing and marketing new and innovative products. As a result, in contrast to a typical CPG company, we must first compete for a limited pool of Representatives before we reach the ultimate consumer.

Within the broader CPG industry, we principally compete against large and well-known cosmetics (color), fragrance and skincare companies that manufacture and sell broad product lines through various types of retail establishments and other channels, including through the Internet. In addition, we compete against many other companies that manufacture and sell more narrow beauty product lines sold through retail establishments and other channels, including through the Internet.

We also have many global branded and private label competitors in the accessories, apparel, housewares, and gift and decorative products industries, including retail establishments, principally department stores, mass merchandisers, gift shops and specialty retailers. Our principal competition in the fashion jewelry industry consists of a few large companies and many small companies that sell fashion jewelry through department stores, mass merchandisers, specialty retailers and e-commerce.

We believe that the personalized customer service offered by the Representatives; the Representatives’ earnings opportunity as well as the amount and type of field incentives we offer the Representatives on a market-by-market basis; the high quality, attractive designs and prices of our products; the high level of new and innovative products; our easily recognized brand name and our guarantee of product satisfaction are significant factors in helping to establish and maintain our competitive position.

International Operations

During 2018, our international operations, outside of the U.S., were conducted primarily through subsidiaries in 56 countries and territories. Outside of the U.S., our products were also distributed in 20 other countries and territories. In March 2016, we separated from our North America business, which had consisted of the Company's operations in the U.S., Canada and Puerto Rico; this business has been presented as discontinued operations for all periods presented. As a result, all of our consolidated revenue is derived from operations of subsidiaries outside of the U.S. During 2018, approximately 39% of our consolidated revenue was derived from South Latin America, approximately 38% was derived from Europe, Middle East & Africa, approximately 15% was derived from North Latin America and approximately 8% was derived from Asia Pacific. Further, approximately 23% of our consolidated revenue during 2018 was derived from Brazil, which is our largest market and is included within the South Latin America reportable segment.

Our international operations are subject to risks inherent in conducting business abroad, including, but not limited to, the risk of adverse foreign currency fluctuations, foreign currency remittance restrictions, the ability to procure products and unfavorable social, economic and political conditions.

See the sections "Risk Factors - Our ability to conduct business in our international markets may be affected by political, legal, tax and regulatory risks." and "Risk Factors - We are subject to financial risks as a result of our international operations, including exposure to foreign currency fluctuations and the impact of foreign currency restrictions." in Item 1A on pages 7 through 20 of our 2018 Annual Report for more information.

Manufacturing and Sourcing

We manufacture and package the majority of our Beauty products, which are formulated and designed by our staff of chemists, designers and artists. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components required for our Beauty products are purchased from a range of third-party suppliers. The remainder of our Beauty products and all of our Fashion & Home products are purchased from various third-party manufacturers.

Our products are affected by the cost and availability of materials such as glass, plastics, chemicals and fabrics. For the vast majority of items we have more than one source of supply available. We believe that we can continue to

obtain sufficient raw materials and supplies to manufacture and produce our Beauty products for the foreseeable future.

Additionally, we design the brochures (whether paper or online) that are used by the Representatives to sell our products. The brochures are then produced on our behalf by a range of printing suppliers.

The loss of any one supplier would not have a material impact on our ability to source raw materials for the majority of our Beauty products or source products for the remainder of our Beauty products and all of our Fashion & Home products or paper for the brochures.

See Item 2, Properties, on page 20 of our 2018 Annual Report for additional information regarding the location of our principal manufacturing facilities.

Product Categories

Both of our product categories individually account for 10% or more of consolidated net sales in 2018. The following is the percentage of net sales by product category for the years ended December 31:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Beauty | 74% | 75% | 74% |
| Fashion & Home | 26% | 25% | 26% |

2018 was also impacted by the Brazil IPI tax release, which is excluded from net sales in our calculation above. See "SOLA" within MD&A on pages 46 through 48 for more information.

Trademarks and Patents

Our business is not materially dependent on the existence of third-party patent, trademark or other third-party intellectual property rights, and we are not a party to any ongoing material licenses, franchises or concessions. We do seek to protect our key proprietary technologies by aggressively pursuing comprehensive patent coverage in major markets. We protect our Avon name and other major proprietary trademarks through registration of these trademarks in the relevant markets, monitoring the markets for infringement of such trademarks by others, and by taking appropriate steps to stop any infringing activities.

Seasonal Nature of Business

Our sales and earnings are typically affected by seasonal variations, a characteristic of many companies selling beauty, gift and
decorative products, apparel and fashion jewelry. For instance, our sales are generally highest during the fourth quarter due to
seasonal and holiday-related patterns. However, the sales volume of holiday gift items is, by its nature, difficult to forecast, and
taken as a whole, seasonality does not have a material impact on our financial results.

Research and Product Development Activities

New products are essential to growth in the highly competitive cosmetics industry. Our research and development ("R&D") department’s efforts are important to developing new products, including formulating effective beauty treatments relevant to women’s needs, and redesigning or reformulating existing products. As part of our Open Up Avon strategy and to improve our brand competitiveness, we have increasingly partnered with third party product development companies to help accelerate our development time and sustained our focus on new technology and product innovation to deliver first-to-market products that provide visible consumer benefits.

Our global R&D facility is located in Suffern, NY. A team of researchers and technicians apply the disciplines of science to the practical aspects of bringing products to market around the world. Relationships with dermatologists and other specialists enhance our ability to deliver new formulas and ingredients to market. Additionally, we have R&D facilities located in Argentina, Brazil, China, Mexico, the Philippines, Poland, South Africa and the UK.

In 2018, our most significant product launches included: Eve Discovery Collection, Full Speed Nitro, Avon Life Color for Him and Her by Kenzo Takada, Anew Platinum and Anew Ultimate Instantly Smoothing Eye Gel, Clearskin O2 Fresh Micellar Cleansing Water, Avon Care Coconut Oil Collection, Encanto Energy Collection, Mark. Big & Extreme Mascara, Avon True Velvet Luminosity Lipstick and Avon True Flawless Finishing Pearls.

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were $48.0 in 2018, $52.9 in 2017 and $52.1 in 2016. This research included the activities of product research and development and package design and development. Most of these activities were related to the design and development of Beauty products.

Environmental Matters

Compliance with environmental laws and regulations impacting our global operations has not had, and currently is not anticipated to have, a material adverse effect on our financial position, capital expenditures or competitive position.

Employees

At December 31, 2018, we employed approximately 23,000 employees. Of these, approximately 500 were employed in the U.S. and approximately 22,500 were employed in other countries.

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Transformation Plan and Open Up Avon

In January 2016, we announced a transformation plan (the "Transformation Plan") which was completed in 2018. In September 2018, we initiated a new strategy to return Avon to growth ("Open Up Avon"). See "Overview" within MD&A on pages 28 through 29 for more information on these items.

Acquisitions and Dispositions

In December 2015, we entered into definitive agreements with affiliates of Cerberus, which included the separation of the North America business from Avon into New Avon, a privately-held company that is majority-owned and managed by an affiliate of Cerberus. Avon retained approximately 20% ownership in New Avon. These transactions closed in March 2016.

In February 2019, we completed the sale to TheFaceShop Co., Ltd., an affiliate of LG Household & Health Care Ltd., of all of the equity interests in Avon Manufacturing (Guangzhou), Ltd.

Refer to Note 3, Discontinued Operations and Assets and Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report, for additional information regarding the sale of the North America business and the sale of Avon Manufacturing (Guangzhou), Ltd.

Website Access to Reports

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are, and have been throughout 2018, available without charge on our investor website (www.avoninvestor.com) as soon as reasonably practicable after they are filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). We also make available on our website the charters of our Board Committees, our Corporate Governance Guidelines and our Code of Conduct. Copies of these SEC reports and other documents are also available, without charge, by sending a letter to Investor Relations, Avon Products, Inc., 1 Avon Place, Suffern, N.Y. 10901, by sending an email to investor.relations@avon.com or by calling (212) 282-5320. Information on our website does not constitute part of this report. Our filings with the SEC, including reports, proxy and information statements, and other information regarding the Company are also available on the SEC’s website at www.sec.gov free of charge as soon as reasonably practicable after we have filed or furnished the above-referenced reports.

ITEM 1A. RISK FACTORS

You should carefully consider each of the following risks associated with an investment in our publicly-traded securities and all of the other information in our 2018 Annual Report. Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur, our business, prospects, financial condition, liquidity, results of operations and cash flows may be materially adversely affected.

Risks Related to Us and Our Business

Our success depends on our ability to improve our financial and operational performance and execute fully our global business strategy.

Our ability to improve our financial and operational performance and implement the key initiatives of our global business strategy is dependent upon a number of factors, including our ability to:

- implement Open Up Avon, stabilization strategies, cost savings initiatives, restructuring and other initiatives, and achieve anticipated savings and benefits from such programs and initiatives;
- reverse declines in our market share and strengthen our brand image;
- implement appropriate pricing strategies and product mix that are more aligned with the preferences of local markets and achieve anticipated benefits from these strategies;
- reduce costs and effectively manage our cost structure, particularly selling, general and administrative ("SG&A") expenses;
- improve our business in the markets where we operate, including through improving field health;
- execute investments in information technology ("IT") infrastructure and realize efficiencies across our supply chain, marketing processes, sales model and organizational structure;
- implement and continue to innovate our digital strategies, Internet platform, technology strategies and customer service initiatives, including our ability to offer a more compelling social selling experience and the roll-out of

e-commerce in certain markets;

- effectively manage our outsourcing activities;
- improve our marketing and advertising, including our brochures and our social media presence;
- improve working capital, effectively manage inventory and implement initiatives to reduce inventory levels, including through our recent structural reset of inventory processes, and the potential impact on cash flows and obsolescence;
- secure financing at attractive rates, maintain appropriate capital investment, capital structure and cash flow levels and implement cash management, tax, foreign currency hedging and risk management strategies;
- reverse declines in Active Representatives and Representative satisfaction by successfully reducing campaign complexity and enhancing our sales leadership program, the Representative experience, retention and earnings potential, along with improving our brand image;
- increase the productivity of Representatives through successful implementation of segmentation, field activation programs and technology tools and enablers and other investments in the direct-selling channel;
- improve management of our businesses in developing markets, including improving local IT resources and management of local supply chains;
- increase the number of consumers served per Representative and their engagement online, as well as to reach new consumers through a combination of new brands, new businesses, new channels and pursuit of strategic opportunities such as joint ventures and alliances with other companies;
- comply with certain covenants in our revolving credit facility, which depends on our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), or undertake other alternatives to avoid noncompliance, such as obtaining additional amendments to our revolving credit facility or repurchasing certain debt, and address the impact any non-compliance with such covenants may have on our ability to secure financing with favorable terms; and
- estimate and achieve any financial projections concerning, for example, customer demand, future revenue, profit, cash flow, and operating margin increases and maintain an effective internal control environment as a result of any challenges associated with the implementation of our various plans, strategies and initiatives.

There can be no assurance if and when any of these initiatives will be successfully and fully executed or completed. We may experience financial and strategic difficulties and delays or unexpected costs in completing Open Up Avon and any other restructuring and cost-savings initiatives, including achieving any anticipated savings and benefits of these initiatives.

In September 2018, we initiated a new strategy in order to return Avon to growth (“Open Up Avon”). As one element of this plan, we are targeting pre-tax annualized cost savings of approximately $400 million by 2021, to be generated from efficiencies in manufacturing and sourcing, distribution, general and administrative activities, and back office functions, as well as through revenue management, interest and tax. These savings are expected to be achieved through restructuring actions (that may result in charges related to severance, contract terminations and inventory and other asset write-offs), as well as other cost-savings strategies that would not result in restructuring charges. We initiated the Open Up Avon strategy to enable us to achieve our goals of low-single-digit constant-dollar revenue growth and low double-digit operating margin by 2021. We plan to reinvest a portion of these cost savings in commercial initiatives, including training for Representatives, and digital and information technology infrastructure initiatives. See "Overview" within MD&A on pages 27 through 29 for more information on our Open Up Avon Strategy.

As we work to right-size our cost structure, we may not realize anticipated savings or benefits from one or more of the various restructuring and cost-savings initiatives we may undertake as part of these efforts in full or in part or within the time periods we expect. Other events and circumstances, such as financial and strategic difficulties and delays or unexpected costs, including the impact of foreign currency and inflationary pressures, may occur which could result in our not realizing our targets or in offsetting the financial benefits of reaching those targets. If we are unable to realize these savings or benefits, or otherwise fail to invest in the growth initiatives, our business may be adversely affected. In addition, any plans to invest these savings and benefits ahead of future growth means that such costs will be incurred whether or not we realize these savings and benefits. We are also subject to the risks of labor unrest, negative publicity and business disruption in connection with these initiatives, and the failure to realize anticipated savings or benefits from such initiatives could have a material adverse effect on our business, prospects, financial condition,

liquidity, results of operations and cash flows.

There can be no assurance that we will be able to improve revenue, margins and net income or to achieve profitable growth.

There can be no assurance that we will be able to improve revenue, margins and net income, or to achieve profitable growth in the future, particularly in our largest markets and developing and emerging markets, such as Brazil, Mexico and Russia. Our

revenue in 2018 was $5,571.3 million, compared with $5,715.6 million in 2017 and $5,717.7 million in 2016. Improving revenue, margins and net income and achieving profitable growth will depend on our ability to improve financial and operational performance and execute our global business strategy, and there can be no assurance that we will be able to achieve these goals. Our ability to improve could be hindered by competing business priorities and projects.

To improve revenue, margins and net income and to achieve profitable growth, we also need to successfully implement certain initiatives, including Open Up Avon, and there can no assurance that we will be able to do so. Our achievement of profitable growth is also subject to the strengths and weaknesses of our individual international markets, which are or may be impacted by global economic conditions. We cannot assure that our broad-based geographic portfolio will be able to withstand an economic downturn, recession, cost or wage inflation, commodity cost pressures, economic or political instability (including fluctuations in foreign exchange rates), competitive pressures or other market pressures in one or more particular regions.

Failure to improve revenue, margins and net income and to achieve profitable growth could have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Our business is conducted primarily in one channel, direct selling.

Our business is conducted primarily in the direct-selling channel. Sales are made to the ultimate consumer principally through direct selling by Representatives, who are independent contractors and not our employees. As of December 31, 2018, we had approximately 5.0 million active Representatives. There is a high rate of turnover among Representatives, which is a common characteristic of the direct-selling business. In order to reverse losses of Representatives and grow our business in the future, we need to recruit, retain and service Representatives on a continuing basis. Among other things, we need to create attractive Representative earning opportunities and transform the value chain, restore field health and sales force effectiveness, successfully implement other initiatives in the direct-selling channel, successfully execute our digital strategy, including e-commerce, improve our brochure and product offerings and improve our marketing and advertising. There can be no assurance that we will be able to achieve these objectives. Our direct-selling model contains an inherent risk of bad debt associated with providing Representatives with credit, which is exacerbated if the financial condition of the Representatives deteriorates. Additionally, consumer purchasing habits, including reducing purchases of beauty and related products generally, or reducing purchases from Representatives through direct selling by buying beauty and related products in other channels such as retail, could reduce our sales, impact our ability to execute our global business strategy or have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows. Additionally, if we lose market share in the direct-selling channel, our business, prospects, financial condition, liquidity, results of operations and cash flows may be adversely affected. Furthermore, if any government or regulatory body such as Brazil or the European Union, bans or severely restricts our business methods or operational/commercial model of direct selling, our business, prospects, financial condition, liquidity, results of operations and cash flows may be materially adversely affected.

We are subject to financial risks as a result of our international operations, including exposure to foreign currency fluctuations and the impact of foreign currency restrictions.

We operate globally, through operations in various locations around the world, and derive all of our consolidated revenue from operations outside of the U.S.

One risk associated with our international operations is that the functional currency for most of our international operations is their local currency. The primary foreign currencies for which we have significant exposures include the Argentine peso, Brazilian real, British pound, Chilean peso, Colombian peso, the euro, Mexican peso, Peruvian new sol, Philippine peso, Polish zloty, Romanian leu, Russian ruble, South African rand, Turkish lira and Ukrainian hryvnia. As the U.S. dollar strengthens relative to our foreign currencies, our revenues and profits are reduced when translated into U.S. dollars and our margins may be negatively impacted by country mix if our higher margin markets experience significant devaluation. In addition, our costs are more weighted to U.S. dollars while our sales are denominated in local currencies. Although we typically work to mitigate this negative foreign currency transaction impact through price increases and further actions to reduce costs, and by shifting costs to markets in which we generate revenue, we may not be able to fully offset the impact, if at all. Our success depends, in part, on our ability to

manage these various foreign currency impacts and there can be no assurance that foreign currency fluctuations will not have a material adverse effect on our business, assets, financial condition, liquidity, results of operations or cash flows.

Another risk associated with our international operations is the possibility that a foreign government may tax or impose foreign currency remittance restrictions. Due to the possibility of government restrictions on transfers of cash out of the country and control of exchange rates, we may not be able to immediately repatriate cash. If this should occur, or if the exchange rates devalue, it may have a material adverse effect on our business, assets, financial condition, liquidity, results of operations or cash flows.

Inflation is another risk associated with our international operations. Gains and losses resulting from the remeasurement of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. High rates of inflation or the related devaluation of foreign currency may have a material adverse effect on our business, assets, financial condition,

liquidity and results of operations or cash flows. For example, Argentina has been designated as a highly inflationary economy. See "Segment Review - South Latin America" within MD&A on pages 47 of our 2018 Annual Report for additional information regarding Argentina. In addition, there can be no assurance that other countries in which we operate will not become highly inflationary and that our revenue, operating profit and net income will not be adversely impacted as a result.

Our ability to improve our financial performance depends on our ability to anticipate and respond to market trends and changes in consumer preferences.

Our ability to improve our financial performance depends on our ability to anticipate, gauge and react in a timely and effective manner to changes in consumer spending patterns and preferences for beauty and related products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products, and refine our approach as to how and where we market and sell our products. Consumer spending patterns and preferences cannot be predicted with certainty and can change rapidly. In addition, certain market trends may be short-lived. There can be no assurance that we will be able to anticipate and respond to trends timely and effectively in the market for beauty and related products and changing consumer demands and improve our financial results.

Furthermore, material shifts or decreases in market demand for our products, including as a result of changes in consumer spending patterns and preferences or incorrect forecasting of market demand, could result in us carrying inventory that cannot be sold at anticipated prices or increased product returns by the Representatives. Failure to maintain proper inventory levels or increased product returns by the Representatives could result in a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Our success depends, in part, on our key personnel.

Our success depends, in part, on our ability to retain our key personnel. The unexpected loss of or failure to retain one or more of our key employees could adversely affect our business. Our success also depends, in part, on our continuing ability to identify, hire, attract, train, develop and retain other highly qualified personnel. Competition for these employees can be intense and our ability to hire, attract and retain them depends on our ability to provide competitive compensation. We may not be able to attract, assimilate, develop or retain qualified personnel in the future, and our failure to do so could adversely affect our business, including the execution of our global business strategy. For example, there have been many changes to the Company's senior management, including a new chief executive officer in 2018, a new chief financial officer in 2015, 2017 and 2019 and other significant changes to senior management during 2017, 2018 and 2019. Such turnover creates a risk of business processes not being sustained if the turnover occurs with inadequate knowledge transfer. Any failure by our management team to perform as expected may have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows. This risk may be exacerbated by the uncertainties associated with the implementation of Open Up Avon and any other stabilization strategies and restructuring and cost-savings initiatives we undertake from time to time.

A general economic downturn, a recession globally or in one or more of our geographic regions or markets or sudden disruption in business conditions or other challenges may adversely affect our business, our access to liquidity and capital, and our credit ratings.

Current global macro-economic instability or a further downturn in the economies in which we sell our products, including any recession in one or more of our geographic regions or markets could adversely affect our business, our access to liquidity and capital, and our credit ratings. Economic events, including high unemployment levels and recession, as well as the tightening of credit markets, have resulted in challenges to our business and a heightened concern regarding further deterioration globally. In addition, as mentioned above, our business is conducted primarily in the direct-selling channel. We could experience declines in revenues, profitability and cash flow due to reduced orders, payment delays, supply chain disruptions or other factors caused by such economic, operational or business challenges. Any or all of these factors could potentially have a material adverse effect on our liquidity and capital resources and credit ratings, including our ability to access short-term financing, raise additional capital, reduce flexibility with respect to working capital, and maintain credit lines and offshore cash balances.

Consumer spending is also generally affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs, gasoline prices and consumer confidence generally, all of which are beyond our

control. Consumer purchases of discretionary items, such as beauty and related products, tend to decline during recessionary periods, when disposable income is lower, and may impact sales of our products. We may face continued economic challenges in 2019 because customers may continue to have less money for discretionary purchases as a result of job losses, bankruptcies, and reduced access to credit, among other things.

In addition, sudden disruptions in business conditions and consumer spending may result from acts of terror, natural disasters, adverse weather conditions, and pandemic situations or large-scale power outages, none of which are under our control.

Our credit ratings were downgraded during the past several years, which could limit our access to financing, affect the market price of our financing and increase financing costs. A further downgrade in our credit ratings may adversely affect our access to liquidity.

Nationally recognized credit rating organizations have issued credit ratings relating to our long-term debt. Our credit ratings have been downgraded at various points during the past several years, including in 2017. Our long-term credit ratings are: Moody's ratings of Stable Outlook with B1 for corporate family debt, B3 for senior unsecured debt, and Ba1 for our Senior Secured Notes; S&P ratings of Stable Outlook with B for corporate family debt and senior unsecured debt and BB- for our Senior Secured Notes; and Fitch rating of Stable Outlook with B+, each of which are below investment grade. We do not believe these long-term credit ratings will have a material impact on our near-term liquidity. However, any rating agency reviews could result in a change in outlook or downgrade, which could further limit our access to new financing, particularly short-term financing, reduce our flexibility with respect to working capital needs, affect the market price of some or all of our outstanding debt securities, and likely result in an increase in financing costs, and less favorable covenants and financial terms under our financing arrangements. A further change in outlook or downgrade of our credit ratings may increase some of these risks and limit our access to such short-term financing in the future on favorable terms, if at all. See Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report for details about the terms of our existing debt and other financing arrangements.

Our indebtedness and any future inability to meet any of our obligations under our indebtedness, could adversely affect us by reducing our flexibility to respond to changing business and economic conditions.

As of December 31, 2018, we had approximately $1.6 billion of indebtedness outstanding. We may also incur additional long-term indebtedness and working capital lines of credit to meet future financing needs, subject to certain restrictions under our indebtedness, including our revolving credit facility and our Senior Secured Notes (each, as described below), which would increase our total indebtedness. We may be unable to generate sufficient cash flow from operations and future borrowings and other financing may be unavailable in an amount sufficient to enable us to fund our current and future financial obligations or our other liquidity needs, which would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows. Our indebtedness could have material negative consequences on our business, prospects, financial condition, liquidity, results of operations and cash flows, including the following:

- limitations on our ability to obtain additional debt or equity financing sufficient to fund growth, such as working capital and capital expenditures requirements or to meet other cash requirements, in particular during periods in which credit markets are weak;
- a further downgrade in our credit ratings, as discussed above;
- a limitation on our flexibility to plan for, or react to, competitive challenges in our business and the beauty industry;
- the possibility that we are put at a competitive disadvantage relative to competitors with less debt or debt with more favorable terms than us, and competitors that may be in a more favorable position to access additional capital resources and withstand economic downturns;
- limitations on our ability to execute business development activities to support our strategies or ability to execute restructuring as necessary; and
- limitations on our ability to invest in recruiting, retaining and servicing the Representatives.

Our revolving credit facility and our Senior Secured Notes are secured by first-priority liens on and security interests in substantially all of the assets of Avon International Capital, p.l.c. ("AIC," a wholly-owned foreign subsidiary) and the subsidiary guarantors and by certain assets of the Company, in each case, subject to certain exceptions and permitted liens. Both our revolving credit facility and our Senior Secured Notes contain customary covenants, including, among other things, limits on the ability of the Company, AIC or any restricted subsidiary to, subject to certain exceptions, incur liens, incur debt, make restricted payments, make investments or, with respect to certain entities, merge, consolidate or dispose of all or substantially all of its assets. Our revolving credit facility also contains a minimum interest coverage ratio and a maximum total leverage ratio. If we are unable to comply with these ratios as a result of our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), we would be limited in our ability to borrow under our revolving credit facility which could, as a result,

restrict our operational flexibility. In addition, we could have difficulty undertaking other alternatives to avoid noncompliance, such as obtaining necessary waivers from compliance with, or necessary amendments to, the covenants contained in our revolving credit facility and our Senior Secured Notes or repurchasing certain debt, and we could have difficulty addressing the impact any non-compliance with these covenants may have on our ability to secure financing with favorable terms.

Our ability to conduct business in our international markets may be affected by political, legal, tax and regulatory risks.

Our ability to achieve growth in our international markets, and to improve operations in our existing international markets, is exposed to various risks, including:

- the possibility that a foreign government might ban, halt or severely restrict our business, including our primary method of direct selling;
- the possibility that local civil unrest, economic or political instability, bureaucratic delays, changes in macro-economic conditions, changes in diplomatic or trade relationships (including any sanctions, restrictions and other responses such as those related to Russia and Ukraine) or other uncertainties might disrupt our operations in an international market;
- the lack of well-established or reliable legal systems in certain areas where we operate;
- the adoption of new U.S. or foreign tax legislation including the 2017 U.S. federal income tax law discussed in detail below or exposure to additional tax liabilities, including exposure to tax assessments without prior notice or the opportunity to review the basis for any such assessments in certain jurisdictions;
- the possibility that a government authority might impose legal, tax or other financial burdens on the Representatives, as direct sellers, or on Avon, due, for example, to the structure of our operations in various markets, or additional taxes on our products, including in Brazil;
- the possibility that a government authority might challenge the status of the Representatives as independent contractors or impose employment or social taxes on the Representatives; and
- those associated with data privacy regulation and the international transfer of personal data.

We are also subject to the adoption, interpretation and enforcement by governmental agencies abroad and in the U.S. (including on federal, state and local levels) of other laws, rules, regulations or policies, including any changes thereto, such as restrictions on trade, competition, manufacturing, license and permit requirements, import and export license requirements, privacy and data protection laws, anti-corruption laws, environmental laws, records and information management, tariffs and taxes, laws relating to the sourcing of "conflict minerals," health care reform requirements such as those required by the Patient Protection and Affordable Healthcare Act, and regulation of our brochures, product claims or ingredients, which may require us to adjust our operations and systems in certain markets where we do business.

For example, from time to time, local governments and others question the legal status of Representatives or impose burdens inconsistent with the Representative's status as independent contractors, often in regard to possible coverage under social benefit laws that would require us (and, in most instances, the Representatives) to make regular contributions to government social benefit funds.

If we are unable to address these matters in a satisfactory manner, or adhere to or successfully implement processes in response to changing regulatory requirements, our business, costs and/or reputation may be adversely affected. We cannot predict with certainty the outcome or the impact that pending or future legislative and regulatory changes may have on our business in the future.

Our business is subject to a number of foreign laws and regulations in various jurisdictions governing data privacy and security.

We collect, use and store personal data of our employees, Representatives, customers and other third parties in the ordinary course of business, and we are required to comply with increasingly complex and changing data privacy and security laws and regulations, including with respect to the collection, storage, use, transmission and protection of personal information and other data, including particularly the transfer of personal data between or among countries. In particular, the EU has adopted robust data privacy regulations. Following recent developments such as the European Court of Justice’s 2015 ruling that the transfer of personal data from the EU to the U.S. under the EU/U.S. Safe Harbor was an invalid mechanism of personal data transfer, the adoption of the EU-U.S. Privacy Shield as a replacement for the Safe Harbor, and the upcoming effectiveness of the EU’s General Data Protection Regulation (“GDPR”) in May 2018, along with the proposed Regulation on Privacy and Electronic Communications (the “ePrivacy Regulation”), also on the horizon, data privacy and security compliance in the EU are increasingly complex and challenging. The GDPR in particular has broad extraterritorial effect and imposes a robust data protection compliance

regime with significant penalties for non-compliance. Other countries in which we operate are developing comparable regulations. In general, the GDPR and ePrivacy Regulation, and other local privacy laws, could also require adaptation of our technologies or practices to satisfy local privacy requirements and standards. We may also face audits or investigations by one or more domestic or foreign government agencies relating to our compliance with these regulations. An adverse outcome under any such investigation or audit could result in the issuance of stop processing orders, subject us to fines, penalties or orders to cease, delay or modify collection, use or transfers of personal data. That or other circumstances related to our collection, use and transfer of personal data could cause a loss of reputation in the market or adversely affect our business.

The scope of data privacy and security regulations continues to evolve, and we believe that the adoption of increasingly restrictive regulations in this area may be likely within the jurisdictions in which we operate. Compliance with data privacy and security restrictions could increase the cost of our operations and failure to comply with such restrictions could subject us to criminal and civil sanctions as well as other penalties.

A failure, disruption, cyberattack or other breach in the security of an IT system or infrastructure that we utilize could adversely affect our business and reputation and increase our costs.

We employ IT systems to support our business, including systems to support financial reporting, web-based tools, an enterprise resource planning ("ERP") system, and internal communication and data transfer networks. We also employ IT systems to support Representatives in our markets, including electronic order collection, invoicing systems, shipping and box packing, social media tools, mobile applications and on-line training. We have e-commerce and Internet sites, including business-to-business websites to support Representatives. We use third-party service providers in many instances to provide or support these IT systems. Over the last several years, we have undertaken initiatives to increase our reliance on IT systems which has resulted in the outsourcing of certain services and functions, such as global human resources IT systems, call center support, Representative support services and other IT processes. Our IT systems and infrastructure, as well as the systems, infrastructure and services of those of third parties, are integral to our performance.

Any of our IT systems and infrastructure, or those of our third-party service providers, may be susceptible to outages, disruptions, destruction or corruption due to the complex landscape of localized applications and architectures as well as incidents related to legacy or unintegrated systems. These IT systems and infrastructure also may be susceptible to cybersecurity breaches, attacks, computer viruses, break-ins, including ransomware, other malware and phishing attacks, data corruption, fire, floods, power loss, telecommunications failures, terrorist attacks and similar events beyond our control. We rely on our employees, Representatives and third parties in our day-to-day and ongoing operations, who may, as a result of human error or malfeasance or failure, disruption, cyberattack or other security breach of third-party systems or infrastructure, expose us to risk. Furthermore, our ability to protect and monitor the practices of our third-party service providers is more limited than our ability to protect and monitor our own IT systems and infrastructure.

Our IT systems, or those of our third-party service providers may be accessed by unauthorized users such as cyber criminals as a result of a failure, disruption, cyberattack or other security breach, exposing us to risk. As techniques used by cyber criminals change frequently, a failure, disruption, cyberattack or other security breach may go undetected for a long period of time. An actual or perceived failure, disruption, cyberattack or other security breach of our IT systems or infrastructure, or those of our third-party service providers, could result in the theft, transfer, unauthorized access to, disclosure, modification, misuse, loss, or destruction of Company, employee, Representative, customer, vendor, or other third-party data, including sensitive or confidential data, personal information and intellectual property and could be particularly harmful to our brand and reputation.

We are investing in industry-standard solutions and protections and monitoring practices of our data and IT systems and infrastructure to reduce these risks and we continue to monitor our IT systems and infrastructure on an ongoing basis for any current or potential threats. We have also deployed additional employee security training and updated security policies for the Company and its third-party service providers. Such efforts and investments are costly, and as cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. As a company that operates globally, we could also be impacted by commercial agreements between us and processing organizations, existing and proposed laws and regulations, and government policies and practices related to cybersecurity, privacy and data protection.

Despite our efforts, our and our third-party service providers' data, IT systems and infrastructure may be vulnerable. There can be no assurance that our efforts will prevent a failure, disruption, cyberattack or other security breach of our or our third-party service providers' IT systems or infrastructure, or that we will detect and appropriately respond if there is such a failure, disruption, cyberattack or other security breach. Our IT databases and systems have been, and will likely continue to be, subject to ransomware, denial of service and phishing attacks, none of which has been material to the Company to date. Any such failure, disruption, cyberattack or other security breach could adversely

affect our business including our ability to expand our business, cause damage to our reputation, result in increased costs to address internal data, security, and personnel issues, and result in violations of applicable privacy laws and other laws and external financial obligations such as governmental fines, penalties, or regulatory proceedings, remediation efforts such as breach notification and identity theft monitoring, and third-party private litigation with potentially significant costs. In addition, it could result in deterioration in our employees', Representatives', customers', or vendors' confidence in us, which could cause them to discontinue doing business with us or result in other competitive disadvantages. In addition, there may be other challenges and risks as we upgrade, modernize, and standardize our IT systems globally.

We face intense competition and can make no assurances about our ability to overcome our competitive challenges.

We face intense competition from competing products in each of our lines of business in the markets we operate. We compete against products sold to consumers in a number of distribution methods, including direct selling, through the Internet, and

through mass market retail and prestige retail channels. We also face increasing direct-selling and retail competition in our developing and emerging markets, particularly Brazil and Russia.

Within the direct-selling channel, we often compete on country-by-country basis with our direct-selling competitors. There are a number of direct-selling companies that sell product lines similar to ours, some of which have worldwide operations and compete with us globally. Unlike a typical CPG company which operates within a broad-based consumer pool, direct sellers compete for representative or entrepreneurial talent by providing a more competitive earnings opportunity or "better deal" than that offered by the competition. Providing a compelling earnings opportunity for the Representatives is as critical as developing and marketing new and innovative products. Therefore, in contrast to typical CPG companies, we must first compete for a limited pool of Representatives before we reach the ultimate consumer.

Representatives are attracted to a direct seller by competitive earnings opportunities, often through what are commonly known as "field incentives" in the direct-selling industry. Competitors devote substantial effort to finding out the effectiveness of such incentives so that they can invest in incentives that are the most cost-effective or produce the better payback. As one of the largest and oldest beauty direct sellers globally, Avon's business model and strategies are often highly sought after, particularly by smaller and more nimble competitors who seek to capitalize on our investment and experience. As a result, we are subject to significant competition for the recruitment of Representatives from other direct-selling or network marketing organizations as well as significant competition from other non-direct selling earnings opportunities for which our existing Representatives or potential Representatives could avail themselves. Changes to our compensation models are sometimes necessary to be competitive but could have short-term negative impacts on our total number of Representatives. It is therefore continually necessary to innovate and enhance our direct-selling and service model as well as to recruit and retain new Representatives. If we are unable to do so, our business will be adversely affected.

Within the broader CPG industry, we principally compete against large and well-known cosmetics (color), fragrance and skincare companies that manufacture and sell broad product lines through various types of retail establishments and other channels, including through the Internet. In addition, we compete against many other companies that manufacture and sell more narrow beauty product lines sold through retail establishments and other channels, including through the Internet. This industry is highly competitive, and some of our principal competitors in the CPG industry are larger than we are and have greater resources than we do. Competitive activities on their part could cause our sales to suffer. We also have many highly competitive global branded and private label competitors in the accessories, apparel, housewares, and gift and decorative products industries, including retail establishments, principally department stores, mass merchandisers, gift shops and specialty retailers. Our principal competition in the highly competitive fashion jewelry industry consists of a few large companies and many small companies that sell fashion jewelry through department stores, mass merchandisers, specialty retailers and e-commerce.

The number of competitors and degree of competition that we face in the beauty and related products industry varies widely from country to country. If our advertising, promotional, merchandising or other marketing strategies are not successful, if we are unable to improve our product mix and offer new products that represent technological breakthroughs and are aligned with local preferences, if we do not successfully manage the timing of new product introductions or the profitability of these efforts, if we are unable to improve the Representative experience, or if for other reasons the Representatives or end customers perceive competitors' products as having greater appeal, then our sales, results of operations and cash flows will be adversely affected.

Third-party suppliers provide, among other things, the raw materials required for our Beauty products, and the loss of these suppliers, a supplier's inability to supply a raw material or a finished product or a disruption or interruption in the supply chain may adversely affect our business.

We manufacture and package the majority of our Beauty products, which are formulated and designed by our staff of chemists, designers and artists. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components required for our Beauty products are purchased from a range of third-party suppliers. The remainder of our Beauty products and all of our Fashion & Home products are purchased from various third-party manufacturers. Our products are affected by the cost and availability of materials such as glass, plastics, chemicals and fabrics. For the vast majority of items we have more than one source of supply available. We believe that we can

continue to obtain sufficient raw materials and supplies to manufacture and produce our Beauty products for the foreseeable future. Additionally, we design the brochures that are used by the Representatives to sell our products. The brochures are then produced on our behalf by a range of printing suppliers.

The loss of any one supplier would not have a material impact on our ability to source raw materials for the majority of our Beauty products or source products for the remainder of our Beauty products and all of our Fashion & Home products or paper for the brochures. This risk may be exacerbated by our globally-coordinated purchasing strategy, which leverages volumes. Regulatory action, such as restrictions on importation, may also disrupt or interrupt our supply chain. Furthermore, increases in the costs of raw materials or other commodities may adversely affect our profit margins if we are unable to pass along any higher costs in the form of price increases or otherwise achieve cost efficiencies in manufacturing and distribution. In addition,

if our suppliers fail to use ethical business practices and comply with applicable laws and regulations, such as any child labor laws, our reputation could be harmed due to negative publicity.

The comprehensive U.S. tax reform legislation enacted on December 22, 2017 could adversely affect our business and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted that significantly revises the Internal Revenue Code of 1986 (the "Code"), as amended. The enacted federal income tax law contains significant changes to corporate taxation, including but not limited to, a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, a limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), a one-time tax on offshore earnings at reduced rates regardless of whether the funds are physically repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate and various guidance, legislation and regulation published by the U.S. Federal, and various state taxing authorities, there continues to be uncertainty regarding interpretation of certain provisions of the new federal tax law and the State responses to the new federal tax law. These uncertainties and the ultimate interpretation of the federal and state provisions may adversely affect our business and financial condition.

Our ability to utilize our foreign tax and other U.S. credits to offset our future taxable income may be limited under Sections 382 and 383 of the Code.

As of December 31, 2018, we had approximately $833 million of foreign tax and other credits available to offset future income for U.S. federal tax purposes. Our ability to utilize such credits to offset future income could be limited, however, if the Company undergoes an “ownership change” within the meaning of Section 382 of the Code. In general, an ownership change will occur if there is a cumulative increase in ownership of our stock by 5% shareholders (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. If the 50 percentage points are exceeded, Section 382 establishes an annual limitation on the amount of deferred tax assets attributable to previously incurred credits that may be used to offset taxable income in future years. A number of complex rules apply in calculating this limitation, and any such limitation would depend in part on the market value of the Company at the time of the ownership change and prevailing interest rates at the time of calculation. As a result, the magnitude of any potential limitation on the use of our deferred tax assets and the effect of such limitation on the Company if an ownership change were to occur is difficult to assess. However, if all or a portion of our deferred tax assets were to become subject to this limitation, our tax liability could increase significantly and our future results of operations and cash flows could be adversely impacted.

We currently believe an ownership change has not occurred. However, in recent periods, we have experienced fluctuations in the market price of our stock and changes in ownership by our 5% shareholders. In addition, the issuance and sale of perpetual convertible preferred stock to Cerberus Investor (as defined below) resulted in an increase in our cumulative ownership change by our 5% shareholders.

Significant changes in pension fund investment performance, assumptions relating to pension costs or required legal changes in pension funding rules may have a material effect on the valuation of pension obligations, the funded status of pension plans and our pension cost.

Our funding policy for pension plans is to meet the minimum required contributions under applicable law and accumulate plan assets that, over the long run, are expected to approximate the present value of projected benefit obligations. Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, including equity and debt securities and derivative instruments, or in a change of the expected rate of return on plan assets. A change in the discount rate could result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net periodic pension cost in the following fiscal years. Similarly, changes in the expected rate of return on plan assets can result in significant changes in the net periodic pension cost. Please see "Critical Accounting Estimates - Pension and Postretirement Expense" within MD&A on pages 32 through 34 and

Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report, for additional information regarding the impact of these factors on our pension plan obligations.

Any strategic alliances or divestitures may expose us to additional risks.

We evaluate potential strategic alliances that would complement our current product offerings, increase the size and geographic scope of our operations or otherwise offer growth and/or operating efficiency opportunities. Strategic alliances may entail numerous risks, including:

- substantial costs, delays or other operational or financial difficulties, including difficulties in leveraging synergies among the businesses to increase sales and obtain cost savings or achieve expected results;

- difficulties in assimilating acquired operations or products, including the loss of key employees from any acquired businesses and disruption to our direct-selling channel;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks of entering markets in which we have limited or no prior experience; and
- reputational and other risks regarding our ability to successfully implement such strategic alliances, including obtaining financing which could dilute the interests of our shareholders, result in an increase in our indebtedness or both.

Our failure to successfully complete the integration of any new or acquired businesses could have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows. In addition, there can be no assurance that we will be able to identify suitable candidates or consummate such transactions on favorable terms.

For divestitures, success is also dependent on effectively and efficiently separating the divested unit or business from the Company and reducing or eliminating associated overhead costs. In cases where a divestiture is not successfully implemented or completed, the Company's business, prospects, financial condition, liquidity, results of operations and cash flows could be adversely affected. Please see "Risks Related to the Separation of North America and the Preferred Stock Investment in the Company" below for additional information regarding the risks associated with the separation of North America.

The loss of, or a disruption in, our manufacturing and distribution operations could adversely affect our business.

Our principal properties consist of worldwide manufacturing facilities for the production of Beauty products, distribution centers where offices are located and where finished merchandise is packed and shipped to Representatives in fulfillment of their orders, and one principal research and development facility. Additionally, we use third-party manufacturers to manufacture certain of our products. Therefore, as a company engaged in manufacturing, distribution and research and development on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, fires, strikes and other labor or industrial disputes, disruptions in logistics or information systems (such as our ERP system), loss or impairment of key manufacturing or distribution sites, product quality control issues, safety concerns, licensing requirements and other regulatory or government issues, as well as natural disasters, pandemics, border disputes, acts of terrorism and other external factors over which we have no control. We could also experience a negative financial impact if we do not comply with minimum purchase commitments. These risks may be exacerbated by our efforts to increase facility consolidation covering our manufacturing, distribution and supply footprints, particularly if we are unable to successfully increase our resiliency to potential operational disruptions or enhance our disaster recovery planning. The loss of, or damage to, any of our facilities or centers, or those of our third-party manufacturers, could have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Our success depends, in part, on the quality, safety and efficacy of our products.

Our success depends, in part, on the quality, safety and efficacy of our products. If our products are found to be, or perceived to be, defective or unsafe, or if they otherwise fail to meet the Representatives' or end customers' standards, then our relationship with the Representatives or end customers could suffer, we may need to recall some of our products and/or become subject to regulatory action, our reputation or the appeal of our brand could be diminished, we could lose market share, and we could become subject to liability claims, any of which could result in a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

If we are unable to protect our intellectual property rights, specifically patents and trademarks, our ability to compete could be adversely affected.

The market for our products depends to a significant extent upon the value associated with our product innovations and our brand equity. We own the material patents and trademarks used in connection with the marketing and distribution of our major products where such products are principally sold. Although most of our material intellectual property is registered in certain countries in which we operate, there can be no assurance with respect to the rights associated with such intellectual property in those countries. In addition, the laws of certain foreign countries, including many emerging markets, may not completely protect our intellectual property rights. The costs required to

protect our patents and trademarks, especially in emerging markets, may be substantial. Please see "The licensing of our North America intellectual property rights, including trademarks that are fundamental to our brand, in connection with the Separation could adversely impact our reputation, our business generally, and our ability to enforce intellectual property rights used in both North America and international jurisdictions" below for additional information regarding the risks on our intellectual property rights associated with the separation of North America.

We are involved, and may become involved in the future, in legal proceedings that, if adversely adjudicated or settled, could adversely affect our financial results.

We are and may, in the future, become party to litigation, including, for example, claims alleging violation of the federal securities laws or claims relating to employee or employment matters, our products or advertising. In general, litigation claims can be expensive and time-consuming to bring or defend against and could result in settlements or damages that could significantly affect our financial results and the conduct of our business. We are currently vigorously contesting certain of these litigation claims. However, it is not possible to predict the final resolution of the litigation to which we currently are or may in the future become party, or to predict the impact of certain of these matters on our business, prospects, financial condition, liquidity, results of operations and cash flows. See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report for a detailed discussion regarding certain legal proceedings in which we are a party.

Government reviews, inquiries, investigations, and actions could harm our business or reputation. In addition, from time to time we may conduct other investigations and reviews, the consequences of which could negatively impact our business or reputation.

As we operate in various locations around the world, our operations in certain countries are subject to significant governmental scrutiny and may be harmed by the results of such scrutiny. The regulatory environment with regard to direct selling in emerging and developing markets where we do business is evolving, and government officials in such locations often exercise broad discretion in deciding how to interpret and apply relevant regulations. From time to time, we may receive formal and informal inquiries from various government regulatory authorities about our business and compliance with local laws and regulations. In addition, from time to time, we may conduct investigations and reviews. The consequences of such government reviews, inquiries, investigations, and actions or such investigations and reviews may adversely impact our business, prospects, reputation, financial condition, liquidity, results of operations or cash flows.

Additionally, any determination that our operations or activities, or, where local law mandates, the activities of the Representatives, including our licenses or permits, importing or exporting, or product testing or approvals are not, or were not, in compliance with existing laws or regulations could result in the imposition of substantial fines, civil and criminal penalties, interruptions of business, loss of supplier, vendor or other third-party relationship, termination of necessary licenses and permits, modification of business practices and compliance programs, equitable remedies, including disgorgement, injunctive relief and other sanctions that we may take against our personnel or that may be taken against us or our personnel. Other legal or regulatory proceedings, as well as government investigations, which often involve complex legal issues and are subject to uncertainties, may also follow as a consequence. Further, other countries in which we do business may initiate their own investigations and impose similar sanctions. These proceedings or investigations could be costly and burdensome to our management, and could adversely impact our business, prospects, reputation, financial condition, liquidity, results of operations or cash flows. Even if an inquiry or investigation does not result in any adverse determinations, it potentially could create negative publicity and give rise to third-party litigation or action.

The uncertainty surrounding the UK's decision to withdraw from the EU may adversely affect our business.

On June 23, 2016, the UK held a referendum in which voters approved an exit from the EU, commonly referred to as "Brexit." As a result of the referendum, the UK parliament voted in March 2017 to trigger Article 50 of the Treaty on European Union, commencing the UK's official withdrawal process from the EU and initiating negotiations with the EU in June 2017. In November 2018, the UK negotiated the terms of an agreement with the EU to determine the future terms of the parties' relationship, including the terms of trade between the UK and the EU and other nations, following the UK's exit from the EU.

On January 15, 2019, the UK parliament, however, rejected the proposed agreement for the UK's withdrawal from the EU. As a result, there remains considerable uncertainty regarding the final terms of the negotiations and related regulatory changes. Failure to obtain parliamentary approval of a negotiated withdrawal agreement could mean that the UK would leave the EU on March 29, 2019, possibly with no agreement (referred to as a "no deal Brexit"). This uncertainty concerning the terms of the exit and the UK Parliament's approval of the UK's agreement with the EU has resulted in political, legislative and regulatory uncertainty throughout the region and could adversely affect business

activity, restrict the movement of capital and the mobility of personnel and goods, and otherwise impair political stability and economic conditions in the UK, the Eurozone, the EU and elsewhere. Any of these developments could have a material adverse effect on business activity in the UK, the Eurozone, or the EU. Given that we conduct a substantial portion of our business in the EU and the UK, and our corporate headquarters has been relocated to the UK, any of these developments could have a material adverse effect on our business, financial position, liquidity and results of operations or cash flows.

The uncertainty concerning the terms of the exit could also have a negative impact on the growth of the UK and/or EU economies and has already caused significant volatility in global stock markets and greater volatility in foreign currency exchange rates, including the pound sterling, euro and/or other currencies. Changes in foreign currency exchange rates may have a material effect on our net sales, financial condition, profitability and/or cash flows and may reduce the reported value of our operating results.

Changes to UK border and immigration policy could likewise occur as a result of Brexit, affecting our ability to recruit and retain employees from outside the UK and resulting in possible delays in transportation of goods and increased custom duties. While the full scope of implementation of the referendum decision is still unclear, companies exposed to or with operations in the UK, such as ours, may face significant regulatory changes as a result of Brexit implementation, and complying with such new regulatory mandates may prove challenging and costly.

The market price of our common stock could be subject to fluctuations as a result of many factors.

Factors that could affect the trading price of our common stock include the following:

- variations in operating results;
- developments in connection with any investigations or litigations;
- a change in our credit ratings;
- economic conditions and volatility in the financial markets;
- announcements or significant developments in connection with our business and with respect to beauty and related products or the beauty industry in general;
- actual or anticipated variations in our quarterly or annual financial results;
- unsolicited takeover proposals, proxy contests or other shareholder activism;
- governmental policies and regulations;
- estimates of our future performance or that of our competitors or our industries;
- general economic, political, and market conditions;
- market rumors; and
- factors relating to competitors.

The trading price of our common stock has been, and could in the future continue to be, subject to significant fluctuations.

Risks Related to the Separation of North America and the Preferred Stock Investment in the Company

We may be exposed to claims and liabilities as a result of the separation of our North America business.

On March 1, 2016, Cleveland Apple Investor L.P. ("Cerberus Investor") (an affiliate of Cerberus) contributed $170 million of cash into New Avon in exchange for 80.1% of its membership interests, and we contributed (i) assets primarily related to our North America business (including approximately $100 million of cash, subject to certain adjustments), (ii) certain assumed liabilities (primarily pension and postretirement liabilities) of our North America business and (iii) the employees of our North America business into New Avon in exchange for a 19.9% ownership interest of New Avon (collectively, the "Separation"). In connection with the Separation, we entered into a Separation Agreement and various other agreements with New Avon to govern the separation and the relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us. The indemnity rights we have against New Avon under the agreements may not be sufficient to protect us. In addition, our indemnity obligations to New Avon may be significant and these risks could negatively affect our financial condition.

We or New Avon may fail to perform under the post-closing arrangements executed in connection with the Separation.

In connection with the Separation, we and New Avon entered into several agreements, including among others an Intellectual Property License Agreement, a Technical Support and Innovation Agreement and a Manufacturing and Supply Agreement. The Intellectual Property License Agreement provides New Avon with rights to use certain intellectual property rights that we used in the conduct of the North America business prior to the Separation. The Technical Support and Innovation Agreement provides that we will perform certain beauty product development services for New Avon. The Manufacturing and Supply Agreement provides that we and New Avon will manufacture, or cause to be manufactured, and supply certain products to each other. These agreements establish a bilateral relationship between New Avon and us. We will rely on New Avon to satisfy its performance and payment obligations under these agreements. If New Avon is unable to satisfy its obligations under these agreements, we could incur operational difficulties or losses that could have a material and adverse effect on our business, financial condition and results of operations.

The licensing of our North America intellectual property rights, including trademarks that are fundamental to our brand, in connection with the Separation could adversely impact our reputation, our business generally, and our ability to enforce intellectual property rights used in both North America and international jurisdictions.

In connection with the Separation, we granted New Avon a perpetual, irrevocable, royalty-free license, with the ability to sublicense, to certain intellectual property rights that we used in the conduct of our North America business prior to the Separation. The Intellectual Property License Agreement includes quality control provisions obligating New Avon and its sublicensees to remain in compliance with applicable law or, for certain of our brands, quality standards that we have provided

to New Avon, when selling products under certain trademarks that we have licensed to New Avon. However, there is a risk that failure by New Avon or its sublicensees to comply with such quality control provisions or other conduct by New Avon or its sublicensees associated with the trademarks licensed to New Avon, could adversely affect our reputation and our business globally. We have also granted New Avon enforcement rights to intellectual property licensed to New Avon in certain circumstances, which could adversely affect our position and options globally relating to enforcement of our intellectual property.

The issuance of 435,000 shares of our series C preferred stock to Cerberus Investor dilutes the ownership of holders of our common stock and may adversely affect the market price of our common 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 million pursuant to an Investment Agreement between us and Cerberus Investor. Conversion of the series C preferred stock would dilute the ownership interest of existing holders of our common stock, and any sales in the public market of the common stock issuable upon conversion of the series C preferred stock could adversely affect the market price of our common stock. We have granted Cerberus Investor registration rights with respect to the shares of series C preferred stock and shares of common stock issued upon conversion of the series C preferred stock, which would facilitate the resale of such securities into the public market. On October 11, 2016, the Company filed a registration statement on Form S-3ASR with the SEC registering for sale by Cerberus Investor 435,000 shares of series C preferred stock, 142,800 shares of series D preferred stock and 113,311,940 shares (plus an additional unspecified number) of common stock. As of the date of this filing, Cerberus Investor had not made any sales in reliance on such Form S-3ASR. Sales by Cerberus Investor of a substantial number of shares of our common stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our common stock.

The series C preferred stock issued to Cerberus Investor has rights, preferences and privileges that are not held by, and are preferential to, the rights of holders of our common stock. Such preferential rights could adversely affect our liquidity, cash flows and financial condition, and may result in the interests of Cerberus Investor differing from those of our common shareholders.

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 million upon issuance. Holders of series C preferred stock are entitled to participate on an as-converted basis in any dividends paid to the holders of shares of our common stock. In addition, cumulative preferred dividends accrue daily on the series C preferred stock and are payable at the rate of 1.25% per quarter (net of any dividends on our common stock and subject to a maximum rate of 5.00% per quarter if we breach certain obligations). Except to the extent not otherwise previously paid by us, 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 our option, (i) in cash, (ii) subject to certain conditions, in shares of our common stock or (iii) upon conversion of shares of series C preferred stock, in shares of our non-voting, non-convertible series D preferred stock, par value $1.00 per share. Any such shares of the series D preferred stock issued would have similar preferential rights.

Upon certain change of control events involving us, holders of series C preferred stock can require us 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.

Our obligations to pay dividends to the holders of series C preferred stock, and to repurchase the outstanding shares of series C preferred stock under certain circumstances, could impact our liquidity and reduce the amount of cash flows. Our obligations to the holders of series C preferred stock could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition. The preferential rights of holders of our series C preferred stock could also result in divergent interests between Cerberus Investor and those of our common shareholders.

Cerberus Investor is able to exercise significant influence over us, including through its ability to elect up to three members of our Board of Directors, including the Chairman.

Holders of series C preferred stock are entitled to vote generally with holders of our common stock on an as-converted basis (subject to an agreement to vote in favor of the slate of directors nominated by the Board of Directors, so long as the 25% Ownership Requirement (as defined below) is met and subject to certain exceptions). Therefore, the series C preferred stock issued to Cerberus Investor effectively reduces the relative voting power of the holders of our common stock. The shares of series C preferred stock owned by Cerberus Investor represents approximately 16.6% of the voting rights of our common stock on an as-converted basis. As a result, Cerberus Investor has the ability to significantly influence the outcome of any matter submitted for the vote of our shareholders. In addition, provided Cerberus Investor maintains certain levels of beneficial ownership of series C preferred stock and/or common stock, Cerberus Investor has consent rights over certain actions taken by

us, including increasing the size of the Board of Directors, reinstating our quarterly common stock dividend and incurring indebtedness in excess of certain thresholds.

In addition, Cerberus Investor has certain rights to designate directors to serve on our Board of Directors (one of whom will continue to act as the Chairman so long as the 50% Ownership Requirement (as defined below) continues to be met). Cerberus Investor will continue to be entitled to elect: (i) three directors to the Board of Directors, so long as Cerberus Investor continues to beneficially own shares of series C preferred stock and/or shares of common stock that represent, on an as-converted basis, at least 75% of Cerberus Investor's initial shares of series C preferred stock on an as-converted basis, (ii) two directors to the Board of Directors, so long as Cerberus Investor continues to beneficially own shares of series C preferred stock and/or common stock that represent, on an as-converted basis, at least 50% but less than 75% of Cerberus Investor's initial shares of series C preferred stock on an as-converted basis (the "50% Ownership Requirement") and (iii) one director to the Board of Directors, so long as Cerberus Investor continues to beneficially own shares of series C preferred stock and/or common stock that represent, on an as-converted basis, at least 25% but less than 50% of Cerberus Investor's initial shares of series C preferred stock on an as-converted basis (the "25% Ownership Requirement"). Until Cerberus Investor no longer meets the 25% Ownership Requirement, subject to certain exceptions and to satisfaction by such director designees of independence and other customary qualifications, Cerberus Investor has the right to have one of its director designees serve on each committee of the Board of Directors. Notwithstanding the fact that all directors are subject to fiduciary duties and applicable law, the interests of the directors appointed by Cerberus Investor may differ from the interests of holders of our common stock as a whole or of our other directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal properties worldwide consist of manufacturing facilities for the production of Beauty products, distribution centers where administrative offices are located and where finished merchandise is packed and shipped to Representatives in fulfillment of their orders, and one principal R&D facility located in Suffern, NY.

In October 2016, an office space at Chiswick Park in London, UK was leased, and beginning in January 2017, is used for our principal executive office and an administrative office. Our previous principal executive and administrative office, located in Rye, NY, has been substantially vacated and is in the process of being sold. Prior to that, our principal executive office was located at 777 Third Avenue, New York, NY and has been vacated, with certain floors currently being subleased and certain floors currently in the process of being subleased. We moved our principal executive office to London to be in closer proximity to many of our commercial markets.

In addition, in December 2016, we sold a distribution center in the U.S. which was inactive.

In addition to the facilities noted above, other principal properties measuring 50,000 square feet or more include the following:

- two manufacturing facilities in Europe, primarily servicing Europe, Middle East & Africa;
- twelve distribution centers and four administrative offices in Europe, Middle East & Africa;
- two manufacturing facilities, eight distribution centers and one administrative office in South Latin America;
- one manufacturing facility, two distribution centers and one administrative office in North Latin America; and
- four manufacturing facilities and five distribution centers in Asia Pacific, of which one manufacturing facility is inactive.

We consider all of these properties to be in good repair, to adequately meet our needs and to operate at reasonable levels of productive capacity.

Of all the properties listed above, 26 are owned and the remaining 19 are leased. Many of our properties are used for a combination of manufacturing, distribution and administration. These properties are included in the above listing based on primary usage. The above listing includes properties in Rye, China, and Malaysia, which are classified as held for sale at December 31, 2018. Refer to Note 3, Discontinued Operations and Assets and Liabilities Held for Sale on pages F-24 through F-26 and Note 23, Subsequent Events on page F-62 of our 2018 Annual Report for more information on these properties.

ITEM 3. LEGAL PROCEEDINGS

Reference is made to Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Avon's Common Stock

Our common stock is listed on The New York Stock Exchange and trades under the AVP ticker symbol. At December 31, 2018, there were 11,826 holders of record of our common stock. We believe that there are many additional shareholders who are not "shareholders of record" but who beneficially own and vote shares through nominee holders such as brokers and benefit plan trustees. High and low market prices and dividends per share of our common stock, in dollars, for 2018 and 2017 are listed below. As a part of the implementation of our Transformation Plan, we suspended the dividend on our common stock effective in the first quarter of 2016.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| Quarter | High | Low | Dividends Declared and Paid | High | Low | Dividends Declared and Paid |
| First | $2.93 | $2.11 | $ — | $5.93 | $4.21 | $ — |
| Second | 2.92 | 1.48 | — | 4.85 | 3.35 | — |
| Third | 2.44 | 1.42 | — | 3.75 | 2.33 | — |
| Fourth | 2.18 | 1.43 | — | 2.40 | 1.87 | — |

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN(1)

Among Avon Products, Inc., The S&P 500 Index and

2018 Peer Group (2)

The Stock Performance Graph above assumes a $100 investment on December 31, 2013, in Avon's common stock, the S&P 500 Index and the Peer Group. The dollar amounts indicated in the graph above and in the chart below are as of December 31 or the last trading day in the year indicated.

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Avon | 100.0 | 55.5 | 25.1 | 31.3 | 13.3 | 9.4 |
| S&P 500 | 100.0 | 113.7 | 115.3 | 129.1 | 157.2 | 150.3 |
| Peer Group(2) | 100.0 | 107.1 | 116.2 | 110.7 | 135.0 | 121.5 |

(1) Total return assumes reinvestment of dividends at the closing price at the end of each quarter.

(2) The Peer Group includes The Clorox Company, Colgate–Palmolive Company, Coty Inc., Estée Lauder Companies, Inc., Herbalife Ltd., Kimberly Clark Corp., Revlon, Inc. and Tupperware Brands Corp.

The Stock Performance Graph above shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). In addition, it shall

not be deemed incorporated by reference by any statement that incorporates this annual report on Form 10-K by reference into any filing under the Securities Act of 1933 (the "Securities Act") or the Exchange Act, except to the extent that we specifically incorporate this information by reference.

Issuer Purchases of Equity Securities

The following table provides information about our purchases of our common stock during the quarterly period ended December 31, 2018:

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| 10/1/18 – 10/31/18 | — | $ — | * | * |
| 11/1/18 – 11/30/18 | — | — | * | * |
| 12/1/18 – 12/31/18 | 4,388 | (1) 2.12 | * | * |
| Total | 4,388 | $ 2.12 | * | * |

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

We derived the following selected financial data from our audited Consolidated Financial Statements. The following data should be read in conjunction with our MD&A and our Consolidated Financial Statements and related Notes contained in our 2018 Annual Report.

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Statement of Operations Data | | | | | |
| Total revenue[1] | $5,571.3 | $5,715.6 | $5,717.7 | $6,160.5 | $7,648.0 |
| Operating profit[2] | 235.2 | 281.3 | 323.8 | 165.0 | 434.3 |
| (Loss) income from continuing operations, net of tax[2] | (21.8) | 20.0 | (93.4) | (796.5) | (344.5) |
| Diluted (loss) earnings per share from continuing operations | $(.10) | $.00 | $(.25) | $(1.81) | $(.79) |
| Cash dividends per share | $.00 | $.00 | $.00 | $.24 | $.24 |
| Balance Sheet Data | | | | | |
| Total assets* | $3,010.0 | $3,697.9 | $3,418.9 | $3,770.4 | $5,485.2 |
| Debt maturing within one year | 12.0 | 25.7 | 18.1 | 55.2 | 121.7 |
| Long-term debt | 1,581.6 | 1,872.2 | 1,875.8 | 2,150.5 | 2,417.1 |
| Total debt | 1,593.6 | 1,897.9 | 1,893.9 | 2,205.7 | 2,538.8 |
| Total shareholders' (deficit) equity | (896.8) | (714.7) | (836.2) | (1,056.4) | 305.3 |

* Total assets at December 31, 2015 and 2014 in the table above exclude the $100.0 receivable from continuing operations that was presented within current assets of discontinued operations.

(1) The Brazil IPI tax release in 2018 impacts the comparability of our revenue. See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report, "Results Of Operations - Consolidated" within MD&A on pages 35 through 43, and Segment Review - South Latin America within MD&A on page 47 for more information.

(2) A number of items, shown below, impact the comparability of our operating profit and (loss) income from continuing operations, net of tax. See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report, Segment Review - South Latin America within MD&A on page 47, Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report, Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report, Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report, Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report, "Venezuela Discussion" within MD&A on pages 42 through 43, "Results Of Operations - Consolidated" within MD&A on pages 35 through 43, Note 20, Goodwill on page F-60 of our

2018 Annual Report, Note 3, Discontinued Operations and Assets and

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Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report, Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report and Note 10, Income Taxes on pages F-33 through F-37 of our 2018 Annual Report for more information on these items.

| | Impact on Operating Profit | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Brazil IPI tax release[3] | $168.4 | $ — | $ — | $ — | $ — |
| Costs to implement restructuring initiatives[4] | $(89.7) | (60.2) | (77.4) | (49.1) | (86.6) |
| Loss contingency[5] | — | (18.2) | — | — | — |
| Legal settlement[6] | — | — | 27.2 | — | — |
| Venezuelan special items[7] | — | — | — | (120.2) | (137.1) |
| FCPA accrual[8] | — | — | — | — | 46.0 |
| Pension settlement charge[9] | — | — | — | (7.3) | (9.5) |
| Other items[10] | — | — | — | (3.1) | — |
| Asset impairment and other charges[11] | — | — | — | (6.9) | — |

In addition to the items impacting operating profit identified above, loss from continuing operations, net of tax during 2018 was impacted by:

- one-time tax reserves of approximately $18 associated with our uncertain tax positions, and an expense of approximately $3 associated with the ownership transfer of certain operational assets within the consolidated group.

In addition to the items impacting operating profit identified above, income from continuing operations, net of tax during 2017 was impacted by:

- a $29.9 net tax benefit recognized as a result of the enactment of the Tax Cuts and Jobs Act in the U.S., a release of valuation allowances of $25.5 associated with a number of markets in Europe, Middle East & Africa as a result of a business model change related to the move of the Company's headquarters from the U.S. to the UK, and a $10.4 benefit as a result of a favorable court decision in Brazil, partially offset by a charge of $16.0 associated with valuation allowances to adjust deferred tax assets in Mexico.

In addition to the items impacting operating profit identified above, loss from continuing operations, net of tax during 2016 was impacted by:

- the deconsolidation of our Venezuelan operations. As a result of the change to the cost method of accounting, in the first quarter of 2016 we recorded a loss of $120.5 before and after tax in other expense, net. The loss was comprised of $39.2 in net assets of the Venezuelan business and $81.3 in accumulated foreign currency translation adjustments within accumulated other comprehensive income (loss) ("AOCI") associated with foreign currency movements before Venezuela was accounted for as a highly inflationary economy;
- a net gain on extinguishment of debt of $1.1 before and after tax associated with the repayment of certain of our debt in 2016; and
- the release of a valuation allowance associated with Russia of $7.1 and an income tax benefit of $29.3 recognized as the result of the implementation of foreign tax planning strategies, partially offset by a charge for valuation allowances for deferred tax assets outside of the U.S. of $8.6.

See "Venezuela Discussion" within MD&A on pages 42 through 43, Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report, Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report, and Note 10, Income Taxes on pages F-33 through F-37 of our 2018 Annual Report for more information.

In addition to the items impacting operating profit identified above, loss from continuing operations, net of tax during 2015 was impacted by:

- the gain on sale of Liz Earle of $44.9 before tax ($51.6 after tax);
- a loss on extinguishment of debt of $5.5 before and after tax caused by the make-whole premium and the write-off of debt issuance costs and discounts, associated with the prepayment of our 2.375% Notes due March 15, 2016 and a charge of $2.5 before and after tax associated with the write-off of issuance costs related to our previous $1 billion revolving credit facility;

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- an aggregate income tax charge of $685.1. This was primarily due to additional valuation allowances for U.S. deferred tax assets of $669.7 which were due to the continued strengthening of the U.S. dollar against currencies of some of our key markets and the impact on the benefits from our tax planning strategies associated with the realization of our deferred tax assets. In addition, the charge was due to valuation allowances for deferred tax assets outside of the U.S. of $15.4, primarily in Russia, which was largely due to lower earnings, which were significantly impacted by foreign exchange losses on working capital balances; and
- an income tax benefit of $18.7, which was recorded in the fourth quarter of 2015, recognized as a result of the implementation of the initial stages of foreign tax planning strategies.

See Note 3, Discontinued Operations and Assets and Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report, Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report, and Note 10, Income Taxes on pages F-33 through F-37 of our 2018 Annual Report for more information.

In addition to the items impacting operating profit identified above, loss from continuing operations, net of tax during 2014 was impacted by:

- an income tax charge of $404.9. This was primarily due to a valuation allowance of $383.5 to reduce our deferred tax assets to an amount that is "more likely than not" to be realized, which was recorded in the fourth quarter of 2014; and
- the $18.5 net tax benefit recorded in the fourth quarter of 2014 related to the finalization of the Foreign Corrupt Practices Act ("FCPA") settlements.

(3) During 2018, our operating profit and operating margin benefited from the release of the liability related to IPI tax on cosmetics in Brazil. The release was recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively. The Brazil IPI tax release also includes approximately $66 recorded in income taxes. See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report, "Results Of Operations - Consolidated" within MD&A on pages 35 through 43, and Segment Review - South Latin America within MD&A on page 47 for more information.

(4) During all periods presented, our operating profit and operating margin was negatively impacted by costs to implement restructuring initiatives. Refer to Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report, for additional information.

(5) During 2017, our operating profit and operating margin were negatively impacted by a charge of $18.2 for a loss contingency related to a non-U.S. pension plan, for which an amendment to the plan that occurred in a prior year may not have been appropriately implemented. See Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information.

(6) During 2016, our operating profit and operating margin benefited from the net proceeds of $27.2 before and after tax recognized as a result of settling claims relating to professional services that had been provided to the Company prior to 2013 in connection with a previously disclosed legal matter. See Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report for more information.

(7) During 2015 and 2014, our operating profit and operating margin were negatively impacted by devaluations of the Venezuelan currency, combined with Venezuela being designated as a highly inflationary economy.

In February 2015, the Venezuelan government announced the creation of a new foreign exchange system referred to as the SIMADI exchange ("SIMADI"), which represented the rate which better reflected the economics of Avon Venezuela's business activity, in comparison to the other then available exchange rates; as such, we concluded that we should utilize the SIMADI exchange rate to remeasure our Venezuelan operations. The change to the SIMADI rate caused the recognition of a devaluation of approximately 70% as compared to the exchange rate we had used previously. 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 were consumed in operations, negatively impacting operating profit and net income by $18.5 during 2015. Also as a result of the change to the SIMADI rate, we determined that an adjustment of $11.4 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, 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 $90.3 to SG&A expenses was needed to reflect the write-down of the long-lived assets to estimated fair value of $15.7, which was recorded in the first quarter of 2015. In addition to the negative impact to operating profit, as a result of the devaluation of Venezuelan currency, during 2015, we recorded an after-tax benefit of $3.4 (a benefit of $4.2 in other expense, net, and a

loss of $.8 in income taxes) in the first quarter of 2015, primarily reflecting the write-down of net monetary assets. See discussion of our Venezuelan operations in "Venezuela Discussion" within MD&A on pages 42 through 43 and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report for more information.

In February 2014, the Venezuelan government announced a foreign exchange system which began operating in March 2014, referred to as the SICAD II exchange ("SICAD II"). As SICAD II represented the rate which better reflected the economics of Avon Venezuela's business activity, in comparison to the other then available exchange rates, we concluded that we should utilize the SICAD II exchange rate to remeasure our Venezuelan operations effective March 31, 2014. The change to the SICAD II rate caused the recognition of a devaluation of approximately 88% as compared to the official exchange rate we used previously. 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 SICAD II 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 are consumed in operations, negatively impacting operating profit and net income by $21.4 during 2014. Also as a result, we determined that an adjustment of $115.7 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 2014. In addition to the negative impact to operating profit, as a result of the devaluation of Venezuelan currency, during 2014, we recorded an after-tax loss of $41.8 ($53.7 in other expense, net, and a benefit of $11.9 in income taxes), primarily reflecting the write-down of net monetary assets.

(8) During 2014, our operating profit and operating margin were negatively impacted by the additional $46 accrual, and during 2013, our operating profit and operating margin were negatively impacted by the $89 accrual, both recorded for the settlements related to the FCPA investigations. See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report for more information.

(9) During 2015, our operating profit and operating margin were negatively impacted by settlement charges associated with the U.S. defined benefit pension plan. As a result of the lump-sum payments made to former employees who 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 (before and after tax). Because the settlement threshold was exceeded in the third quarter of 2015, a settlement charge of $4.1 (before and after tax) was also recorded in the fourth quarter of 2015, as a result of additional payments from our U.S. defined benefit pension plan. These settlement charges were allocated between Global ($7.3) and Discontinued Operations ($20.6). See Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for a further discussion.

During 2014, our operating profit and operating margin were negatively impacted by settlement charges associated with the U.S. defined benefit pension plan. As a result of the lump-sum payments made to former employees who were vested and participated in the U.S. defined benefit pension plan, in the second quarter of 2014, we recorded a settlement charge of $23.5 (before and after tax). Because the settlement threshold was exceeded in the second quarter of 2014, settlement charges of $5.4 and $7.5 (both before and after tax) were also recorded in the third and fourth quarters of 2014, respectively, as a result of additional payments from our U.S. defined benefit pension plan. These settlement charges were allocated between Global ($9.5) and Discontinued Operations ($26.9).

(10) During 2015, our operating profit and operating margin were negatively impacted by transaction-related costs of $3.1 before and after tax associated with the planned separation of North America that were included in continuing operations.

(11) During 2015, our operating profit and operating margin were negatively impacted by a non-cash impairment charge of $6.9 (before and after tax) associated with goodwill of our Egypt business. See Note 20, Goodwill on page F-60 of our 2018 Annual Report for more information on Egypt.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

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

You should read the following discussion of the results of operations and financial condition of Avon Products, Inc. and its majority and wholly owned subsidiaries in conjunction with the information contained in the Consolidated Financial Statements and related Notes contained in our 2018 Annual Report. When used in this discussion, the terms "Avon," "Company," "we," "our" or "us" mean, unless the context otherwise indicates, Avon Products, Inc. and its majority and wholly owned subsidiaries.

See "Non-GAAP Financial Measures" on pages 29 through 30 of this MD&A for a description of how constant dollar ("Constant $") growth rates (a Non-GAAP financial measure) are determined and see "Performance Metrics" on page 29 of this MD&A for definitions of our performance metrics (Change in Active Representatives, Change in units sold, Change in Ending Representatives and Change in Average Order).

Overview

We are a global manufacturer and marketer of beauty and related products. Our business is conducted primarily in the direct-selling channel. During 2018, we had sales operations in 56 countries and territories, and distributed products in 21 more. All of our consolidated revenue is derived from operations of subsidiaries outside of the United States ("U.S."). Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa; South Latin America; North Latin America; and Asia Pacific. Our product categories are Beauty and Fashion & Home. Beauty consists of skincare, fragrance and color (cosmetics). Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, gift and decorative products, housewares, entertainment and leisure products, children's products and nutritional products. Sales are made to the ultimate consumer principally through direct selling by Representatives, who are independent contractors and not our employees.

As of December 31, 2018, we had approximately 5 million active Representatives which represents the number of Representatives submitting an order in a sales campaign, totaled for all campaigns during the year and then divided by the number of campaigns. The success of our business is highly dependent on recruiting, retaining and servicing our Representatives.

During 2018, revenue declined 3% compared to the prior-year period. Excluding the Brazil IPI release, Adjusted revenue was down 5%, primarily due to the unfavorable impact of foreign exchange. Constant $ Adjusted revenue increased 1%. Revenue and Constant $ Adjusted revenue included a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. The 4% benefit was driven primarily by the reclassification of fees paid by Representatives for brochures, late payments and payment processing, and income from appointment kits, from SG&A. The impact of timing of revenue recognition for sales incentives was negligible.

Constant $ Adjusted revenue was impacted by declines primarily in Brazil, which continued to be negatively impacted by competitive pressures against a backdrop of a challenging macroeconomic environment and lower consumption in the market, as well as lower appointments, partly due to the application of strict credit requirements for the acceptance of new Representatives. To a lesser extent, Constant $ Adjusted revenue was also impacted by declines in the United Kingdom, South Africa and Russia, as well as lower revenue from the closure of Australia and New Zealand during 2018. These declines were partially offset by improved revenue growth management, including inflationary, pricing in Argentina. Revenue and Constant $ Adjusted revenue were impacted by a decrease in Active Representatives of 5%, which was primarily driven by Brazil, and to a lesser extent, Russia. Average order in Constant $ increased 2%, including a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. Units sold decreased 6%, driven by a decline in Brazil.

Ending Representatives declined 8%, primarily driven by declines in Russia and Brazil.

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

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

was recognized in SG&A over the period that the sales incentive was earned; and

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

See Note 1, Description of the Business and Summary of Significant Accounting Policies, and Note 2, New Accounting Standards, to the Consolidated Financial Statements included herein for additional information on the new revenue recognition standard.

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

Transformation Plan and Open Up Avon

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

In September 2018, we initiated a new strategy in order to return Avon to growth (“Open Up Avon”). The Open Up Avon strategy is integral to our ability to return Avon to growth, built around the necessity of incorporating new approaches to various elements of our business, including increased utilization of third-party providers in manufacturing and technology, a more fit for purpose asset base, and a focus on enabling our Representatives to more easily interact with the company and achieve relevant earnings. The commercial elements of the strategy were developed to help increase Representative earnings and thereby retention. Elements of the Representative facing strategy include improvements in service functions, increased training on utilization of digital tools to expand her consumer reach, product bundling and regimens designed to help improve her earnings opportunity and sharper more targeted product innovation to drive brand relevancy. Cost savings under this plan are targeted as pre-tax annualized cost savings of approximately $400 by 2021, and expected to be generated from efficiencies in manufacturing and sourcing, distribution, general and administrative activities, and back office functions, as well as through revenue management, interest and tax. These savings are expected to be achieved through restructuring actions (that may result in charges related to severance, contract terminations and inventory and other asset write-offs), as well as other cost-savings strategies that would not result in restructuring charges. In January 2019, we announced significant advancements in this strategy, including a structural reset of inventory processes and an aggregate 18% reduction in global workforce. The structural reset of inventory processes includes a 15% reduction in inventory levels and 25% reduction in Stock Keeping Units (SKUs). The structural reset of inventory will result in lower operational and ongoing obsolescence costs. Over the longer term, it will result in a more concentrated focus on high-turn, higher margin products, driving greater earnings for Representatives due to lessened discount pressure and enhanced service levels. The structural reset resulted in an incremental one-off inventory obsolescence expense of $88 recognized at December 31, 2018. In addition, the global workforce will be reduced in 2019 by approximately 10% to align with ongoing operating model changes and to create a leaner organization that is better aligned with Avon’s current and future business focus. This reduction is incremental to an 8% reduction of the global workforce that was completed in 2018. We expect to incur a restructuring charge of approximately $100 in 2019 relating to the global workforce reduction, which wasn't approved by the Board of Directors until January 2019. We initiated the Open Up Avon strategy to enable us to achieve our goals of low-single-digit Constant $ revenue growth and low double-digit operating margin by 2021. We plan to reinvest a portion of these cost savings in commercial initiatives, including training for Representatives, and digital and information technology infrastructure initiatives.

During 2018, we estimate that we achieved total cost savings of approximately $110 before taxes, of which approximately $40 is attributable to Open Up Avon and approximately $70 is attributable to the Transformation Plan. The estimated $40 of savings attributable to Open Up Avon primarily relates to tax and interest, when compared to our costs in 2017. As it relates to the Transformation Plan, we exceeded our cost savings target of $65 before taxes for full-year 2018. These savings include both run-rate savings from the Transformation Plan from 2017, along with in-year savings from current year initiatives already identified, and are associated with restructuring actions and from other cost-savings strategies that did not result in restructuring charges. As a result of restructuring actions and other cost-savings strategies taken to-date, as it relates to the Transformation Plan, we exited 2018 with run-rate savings in

excess of our total cumulative cost savings target of $350.

In connection with the actions and associated savings discussed above, we have incurred costs to implement ("CTI") restructuring initiatives of approximately $205 before taxes to-date associated with the Transformation Plan and approximately $143 before taxes to-date associated with Open Up Avon, which includes $88 relating to the structural reset of inventory. Of these costs, approximately $38 and approximately $143 was recorded during 2018 associated with the Transformation Plan and Open Up Avon, respectively. The additional charges not yet incurred associated with the restructuring actions approved as at December 31, 2018 relate to Open Up Avon and are negligible. At December 31, 2018, we have liabilities of approximately $59 associated with our restructuring actions, primarily associated with our Transformation Plan. The majority of future cash payments associated with these restructuring liabilities are expected to be made during 2019.

For additional details on restructuring initiatives, see Note 17, Restructuring Initiatives, to the Consolidated Financial Statements included herein.

New Accounting Standards

Information relating to new accounting standards is included in Note 2, New Accounting Standards on pages F-19 through F-24 of our 2018 Annual Report.

Performance Metrics

Within this MD&A, in addition to our key financial metrics of revenue, operating profit and operating margin, we utilize the performance metrics defined below to assist in the evaluation of our business.

| Performance Metrics | Definition |
|---|---|
| Change in Active Representatives | This metric is a measure of Representative activity based on the number of unique Representatives submitting at least one order in a sales campaign, totaled for all campaigns in the related period. To determine the change in Active Representatives, this calculation is compared to the same calculation in the corresponding period of the prior year. Orders in China are excluded from this metric as our business in China is predominantly retail. |
| Change in units sold | This metric is based on the gross number of pieces of merchandise sold during a period, as compared to the same number in the same period of the prior year. Units sold include samples sold and products contingent upon the purchase of another product (for example, gift with purchase or discount purchase with purchase), but exclude free samples. |
| Change in Ending Representatives | This metric is based on the total number of Representatives who were eligible to place an order in the last sales campaign in the related period as a result of being on an active roster. To determine the Change in Ending Representatives, this calculation is compared to the same calculation in the corresponding period of the prior year. Change in Ending Representatives may be impacted by a combination of factors such as our requirements to become and/or remain a Representative, our practices regarding minimum order requirements and our practices regarding reinstatement of Representatives. We believe this may be an indicator of future revenue performance. |
| Change in Average Order | This metric is a measure of Representative productivity. The calculation is the difference of the year-over-year change in revenue on a Constant $ basis and the Change in Active Representatives. Change in Average Order may be impacted by a combination of factors such as inflation, units, product mix, and/or pricing. |

Non-GAAP Financial Measures

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

We also present revenue, gross margin, SG&A expenses as a percentage of revenue, operating profit, operating margin, income (loss) before taxes, income taxes and effective tax rate on a Non-GAAP basis. We refer to these Non-GAAP financial measures as "Adjusted." We have provided a quantitative reconciliation of the Non-GAAP financial measures to the most directly comparable financial measures calculated and reported in accordance with

GAAP. See "Reconciliation of Non-GAAP Financial Measures" within "Results of Operations - Consolidated" on pages 35 through 43 in this MD&A for this quantitative reconciliation.

The Company uses Non-GAAP financial measures to evaluate its operating performance. These Non-GAAP measures should not be considered in isolation, or as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company believes investors find the Non-GAAP information helpful in understanding the ongoing performance of operations separate from items that may have a disproportionate positive or negative impact on the Company's financial results in any particular period. The Company believes that it is meaningful for investors to be made aware of the impacts of 1) CTI restructuring initiatives; 2) the Brazil IPI tax release; 3) a charge for a loss contingency related to a non-U.S. pension plan

("Loss contingency"); 4) the net proceeds recognized as a result of settling claims relating to professional services ("Legal settlement"); 5) charges related to the deconsolidation of our Venezuelan operations as of March 31, 2016, combined with Venezuela being designated as a highly inflationary economy ("Venezuelan special items"); 6) various other items associated with debt-related charges ("Other items"); and, as it relates to our effective tax rate discussion, 7) special tax items associated with uncertain tax positions and the ownership transfer of certain operational assets within the consolidated group, which were recognized in 2018, the net income tax benefit as a result of the enactment of the Tax Cuts and Jobs Act in the U.S., a release of valuation allowances associated with a number of markets in Europe, Middle East & Africa, and a benefit as a result of a favorable court decision in Brazil, partially offset by a charge associated with valuation allowances to adjust deferred tax assets in Mexico, which were recognized in 2017, income tax benefits realized in 2016 as a result of tax planning strategies, an income tax benefit in the second quarter of 2016 primarily due to the release of a valuation allowance associated with Russia and the adjustments associated with our deferred tax assets recorded in 2016 ("Special tax items").

(1) CTI restructuring initiatives includes the impact on the Consolidated Statement of Operations for all periods presented of net charges incurred on approved restructuring initiatives.

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

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

(4) The Legal settlement includes the impact on our Consolidated Statements of Operations during the third quarter of 2016 associated with the net proceeds of approximately $27 recognized as a result of settling claims relating to professional services that had been provided to the Company prior to 2013 in connection with a previously disclosed legal matter.

(5) The Venezuelan special items include the impact on our Consolidated Statements of Operations during the first quarter of 2016 caused by the deconsolidation of our Venezuelan operations for which 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 accumulated other comprehensive loss ("AOCI") associated with foreign currency changes before Venezuela was accounted for as a highly inflationary economy.

(6) The Other items include the impact on our Consolidated Statements of Operations during the third quarter of 2016 due to a net gain on extinguishment of debt associated with the cash tender offers in August 2016, the debt repurchases in October and December 2016, and the prepayment of the remaining principal amount of our 4.20% Notes due July 15, 2018 and our 5.75% Notes due March 1, 2018 in November 2016.

(7) In addition, the effective tax rate discussion includes Special tax items, including the impact on the provision for income taxes in our Consolidated Statements of Operations during 2018 due to one-time tax reserves of approximately $18 associated with our uncertain tax positions, and an expense of approximately $3 associated with the ownership transfer of certain operational assets within the consolidated group. Special tax items also include the impact on the provision for income taxes in our Consolidated Statements of Operations during 2017 due to an approximate $30 net benefit recognized as a result of the enactment of the Tax Cuts and Jobs Act in the U.S., a release of valuation allowances of approximately $26 associated with a number of markets in Europe, Middle East & Africa, and an approximate $10 benefit as a result of a favorable court decision in Brazil, partially offset by a charge of approximately $16 associated with valuation allowances to adjust deferred tax assets in Mexico. Special tax items also include the impact on the provision for income taxes in our Consolidated Statements of Operations during the fourth quarter of 2016 due to the charge of approximately $9 associated with valuation allowances to adjust certain non-U.S. deferred tax assets to an amount that is "more likely than not" to be realized. Special tax items also include the impact on the provision for income taxes in our Consolidated Statements of Operations during the second quarter of 2016 primarily due to the release of a valuation allowance associated with Russia of

approximately $7. Special tax items also include the impact on the provision for income taxes in our Consolidated Statements of Operations during the first quarter of 2016 due to income tax benefits of approximately $29 recognized as the result of the implementation of foreign tax planning strategies.

See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report, Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report, Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report, Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report, "Results Of Operations - Consolidated" below, Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report, "Venezuela Discussion" below, Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report, Note 10, Income Taxes on pages F-33 through F-37 of our 2018 Annual Report and "Effective Tax Rate" on pages 39 in this MD&A for more information on these items.

Critical Accounting Estimates

We believe the accounting policies described below represent our critical accounting policies due to the estimation processes involved in each. See Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-219 of our 2018 Annual Report for a detailed discussion of the application of these and other accounting policies.

Revenue Recognition

Revenue is recognized when control of a product or service is transferred to a customer, which is generally the Representative. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, such as Value Added Taxes (“VAT”) collected for taxing authorities. Our contracts with Representatives often include multiple promises to transfer products and/or services to the Representative and determining which of these products and/or services are considered distinct performance obligations that should be accounted for separately. When assessing the recognition of revenue for the identified performance obligations, management has exercised significant judgment in the following areas: estimation of variable consideration and the stand-alone selling prices ("SSP") of promised goods or services delivered under sales incentives to determine and allocate the transaction price.

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

Additionally, management has exercised significant judgment in the estimation of the SSP of promised goods or services delivered under sales incentives such as status programs, loyalty points, prospective discounts, and gift with purchase, among others, to determine and allocate the transaction price. SSP represents the estimated market value, or the estimated amount that could be charged for that material right when the entity sells it separately in similar circumstances to similar customers. Judgment is required to determine the SSP for each distinct performance obligation. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, including for certain sales incentives, we determine the SSP using information that may include market prices and other observable inputs.

The new standard related to revenue recognition had a material impact in our consolidated financial statements. See Note 1, Description of the Business and Summary of Significant Accounting Policies pages F-12 through F-14 of our 2018 Annual Report for more information on our revenue recognition accounting policy.

Allowances for Doubtful Accounts Receivable

Representatives contact their customers, selling primarily through the use of brochures for each sales campaign, generally on credit if the Representatives meet certain criteria. Sales campaigns are generally for a three- to four-week duration. The Representative purchases products directly from us and may or may not sell them to an end user. In general, the Representative, an independent contractor, remits a payment to us during each sales campaign, which relates to the prior campaign cycle. The Representative is generally precluded from submitting an order for the current sales campaign until the accounts receivable balance past due for prior campaigns is paid; however, there are circumstances where the Representative fails to make the required payment. We record an estimate of an allowance for doubtful accounts on receivable balances based on an analysis of historical data and current circumstances, including seasonality and changing trends. Over the past three years, annual bad debt expense was $162 in 2018, $222 in 2017 and $191 in 2016, or approximately 3% of total revenue in 2018, approximately 4% of total revenue in 2017, and approximately 3% of total revenue in 2016. The allowance for doubtful accounts is reviewed for adequacy, at a

minimum, on a quarterly basis. We generally have no detailed information concerning, or any communication with, any end user of our products beyond the Representative. We have no legal recourse against the end user for the collection of any accounts receivable balances due from the Representative to us. If the financial condition of the Representatives were to deteriorate, resulting in their inability to make payments, additional allowances may be required.

Allowances for Sales Returns

Policies and practices for product returns vary by jurisdiction. We record a provision for estimated sales returns based on historical experience with product returns. Over the past three years, annual sales returns were $172 for 2018, $198 for 2017 and $187 for 2016, or approximately 3% of total revenue in each year, which has been generally in line with our expectations.

If the historical data we use to calculate these estimates does not approximate future returns, due to changes in marketing or promotional strategies, or for other reasons, additional allowances may be required.

Provisions for Inventory Obsolescence

We record an allowance for estimated obsolescence, when applicable, equal to the difference between the cost of inventory and the net realizable value. In determining the allowance for estimated obsolescence, we classify inventory into various categories based upon its stage in the product life cycle, future marketing sales plans and the disposition process. We assign a degree of obsolescence risk to products based on this classification to estimate the level of obsolescence provision. If actual sales are less favorable than those projected, additional inventory allowances may need to be recorded for such additional obsolescence. Annual obsolescence expense was $114 in 2018, $37 in 2017 and $37 in 2016, or 2% of total revenue in 2018, and less than 1% of total revenue in 2017 and 2016. As discussed in the Overview section, 2018 includes inventory obsolescence charges of $88 related to our inventory reset program.

Pension and Postretirement Expense

We maintain defined benefit pension plans, the most significant of which are in the UK, Germany and the U.S. However, our U.S. defined benefit pension plan is closed to employees hired on or after January 1, 2015 and the UK defined benefit pension plan was frozen for future accruals as of April 1, 2013. Additionally, we have unfunded supplemental pension benefit plans for some current and retired executives and provide retiree health care benefits subject to certain limitations to certain retired employees in the U.S. and certain foreign countries. See Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information on our benefit plans.

Pension and postretirement expense and the requirements for funding our major pension plans are determined based on a number of actuarial assumptions, which are generally reviewed and determined on an annual basis. These assumptions include the discount rate applied to plan obligations, the expected rate of return on plan assets, the rate of compensation increase of plan participants, price inflation, cost-of-living adjustments, mortality rates and certain other demographic assumptions, and other factors. We use a December 31 measurement date for all of our employee benefit plans.

For 2018, the weighted average assumed rate of return on all pension plan assets was 5.23%, as compared with 5.12% for 2017. In determining the long-term rates of return, we consider the nature of the plans' investments, an expectation for the plans' investment strategies, historical rates of return and current economic forecasts. We generally evaluate the expected long-term rates of return annually and adjust as necessary.

In some of our defined benefit pension plans, we have adopted investment strategies which are designed to match the movements in the pension liability through an increased allocation towards debt securities. In addition, we also utilize derivative instruments in our UK defined benefit pension plans to achieve the desired market exposures or to hedge certain risks. Derivative instruments may include, but are not limited to, futures, options, swaps or swaptions. Investment types, including the use of derivatives are based on written guidelines established for each investment manager and monitored by the plan's investment committee.

A significant portion of our pension plan assets relate to the UK defined benefit pension plan. The assumed rate of return for determining 2018 net periodic benefit cost for the UK defined benefit pension plan was 5.20%. In addition, the 2018 rate of return assumption for the UK defined benefit pension plan was based on an asset allocation of approximately 80% in corporate and government bonds and mortgage-backed securities (which are expected to earn approximately 2% to 4% in the long-term) and approximately 20% in equity securities, emerging market debt and high yield securities (which are expected to earn approximately 5% to 9% in the long-term). In addition to the physical assets, the asset portfolio for the UK defined benefit pension plan has derivative instruments which increase our exposure to fixed income (in order to better match liabilities) and, to a lesser extent, impact our equity exposure. The rate of return on the plan assets in the UK was approximately -4% in 2018 and approximately 9% in 2017.

Historically, the pension plan with the most significant pension plan assets was the U.S. defined benefit pension plan. As part of the separation of the North America business, in 2016 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 Assets and Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report. We continue to retain certain U.S. pension and other postretirement liabilities primarily associated with employees who are actively employed by Avon in the U.S. providing services other than with respect to the North America business. Prior to this separation, our net periodic benefit costs for the U.S. pension and postretirement benefit plans were allocated between Discontinued Operations and Global as the plan included

both North America and U.S. Corporate Avon associates, and as such, our ongoing net periodic benefit costs within Global were not materially impacted by the separation of the North America business.

The assumed rate of return for determining 2018 net periodic benefit cost for the U.S. defined benefit pension plan was 5.50%, which was based on an asset allocation of approximately 70% in corporate and government bonds (which are expected to earn approximately 3% to 5% in the long-term) and approximately 30% in equity securities (which are expected to earn approximately 6% to 8% in the long-term). The rate of return on the plan assets in the U.S. was approximately -6% in 2018 and approximately 15% in 2017.

The discount rate used for determining the present value of future pension obligations for each individual plan is based on a review of bonds that receive a high-quality rating from a recognized rating agency. The discount rates for calculating the balance sheet obligations of our more significant plans, including our UK defined benefit pension plan and our U.S. defined benefit pension plan, were based on the internal rates of return for a portfolio of high-quality bonds with maturities that are consistent with the projected future benefit payment obligations of each plan. The weighted-average discount rate for U.S. and non-U.S. defined benefit pension plans determined on this basis was 3.06% at December 31, 2018, and 2.66% at December 31, 2017. For the determination of the expected rates of return on assets and the discount rates, we take external actuarial and investment advice into consideration.

Effective as of January 1, 2018, we changed the method we use to estimate the service and interest cost components of net periodic benefit cost for the U.S. defined benefit pension plan and the majority of our significant non-U.S. pension plans, including the UK defined benefit pension plan. Historically, including in 2017, we estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Beginning in 2018, we elected to use a full yield curve approach in the estimation of these components of net periodic benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates, which we believe will result in a more precise measurement of service and interest costs. We accounted for this change in estimate on a prospective basis beginning in 2018.

Our funding requirements may be impacted by standards and regulations or interpretations thereof. Our calculations of pension and postretirement costs are dependent on the use of assumptions, including discount rates, hybrid plan maximum interest crediting rates and expected return on plan assets discussed above, rate of compensation increase of plan participants, interest cost, benefits earned, mortality rates, the number of participants and certain demographics and other factors. Actual results that differ from assumptions are accumulated and amortized to expense over future periods and, therefore, generally affect recognized expense in future periods. At December 31, 2018, we had pretax actuarial losses and prior service credits totaling approximately $33 for the U.S. defined benefit pension and postretirement plans and approximately $175 for the non-U.S. defined benefit pension and postretirement plans that have not yet been charged to expense. These actuarial losses have been charged to AOCI within shareholders' equity.

While we believe that the assumptions used are reasonable, differences in actual experience or changes in assumptions may materially affect our pension and postretirement obligations and future expense. For 2019, our assumption for the expected rate of return on assets is 5.5% for our U.S. defined benefit pension plan and 5.3% for our non-U.S. defined benefit pension plans (which includes 5.20% for our UK defined benefit pension plan). Our assumptions are generally reviewed and determined on an annual basis.

A 50 basis point change (in either direction) in the expected rate of return on plan assets, the discount rate or the rate of compensation increases, would have had approximately the following effect on 2018 pension expense and the pension benefit obligation at December 31, 2018:

| | Increase/(Decrease) in Pension Expense 50 Basis Point | | Increase/(Decrease) in Pension Obligation 50 Basis Point | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| Rate of return on assets | $ (3.4) | $ 3.4 | N/A | N/A |
| Discount rate | (.7) | .6 | $ (52.9) | $ 58.7 |
| Rate of compensation increase | .6 | (.6) | 2.4 | (2.3) |

Restructuring Reserves

We record the estimated expense for our restructuring initiatives when such costs are deemed probable and estimable, when approved by the appropriate corporate authority and by accumulating detailed estimates of costs for such plans. These expenses include the estimated costs of employee severance and related benefits, inventory write-offs, impairment or accelerated depreciation of property, plant and equipment and capitalized software, and any other qualifying exit costs. These estimated costs are grouped by specific projects within the overall plan and are then monitored on a quarterly basis by finance personnel.

Such costs represent our best estimate, but require assumptions about the programs that may change over time, including attrition rates. Estimates are evaluated periodically to determine whether an adjustment is required.

Taxes

We record a valuation allowance to reduce our deferred tax assets to an amount that is "more likely than not" to be realized. Evaluating the need for and quantifying the valuation allowance often requires significant judgment and extensive analysis of all the weighted positive and negative evidence available to the Company in order to determine whether all or some portion of the deferred tax assets will not be realized. In performing this analysis, the Company's forecasted U.S. and foreign taxable income, and the existence of potential prudent and feasible tax planning strategies that would enable the Company to utilize some or all of its excess foreign tax credits, are taken into consideration. At December 31, 2018, we had net deferred tax assets of approximately $193 (net of valuation allowances of approximately $3,258 and deferred tax liabilities of $85).

With respect to our deferred tax assets, at December 31, 2018, we had recognized deferred tax assets of approximately $2,144 relating to foreign and state tax loss carryforwards, for which a valuation allowance of approximately $2,073 has been provided. At December 31, 2018, we had recognized deferred tax assets of approximately $831 primarily relating to excess U.S. foreign tax and other U.S. general business credit carryforwards for which a valuation allowance of approximately $813 had been provided. We have a history of U.S. source losses, and our excess U.S. foreign tax and general business credits have primarily resulted from having a greater U.S. source loss in recent years which reduces our ability to credit foreign taxes or utilize the general business credits which we generate.

Our ability to realize our U.S. deferred tax assets, such as our foreign tax and general business credit carryforwards, is dependent on future U.S. taxable income within the carryforward period. At December 31, 2018, we would need to generate approximately $4.0 billion of excess net foreign source income in order to realize the U.S. foreign tax and general business credits before they expire.

At December 31, 2018, we continue to assert that our foreign earnings are not indefinitely reinvested. Accordingly, we adjusted our deferred tax liability each period to account for our undistributed earnings of foreign subsidiaries and for the tax effect of earnings that were actually repatriated during the year. The net impact on the deferred tax liability associated with the Company's undistributed earnings is a decrease of approximately $5, resulting in a deferred tax liability balance of approximately $17 related to the incremental tax cost on approximately $1.1 billion of undistributed foreign earnings at December 31, 2018.

With respect to our uncertain tax positions, we recognize the benefit of a tax position, if that position is more likely than not of being sustained on examination by the taxing authorities, based on the technical merits of the position. We believe that our assessment of more likely than not is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact our Consolidated Financial Statements.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. In 2019, a number of open tax years are scheduled to close due to the expiration of the statute of limitations and it is possible that a number of tax examinations may be completed. If our tax positions are ultimately upheld or denied, it is possible that the 2019 provision for income taxes, as well as tax related cash receipts or payments, may be impacted.

Loss Contingencies

We determine whether to disclose and/or accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable. We record loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. Our assessment is developed in consultation with our outside counsel and other advisors and is based on an analysis of possible outcomes under various strategies. Loss contingency assumptions involve judgments that are inherently subjective and can involve matters that are in litigation, which, by its nature is unpredictable. We believe that our assessment of the probability of loss contingencies is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact our Consolidated Financial Statements.

Impairment of Assets

Plant, Property and Equipment and Capitalized Software

We evaluate our plant, property and equipment and capitalized software for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated pre-tax undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment

charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The fair value of the asset is determined using revenue and cash flow projections, and royalty and discount rates, as appropriate.

Goodwill

We test goodwill for impairment annually, and more frequently if circumstances warrant, using various fair value methods. We completed our annual goodwill impairment assessment for 2018 and determined that the estimated fair values were considered substantially in excess of the carrying values of each of our reporting units.

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

Results Of Operations - Consolidated

| | Years ended December 31 | | | Basis Point Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| Select Consolidated Financial Information | | | | | |
| Total revenue | $5,571.3 | $5,715.6 | $5,717.7 | (3)% | —% |
| Cost of sales | 2,364.0 | 2,203.3 | 2,257.0 | 7% | (2)% |
| SG&A expenses | 2,972.1 | 3,231.0 | 3,136.9 | (8)% | 3% |
| Operating profit | 235.2 | 281.3 | 323.8 | (16)% | (13)% |
| Interest expense | 134.6 | 140.8 | 136.6 | (4)% | 3% |
| Loss (gain) on extinguishment of debt | 0.7 | — | (1.1) | * | * |
| Interest income | (15.3) | (14.8) | (15.8) | 3% | (6)% |
| Other expense, net | 7.1 | 34.6 | 172.9 | (79)% | (80)% |
| Income from continuing operations, before taxes | 108.1 | 120.7 | 31.2 | (10)% | * |
| Income (loss) from continuing operations, net of tax | (21.8) | 20.0 | (93.4) | * | * |
| Net income (loss) attributable to Avon | $(19.5) | $22.0 | $(107.6) | * | * |
| | | | | | |
| Diluted income (loss) per share from continuing operations | $(.10) | $(.00) | $(.25) | * | * |
| Diluted income (loss) per share attributable to Avon | $(.10) | $(.00) | $(.29) | * | * |
| | | | | | |
| Advertising expenses[1] | $127.6 | $118.4 | $108.9 | 8% | 9% |
| | | | | | |
| Reconciliation of Non-GAAP Financial Measures | | | | | |
| Total revenue | $5,571.3 | $5,715.6 | $5,717.7 | (3)% | —% |
| Brazil IPI tax release | (168.4) | — | — | | |
| Adjusted revenue | 5,402.9 | 5,715.6 | 5,717.7 | (5)% | —% |
| | | | | | |
| Gross margin | 57.6% | 61.5% | 60.5% | (3.9) | 1.0 |
| Brazil IPI tax release | (1.3) | — | — | (1.3) | — |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| CTI restructuring | 1.6 | | — | | — | | 1.6 | | — | |
| Adjusted gross margin | 57.9 | % | 61.5 | % | 60.5 | % | (3.6) | | 1.0 | |
| | | | | | | | | | | |
| SG&A expenses as a % of total revenue | 53.3 | % | 56.5 | % | 54.9 | % | (3.2) | | 1.6 | |
| Brazil IPI tax release | 1.7 | | — | | — | | 1.7 | | — | % |
| CTI restructuring | (1.6 | ) | (1.0 | ) | (1.3 | ) | (.6 | ) | .3 | |
| Loss contingency | — | | (.3 | ) | — | | .3 | | (.3 | ) |

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| | Years ended December 31 | | | Basis Point Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| Legal settlement | — | — | .5 | — | (.5) |
| Adjusted SG&A expenses as a % of total revenue | 53.4% | 55.2% | 54.0% | (1.8) | 1.2 |
| | | | | | |
| Operating profit | $235.2 | $281.3 | $323.8 | (16)% | (13)% |
| Brazil IPI tax release | (168.4) | — | — | | |
| CTI restructuring | 180.5 | 60.2 | 77.4 | | |
| Loss contingency | — | 18.2 | — | | |
| Legal settlement | — | — | (27.2) | | |
| Adjusted operating profit | $247.3 | $359.7 | $374.0 | (31)% | (4)% |
| | | | | | |
| Operating margin | 4.2% | 4.9% | 5.7% | (.7) | (.8) |
| Brazil IPI tax release | (2.8) | — | — | | |
| CTI restructuring | 3.2 | 1.1 | 1.4 | 2.1 | (.3) |
| Loss contingency | — | .3 | — | (.3) | .3 |
| Legal settlement | — | — | (.5) | — | .5 |
| Adjusted operating margin | 4.6% | 6.3% | 6.5% | (1.7) | (.2) |
| | | | | | |
| Change in Constant $ Adjusted operating margin[2] | | | | (140) | (40) |
| | | | | | |
| Income before taxes | 108.1 | 120.7 | 31.2 | (10)% | * |
| Brazil IPI tax release | (194.7) | — | — | | |
| CTI restructuring | 180.5 | 60.2 | 77.4 | | |
| Loss contingency | — | 18.2 | — | | |
| Legal settlement | — | — | (27.2) | | |
| Venezuelan special items | — | — | 120.5 | | |
| Other items | — | — | (1.1) | | |
| Adjusted income before taxes | 93.9 | 199.1 | 200.8 | (53)% | (1)% |
| | | | | | |
| Income taxes | (129.9) | (100.7) | (124.6) | 29% | (19)% |
| Brazil IPI tax release | 66.2 | — | — | | |
| CTI restructuring | (17.4) | (1.7) | (13.5) | | |
| Special tax items | 21.1 | (49.8) | (27.8) | | |
| Adjusted income taxes | (60.0) | (152.2) | (165.9) | (61)% | (8)% |
| | | | | | |
| Effective tax rate | 120.2% | 83.4% | * | | |
| Adjusted effective tax rate | 63.9% | 76.4% | 82.6% | | |
| | | | | | |
| Performance Metrics | | | | | |
| Change in Active Representatives | | | | (5)% | (3)% |
| Change in units sold | | | | (6)% | (4)% |
| Change in Ending Representatives | | | | (8)% | —% |

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

* Calculation not meaningful

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

(2)

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

2018 Compared to 2017

Revenue

During 2018, revenue declined 3% compared to the prior-year period. Excluding the Brazil IPI release, Adjusted revenue was down 5%, primarily due to the unfavorable impact of foreign exchange. Constant $ Adjusted revenue increased 1%. Revenue and Constant $ Adjusted revenue included a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. The 4% benefit was driven primarily by the reclassification of fees paid by Representatives for brochures,

late payments and payment processing, and income from appointment kits, from SG&A. The impact of timing of revenue recognition for sales incentives was negligible.

Revenue and constant $ Adjusted revenue was impacted by declines primarily in Brazil, which continued to be negatively impacted by competitive pressures against a backdrop of a challenging macroeconomic environment and lower consumption in the market, as well as lower appointments due to the application of strict credit requirements for the acceptance of new Representatives. To a lesser extent, Constant $ Adjusted revenue was also impacted by declines in the UK, South Africa and Russia, as well as lower revenue from the closure of Australia and New Zealand during 2018. These declines were partially offset by improved revenue growth management including inflationary pricing in Argentina. Revenue and Constant $ Adjusted revenue were impacted by a decrease in Active Representatives of 5%, which was primarily driven by Brazil, and to a lesser extent, Russia. Average order in Constant $ increased 2%, including a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. Units sold decreased 6%, driven by a decline in Brazil.

Ending Representatives declined 8%, primarily driven by declines in Russia and Brazil.

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

| | Years ended December 31 | | % Change | |
|---|---|---|---|---|
| | 2018 | 2017 | US$ | Constant $ |
| Beauty: | | | | |
| Skincare | $1,474.7 | $1,606.4 | (8)% | (3)% |
| Fragrance | 1,428.1 | 1,547.2 | (8) | (1) |
| Color | 845.3 | 968.0 | (13) | (7) |
| Total Beauty | 3,748.1 | 4,121.6 | (9) | (3) |
| Fashion & Home: | | | | |
| Fashion | 750.8 | 812.5 | (8) | (4) |
| Home | 561.3 | 587.2 | (4) | 5 |
| Total Fashion & Home | 1,312.1 | 1,399.7 | (6) | — |
| Brazil IPI tax release | 168.4 | — | | |
| Net sales from reportable segments | 5,228.6 | 5,521.3 | (5) | (2) |
| Net sales from Other operating segments and business activities | 19.1 | 43.8 | (56) | (57) |
| Net sales | $5,247.7 | $5,565.1 | (6) | (3) |

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

Operating Margin

Operating margin decreased 70 basis points and Adjusted operating margin decreased 170 basis points, compared to 2017, including a benefit of 10 basis points due to the impact of adopting the new revenue recognition standard. The benefit of 10 basis points was driven by the net positive contribution to operating margin of fourth quarter 2017 sales incentives satisfied during 2018 and sales incentives deferred during the period, impacted by the mix of products. The changes in operating margin and Adjusted operating margin include the benefits associated with the Transformation Plan, primarily reductions in headcount, as well as other cost reductions. These savings were partially offset by the inflationary impact on costs. Operating margin and Adjusted operating margin drivers are discussed further below in "Gross Margin" and "SG&A Expenses."

Gross Margin

Gross margin decreased 390 basis points and Adjusted gross margin decreased 360 basis points, compared to the same period of 2017, including a decline of 350 basis points due to the impact of adopting the new revenue recognition standard. The 350 basis point decline was driven by the reclassification of sales incentive costs from SG&A to cost of sales, partially offset by the reclassification of fees paid by Representatives for late payments, payment processing and brochures from SG&A to other revenue and the reclassification of income from appointment kits from SG&A to net sales.

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

- a decrease of 80 basis points due to higher supply chain costs, driven by higher material costs primarily in South Latin America;
- a decrease of 20 basis points due to the net unfavorable impact of foreign currency transaction losses and foreign currency translation; and

- a decrease of 20 basis points due to the unfavorable impact as a result of hyperinflationary accounting in Argentina effective July 1, 2018, primarily due to inventory being accounted for at its historical dollar cost.

This item was partially offset by the following:

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

SG&A Expenses

SG&A as a percentage of total revenue, which decreased 320 basis points, benefited 170 basis points from the Brazil IPI release in the third quarter of 2018 and 30 basis points from a loss contingency recorded in the prior-year period related to a non-U.S. pension plan, partially offset by 60 basis point from higher CTI restructuring. Adjusted SG&A as a percentage of Adjusted revenue decreased 180 basis points, compared to the same period of 2017. SG&A as a percentage of total revenue and Adjusted SG&A as a percentage of Adjusted revenue include a benefit of 350 basis points due to the impact of adopting the new revenue recognition standard. The 350 basis point benefit was driven by the reclassification of sales incentive costs from SG&A to cost of sales, partially offset by the reclassification of fees paid by Representatives for late payments, payment processing and brochures from SG&A to other revenue and the reclassification of income from appointment kits from SG&A to net sales.

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

- an increase of 50 basis points due to higher Representative, sales leader and field expense, primarily in Brazil due to investments aimed at recovering activity levels that were disrupted by the national transportation strike in the second quarter of 2018, as well as increased focus on Representatives training in the second half of 2018;
- an increase of 40 basis points from higher advertising expense primarily due to increased investments in Europe, Middle East & Africa;
- an increase of 40 basis points from higher transportation costs, mainly in Brazil primarily driven by inefficiencies caused by the national transportation strike and an increase in fuel prices, in Europe, Middle East & Africa driven by further increases in delivery rates in Russia and increased flexibility in order processing in the UK and in Mexico due to an increase in fuel prices;
- an increase of approximately 40 basis points due to the net unfavorable impact of foreign currency transaction losses and foreign currency translation;
- an increase of 40 basis points due to higher net brochure expense primarily due to an increase in brochure volumes in Brazil; and
- a decrease of 50 basis points from lower bad debt expense, primarily in Brazil due to improved credit control and collections processes.

See Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report for more information on the legal settlement, Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information on the loss contingency related to a non-U.S. pension plan and Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report for more information on CTI restructuring.

Other Expenses

Interest expense decreased by approximately $6, primarily due to interest savings associated with prepayment of the $237.8 principal amount of our 6.50% Notes due March 2019. Refer to Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report for additional information.

A loss on extinguishment of debt of approximately $1 was comprised of a loss of approximately $3 associated with the prepayment of our 6.50% Notes, partially offset by a gain of approximately $2 associated with the debt repurchases in the fourth quarter of 2018. Refer to Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report for additional information.

Interest income increased by $1 compared to the prior-year period.

Other expense, net, decreased by approximately $28 compared to the prior-year period, including the impact of the Brazil IPI tax release of $27. Other expense, net, was positively impacted by lower expenses associated with employee benefit plans of $12, primarily related to the UK and including the impact of a $3 settlement charge recorded in the third quarter of 2017, and approximately $12 recorded for our proportionate share of New Avon's

losses during the nine months ended September 30, 2017. As the recorded investment balance in New Avon was zero at the end of the third quarter of 2017, we have not recorded

any additional losses associated with New Avon since the third quarter of 2017. These benefits were partially offset by foreign exchange net losses, which increased by approximately $19 compared to the prior-year period, and other miscellaneous unfavorable impacts totaling $4 See Note 4, Investment in New Avon on page F-26 of our 2018 Annual Report for more information on New Avon.

Effective Tax Rate

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

The effective tax rate in 2018 was impacted by an approximate net $25 benefit recognized primarily due to Avon's interpretation of case law and/or guidance provided during 2018 in the U.S. and Latin America and the release of valuation allowances of approximately $5 associated with improved profitability of certain Markets partially offset by a net charge of approximately $11 primarily associated with an increase in reserves for uncertain tax positions. The effective tax rate in 2018 was also impacted by the accrual of taxes associated with the reversal of the Brazil IPI loss contingency and CTI restructuring for which tax benefits cannot currently be claimed in all affected jurisdictions.

The effective tax rate in 2017 was impacted by an approximate net $30 benefit recognized as a result of the enactment of the Tax Cuts and Jobs Act in U.S., a release of valuation allowances of approximately $26 associated with a number of markets in Europe, Middle East & Africa as a result of a business model change related to the headquarters move, and an approximate $10 benefit as a result of a favorable court decision in Brazil, partially offset by a charge of approximately $16 associated with valuation allowances to adjust deferred tax assets in Mexico. The effective tax rate in 2017 was also impacted by a loss contingency related to a non-U.S. pension plan and CTI restructuring, both for which tax benefits cannot currently be claimed.

In addition, the effective tax rates and the Adjusted effective tax rates in 2018 and 2017 were negatively impacted by the country mix of earnings.

See Note 10, Income Taxes on pages F-33 through F-37 of our 2018 Annual Report for more information on tax items, Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information on the loss contingency related to a non-U.S. pension plan, Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report for more information on CTI restructuring and "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report for more information for further discussion of our Venezuelan operations.

Impact of Foreign Currency

As compared to the prior-year period, foreign currency in 2018 impacted our consolidated financial results in the form of:

- foreign currency transaction net losses as compared to net gains in the prior year (classified within cost of SG&A expenses), which had an unfavorable impact to operating profit and Adjusted operating profit of an estimated $30, or approximately 50 basis points to operating margin and Adjusted operating margin;
- foreign currency translation, which had an unfavorable impact, as compared to a favorable impact in the prior year, to operating profit and Adjusted operating profit of approximately $75 and approximately $35, respectively, or approximately 80 basis points and approximately 30 basis points, respectively, to operating margin and Adjusted operating margin; and
- higher foreign exchange net losses on our working capital (classified within other expense, net) as compared to net gains in the prior year, resulting in a year-over-year unfavorable impact of approximately $20 before tax on both a reported and Adjusted basis.

2017 Compared to 2016

Revenue

During 2017, revenue was relatively unchanged compared to the prior-year period, partially benefiting from foreign exchange, while Constant $ revenue decreased 2%. Our Constant $ revenue decline was primarily driven by declines

in Brazil, Russia and the UK, partially offset by growth in Argentina and South Africa. The decline in revenue and Constant $ revenue was primarily due to a 3% decrease in Active Representatives, which was partially offset by higher average order. The decrease in Active Representatives was impacted by declines in all reportable segments, most significantly in South Latin America (driven by Brazil) and Europe, Middle East & Africa. The net impact of price and mix increased 2%, primarily due to the inflationary impact on pricing in Argentina, Russia and Mexico. Units sold decreased 4%, primarily due to declines in Russia, Brazil,

Mexico and the UK. The revenue performance was negatively impacted most significantly by a decline in Color sales, as we experienced issues in some markets while we segmented our Color category into three distinct brands. The timing of innovation also impacted the decline in Color sales.

Ending Representatives were relatively unchanged. Ending Representatives at December 31, 2017 as compared to the prior-year period benefited from growth in Russia, which was offset by a decline in Brazil.

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

| | Years ended December 31 | | % Change | |
|---|---|---|---|---|
| | 2017 | 2016 | US$ | Constant $ |
| Beauty: | | | | |
| Skincare | $1,606.4 | $1,589.0 | 1 % | (2 )% |
| Fragrance | 1,547.2 | 1,504.8 | 3 | 1 |
| Color | 968.0 | 984.2 | (2 ) | (4 ) |
| Total Beauty | 4,121.6 | 4,078.0 | 1 | (1 ) |
| Fashion & Home: | | | | |
| Fashion | 812.5 | 838.8 | (3 ) | (5 ) |
| Home | 587.2 | 589.5 | — | (2 ) |
| Total Fashion & Home | 1,399.7 | 1,428.3 | (2 ) | (3 ) |
| Net sales from reportable segments | 5,521.3 | 5,506.3 | — | (2 ) |
| Net sales from Other operating segments and business activities | 43.8 | 72.5 | (40) | * |
| Net sales | $5,565.1 | $5,578.8 | — | (2 ) |

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

Operating Margin

Operating margin and Adjusted operating margin decreased 80 basis points and 20 basis points, respectively, compared to 2016. The decreases in operating margin and Adjusted operating margin include the benefits associated with the Transformation Plan, primarily reductions in headcount, as well as other cost reductions. These savings were largely offset by the inflationary impact on costs outpacing revenue growth. The decreases in operating margin and Adjusted operating margin are discussed further below in "Gross Margin" and "SG&A Expenses."

Gross Margin

Gross margin and Adjusted gross margin both increased 100 basis points compared to 2016, in each case primarily due to an increase of 120 basis points from the favorable net impact of mix and pricing, driven by inflationary pricing in South Latin America.

SG&A Expenses

SG&A expenses for 2017 increased approximately $94 compared to 2016. This increase is primarily due to the unfavorable impact of foreign currency translation, as the weakening of the U.S. dollar against many of our foreign currencies resulted in higher reported SG&A expenses. The increase in SG&A expenses is also due to the approximate $27 of net proceeds recognized as a result of a legal settlement in 2016, higher bad debt expense, higher transportation costs, the loss contingency related to a non-U.S. pension plan and higher Representative, sales leader and field expense. Partially offsetting the increase in SG&A expenses was lower expenses associated with employee incentive compensation plans and lower CTI restructuring.

SG&A expenses as a percentage of revenue and Adjusted SG&A expenses as a percentage of revenue increased 160 basis points and 120 basis points, respectively, compared to 2016. The SG&A expenses as a percentage of revenue comparison was negatively impacted by:

- approximately 50 basis points for the approximate $27 of net proceeds recognized as a result of a legal settlement in the 2016; and
- approximately 30 basis points for a loss contingency related to a non-U.S. pension plan.

These items were partially offset by:

- approximately 30 basis points for lower CTI restructuring.

The remaining increase in SG&A expenses as a percentage of revenue and the increase of 120 basis points in Adjusted SG&A expenses as a percentage of revenue were, in each case, primarily due to the following:

- an increase of 50 basis points from higher bad debt expense, driven by Brazil due to the lower than anticipated collection of receivables, primarily impacted by the macroeconomic environment, as well as resulting from an adjustment to credit terms available to new Representatives during 2016;
- an increase of 50 basis points primarily due to higher Representative, sales leader and field expense, most significantly in Brazil to support efforts to activate the field and improve Representative recruitment, as well as in the Philippines;
- an increase of 40 basis points from higher transportation costs, most significantly in Russia which was driven by new delivery rates; and
- an increase of 20 basis points primarily due to the impact of the Constant $ revenue decline causing deleverage of our fixed expenses, partially offset by lower fixed expenses. Fixed expenses include the benefits associated with the Transformation Plan, primarily reductions in headcount, as well as other cost reductions. These savings were largely offset by the inflationary impact on costs outpacing revenue growth.

These items were partially offset by the following:

- a decrease of 30 basis points due to lower expenses associated with employee incentive compensation plans; and
- a decrease of approximately 20 basis points due to the favorable impact of foreign currency translation and foreign currency transaction losses.

See Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report for more information on the legal settlement, Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information on the loss contingency related to a non-U.S. pension plan and Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report for more information on CTI restructuring.

Other Expenses

Interest expense increased by approximately $4 compared to the prior-year period, primarily due to the interest associated with $500 principal amount of 7.875% Senior Secured Notes issued in August 2016 and lower amortization of gains associated with the termination of interest rate swaps. These items were partially offset by the interest savings associated with the repayment of certain of our debt in 2016 and lower interest due to a reduction of the international debt balances. Refer to Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report and Note 11, Financial Instruments and Risk Management on pages F-37 through F-38 of our 2018 Annual Report for additional information.

Gain on extinguishment of debt in 2016 of approximately $1 was comprised of a gain of approximately $4 associated with the cash tender offers in August 2016 and a gain of approximately $1 associated with the debt repurchases in December 2016, partially offset by a loss of approximately $3 associated with the prepayment of the remaining principal amount of our 4.20% Notes and 5.75% Notes in November 2016 and a loss of approximately $1 associated with the debt repurchases in October 2016. Refer to Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report for additional information.

Interest income decreased by approximately $1 compared to the prior-year period.

Other expense, net, decreased by approximately $138 compared to the prior-year period, primarily due to the deconsolidation of our Venezuelan operations, as we recorded a loss of approximately $120 in the first quarter of 2016. In addition, other expense, net was positively impacted by foreign exchange net gains in the current year as compared to net losses in the prior year, resulting in a year-over-year benefit of approximately $28. The amounts recorded for our proportionate share of New Avon's losses was approximately $12 in both 2017 and 2016. As the recorded investment balance in New Avon was zero at the end of the third quarter of 2017, we have not recorded any additional losses associated with New Avon since the third quarter of 2017. See "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report for further discussion of our Venezuelan operations. See Note 4, Investment in New Avon on page F-26 of our 2018 Annual Report for more information on New Avon.

Effective Tax Rate

The effective tax rates in 2017 and 2016 continue to be impacted by our inability to recognize additional deferred tax assets in various jurisdictions related to our current-year operating results. In addition, the effective tax rates in 2017 and 2016 continue to be impacted by withholding taxes associated with certain intercompany payments, including royalties, service charges and dividends, which in the aggregate are relatively consistent each year due to the need to repatriate funds to cover U.S.-based costs, such as interest on debt and corporate overhead. These factors resulted in unusually high effective tax rates in 2017 and 2016.

The effective tax rate in 2017 was impacted by an approximate net $30 benefit recognized as a result of the enactment of the Tax Cuts and Jobs Act in U.S., a release of valuation allowances of approximately $26 associated with a number of markets in Europe, Middle East & Africa as a result of a business model change related to the headquarters move, and an approximate $10 benefit as a result of a favorable court decision in Brazil, partially offset by a charge of approximately $16 associated with valuation allowances to adjust deferred tax assets in Mexico. The effective tax rate in 2017 was also impacted by a loss contingency related to a non-U.S. pension plan and CTI restructuring, both for which tax benefits cannot currently be claimed.

The effective tax rate in 2016 was impacted by the deconsolidation of our Venezuelan operations, valuation allowances for deferred tax assets outside of the U.S. of approximately $9 and CTI restructuring, partially offset by a benefit of approximately $29 as a result of the implementation of foreign tax planning strategies, a net benefit of approximately $7 primarily due to the release of a valuation allowance associated with Russia and a benefit from the net proceeds recognized as a result of a legal settlement.

In addition, the effective tax rates and the Adjusted effective tax rates in 2017 and 2016 were negatively impacted by the country mix of earnings.

See Note 10, Income Taxes on pages F-33 through F-37 of our 2018 Annual Report for more information on tax items, Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information on the loss contingency related to a non-U.S. pension plan, Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report for more information on CTI restructuring and "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report for more information for further discussion of our Venezuelan operations.

Impact of Foreign Currency

As compared to the prior-year period, foreign currency in 2017 impacted our consolidated financial results in the form of:

- foreign currency transaction net gains (classified within cost of sales, and SG&A expenses), which had an immaterial impact to operating profit and Adjusted operating profit, and operating margin and Adjusted operating margin;
- foreign currency translation, which had a favorable impact to operating profit and Adjusted operating profit of approximately $20, or approximately 30 basis points to operating margin and approximately 20 basis points to Adjusted operating margin; and
- foreign exchange net gains on our working capital (classified within other expense, net) as compared to net losses in the prior year, resulting in a year-over-year benefit of approximately $28 before tax on both a reported and Adjusted basis.

Discontinued Operations

There were no amounts recorded in discontinued operations for the year ended December 31, 2017. Loss from discontinued operations, net of tax was approximately $14 for the year ended December 31, 2016. See Note 3, Discontinued Operations and Assets and Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report for further discussion.

Venezuela Discussion

Avon Venezuela operates in the direct-selling channel offering Beauty and Fashion & Home products. Avon Venezuela has a manufacturing facility that produces the Beauty products that it sells. Avon Venezuela imports many of its Fashion & Home products and raw materials and components needed to manufacture its Beauty products. Currency restrictions enacted by the Venezuelan government since 2003 impacted the ability of Avon Venezuela to obtain foreign currency to pay for imported products. In 2010, we began accounting for our operations in Venezuela under accounting guidance associated with highly inflationary economies. Under U.S. GAAP, the financial statements of a foreign entity operating in a highly inflationary economy are required to be remeasured as if the functional currency is the company’s reporting currency, the U.S. dollar. This generally results in translation adjustments, caused by changes in the exchange rate, being reported in earnings currently for monetary assets (e.g., cash, accounts receivable) and liabilities (e.g., accounts payable, accrued expenses) and requires that different procedures be used to translate non-monetary assets (e.g., inventories, fixed assets). Non-monetary assets and liabilities are remeasured at the historical U.S. dollar cost basis. This diverges significantly from the application of accounting rules prior to

designation as highly inflationary accounting, where such gains and losses would have been recognized only in other comprehensive income (loss) (shareholders' deficit).

Venezuela's restrictive foreign exchange control regulations and our Venezuelan operations' increasingly limited access to U.S. dollars resulted in 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 lack of exchangeability would continue for the foreseeable future, and as a result, we concluded that, effective March 31, 2016, this condition was other-than-temporary and we no longer met the accounting criteria of control in order to continue consolidating our Venezuelan operations. As a result, since March 31, 2016, we account for our Venezuelan operations using the cost method of accounting.

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 associated with foreign currency movements 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, accounts receivable of approximately $5, cash of approximately $4, and accounts payable and accrued liabilities of approximately $20. Our Consolidated Balance Sheets no longer include the assets and liabilities of our Venezuelan operations. We no longer include the results of our Venezuelan operations in our Consolidated Financial Statements, and will include income relating to our Venezuelan operations only to the extent that we receive cash for dividends or royalties remitted by Avon Venezuela.

Other Comprehensive (Loss) Income

Other comprehensive loss, net of taxes was approximately $104 in 2018 compared with other comprehensive income of approximately $108 in 2017. The year-over-year comparison was unfavorably impacted by unrealized losses on the revaluation of long-term intercompany balances of $58 compared to unrealized gains of $62 in the prior-year period. These long-term intercompany balances are denominated in Brazilian real and the British Pound. Foreign currency translation adjustments unfavorably impacted other comprehensive loss by approximately $69 as compared to 2017, primarily due to the unfavorable year-over-year comparison of movements of the Polish zloty and Argentinian peso for the first half of 2018, before highly inflationary accounting was applied for our Argentinian subsidiary from July 1, 2018.

Other comprehensive income, net of taxes was approximately $108 in 2017 compared with approximately $333 in 2016. The year-over-year comparison was unfavorably impacted by the recognition of losses of $259 from other comprehensive income into our Consolidated Statements of Operations in 2016 as a result of the separation of the North America business, primarily related to unamortized losses associated with the employee benefit plans, and the approximate $82 impact of the deconsolidation of Venezuela. The remaining approximate $116 benefit to the year-over-year comparison was primarily due to foreign currency translation adjustments, which benefited by approximately $117 as compared to 2016 primarily due to the favorable year-over-year comparison of movements of the Polish zloty and Mexican peso, partially offset by the unfavorable year-over-year comparison of movements of the Brazilian real.

See Note 3, Discontinued Operations and Assets and Liabilities Held for Sale on pages F-24 through F-26 of our 2018 Annual Report for more information on the separation of the North America business, see "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-11 through F-19 of our 2018 Annual Report for a further discussion of our Venezuelan operations, and Note 14, Employee Benefit Plans on pages F-42 through F-50 of our 2018 Annual Report for more information on our benefit plans.

Segment Review

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, CTI 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. See Note 15, Segment Information on pages F-50 through F-52 of our 2018 Annual Report for a reconciliation of segment profit to operating profit.

Summarized financial information concerning our reportable segments was as follows:

| Years ended December 31 | 2018 | 2017 | 2016 |
|---|---|---|---|

| | Total revenue | Segment profit | Total revenue | Segment profit | Total revenue | Segment profit |
|---|---|---|---|---|---|---|
| Europe, Middle East & Africa | $2,093.8 | $ 267.5 | $2,126.5 | $ 329.6 | $2,138.2 | $ 322.8 |
| South Latin America | 2,146.9 | 314.6 | 2,222.4 | 195.7 | 2,145.9 | 201.1 |
| North Latin America | 809.3 | 70.4 | 811.8 | 83.4 | 829.9 | 116.1 |
| Asia Pacific | 470.8 | 42.0 | 471.9 | 50.8 | 494.0 | 62.5 |
| Total from reportable segments | $5,520.8 | $ 694.5 | $5,632.6 | $ 659.5 | $5,608.0 | $ 702.5 |

Below is an analysis of the key factors affecting revenue and segment profit by reportable segment for each of the years in the three-year period ended December 31, 2018. Foreign currency impact is determined as the difference between actual growth rates and Constant $ growth rates. Refer to "Non-GAAP Financial Measures" in this MD&A for more information.

Europe, Middle East & Africa – 2018 Compared to 2017

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2018 | 2017 | US$ | Constant $ |
| Total revenue | $2,093.8 | $2,126.5 | (2)% | (1)% |
| Segment profit | 267.5 | 329.6 | (19)% | (18)% |
| Segment margin | 12.8% | 15.5% | (270) | (280) |
| Change in Active Representatives | | | | (4)% |
| Change in units sold | | | | (5)% |
| Change in Ending Representatives | | | | (10)% |

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

Total revenue decreased 2% compared to the prior-year period, unfavorably impacted by foreign exchange. On a Constant $ basis, revenue decreased 1%. Revenue and Constant $ revenue included a benefit of approximately 3% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue were negatively impacted primarily by a decrease in Active Representatives, partially offset by higher average order. The decrease in Ending Representatives was driven primarily by declines in Russia.

In Russia, revenue decreased 6%, unfavorably impacted by foreign exchange. On a Constant $ basis, Russia's revenue increased 1%. Russia's revenue and Constant $ revenue included a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in Russia were negatively impacted by a decrease in Active Representatives, partially offset by higher average order. Revenue and Constant $ revenue in Russia was also negatively impacted by lower consumption in the market.

In the UK, revenue decreased 6%, despite the favorable impact of foreign exchange. On a Constant $ basis, the UK's revenue decreased 9%. The UK's revenue and Constant $ revenue included a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in the UK were negatively impacted by a decrease in Active Representatives, driven by underlying field issues and temporary service issues in the fourth quarter of 2018, partially offset by higher average order.

In South Africa, revenue decreased 4%, despite the favorable impact of foreign exchange. On a Constant $ basis, South Africa's revenue decreased 5%. South Africa's revenue and Constant $ revenue included a benefit of approximately 2% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in South Africa were negatively impacted by a decrease in Active Representatives, resulting from the challenging macroeconomic environment and the application of strict credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year.

Segment margin decreased 270 basis points, or 280 basis points on a Constant $ basis, including a decline of approximately 30 basis points due to the impact of the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a decline of 70 basis points from higher advertising expense, primarily due to increased investments in the UK, South Africa and Russia;
- a decline of 50 basis points from higher rep and sales leader investments primarily in Russia and Poland and Turkey;
- a decline of 50 basis points due to higher fixed expenses, primarily due to the impact of the Constant $ Adjusted revenue decline causing deleverage of our fixed expenses;
- a decline of 40 basis points from higher transportation costs, driven by further increases in delivery rates in Russia and increased flexibility in order processing in the UK;
- a decline of 40 basis points from higher variable distribution cost primarily relating to increased flexibility in order processing in the UK; and

a benefit of 40 basis points due to lower net bad debt expense, driven by Russia, South Africa and the UK. Bad debt expense in Russia in the prior-period was negatively impacted by a payment facilitation agency that had not remitted to us the funds it received from certain Representatives. The year-over-year bad debt expense comparison in South Africa and the UK benefited from improved credit control and enhancement of collections processes.

Europe, Middle East & Africa – 2017 Compared to 2016

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2017 | 2016 | US$ | Constant $ |
| Total revenue | $2,126.5 | $2,138.2 | (1)% | (4)% |
| Segment profit | 329.6 | 322.8 | 2 % | (3)% |
| Segment margin | 15.5 % | 15.1 % | 40 | — |
| Change in Active Representatives | | | | (2)% |
| Change in units sold | | | | (7)% |
| Change in Ending Representatives | | | | 3 % |

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

Total revenue decreased 1% compared to the prior-year period, despite the favorable impact of foreign exchange which was primarily driven by the weakening of the U.S. dollar relative to the Russian ruble and to a lesser extent, the South African rand, partially offset by the strengthening of the U.S. dollar relative to the Turkish lira and the British pound. On a Constant $ basis, revenue decreased 4%, most significantly impacted by declines in Russia and the UK, partially offset by growth in South Africa. The segment's Constant $ revenue decline was primarily driven by a decrease in Active Representatives and lower average order. The increase in Ending Representatives was primarily driven by increases in Russia, Turkey and South Africa, partially offset by a decline in the UK.

In Russia, revenue increased 5%, benefiting significantly from the favorable impact of foreign exchange. On a Constant $ basis, Russia's revenue declined 8%, primarily due to lower average order along with a decrease in Active Representatives. During the first half of 2017, the Constant $ revenue decline in Russia was impacted by the comparison to strong volume growth in the prior-year period, which benefited primarily from a pricing lag during an inflationary period. The Constant $ revenue decline in Russia was also impacted by competitive pressures, innovation issues and a continued difficult macroeconomic environment, primarily in the second half of 2017. These issues also negatively impacted Active Representatives, despite the increase in Ending Representatives.

In the UK, revenue declined 14%, which was unfavorably impacted by foreign exchange. On a Constant $ basis, the UK's revenue declined 11%, primarily due to a decrease in Active Representatives, and to a lesser extent, lower average order.

In South Africa, revenue grew 20%, which was favorably impacted by foreign exchange. On a Constant $ basis, South Africa’s revenue grew 9%, primarily due to an increase in Active Representatives, partially offset by lower average order.

Segment margin increased 40 basis points, or was relatively unchanged on a Constant $ basis, in each case primarily as a result of:

- a decline of 70 basis points from higher transportation costs, driven primarily by new delivery rates in Russia;
- a decline of 70 basis points primarily due to the impact of the Constant $ revenue decline causing deleverage of our fixed expenses, partially offset by lower fixed expenses. Fixed expenses benefited from lower expenses associated with employee incentive compensation plans, which were partially offset by higher other administrative costs;
- a decline of 40 basis points from higher bad debt expense, primarily in South Africa and Russia. Higher bad debt expense in South Africa was driven primarily by lower collection of receivables as a result of deteriorating economic conditions, and in Russia was driven primarily by a payment facilitation agency that has not remitted to us the funds it received from certain Representatives;
- a decline of 30 basis points primarily related to the net impact of declining revenue with respect to Representative, sales leader and field expense; and
- a benefit of 180 basis points due to higher gross margin caused primarily by 100 basis points from the favorable net impact of mix and pricing primarily driven by Russia, and 70 basis points due to lower supply chain costs. Supply chain costs benefited primarily from lower material and distribution costs, partially due to productivity initiatives.

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South Latin America – 2018 Compared to 2017

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2018 | 2017 | US$ | Constant $ |
| Total revenue | $2,146.9 | $2,222.4 | (3)% | 13 % |
| Brazil IPI tax release | (168.4) | — | | |
| Adjusted revenue | 1,978.5 | 2,222.4 | (11)% | 3 % |
| | | | | |
| Segment profit | 314.6 | 195.7 | 61 % | 101 % |
| Brazil IPI tax release | (168.4) | | | |
| Adjusted segment profit | 146.2 | 195.7 | (25)% | (10)% |
| | | | | |
| Segment margin | 14.7 % | 8.8 % | 590 | 690 |
| Brazil IPI tax release | 7.3 | — | | |
| Adjusted segment margin | 7.4 % | 8.8 % | (140) | (110) |
| | | | | |
| Change in Active Representatives | | | | (6)% |
| Change in units sold | | | | (8)% |
| Change in Ending Representatives | | | | (9)% |

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

Total revenue decreased 3% compared to the prior-year period. Excluding the Brazil IPI release, Adjusted revenue for the region was down 11%, unfavorably impacted by foreign exchange, which was primarily driven by the strengthening of the U.S. dollar relative to the Argentinian peso and the Brazilian real. On a Constant $ basis, Adjusted revenue increased 3%. Revenue and Constant $ Adjusted revenue included a benefit of approximately 6% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ Adjusted revenue were negatively impacted by a decrease in Active Representatives primarily driven by a decline in Brazil, partially offset by higher average order driven by Argentina. The decrease in Ending Representatives was driven primarily by declines in Brazil.

Revenue in Brazil remained relatively unchanged. Excluding the Brazil IPI release, Adjusted revenue in Brazil decreased 13%, unfavorably impacted by foreign exchange. Brazil's Constant $ Adjusted revenue decreased 1%. Brazil's revenue and Constant $ Adjusted revenue included a benefit of approximately 9% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ Adjusted revenue in Brazil were negatively impacted primarily by a decrease in Active Representatives, and to a lesser extent, lower average order. Revenue and Constant $ Adjusted revenue in Brazil, as well as Active Representatives and Ending Representatives were negatively impacted by competitive pressures against a backdrop of a challenging macroeconomic environment and lower consumption in the market, as well as lower appointments, partly due to the application of strict credit requirements for the acceptance of new Representatives. In addition, revenue and Constant $ Adjusted revenue in Brazil, as well as Active Representatives and Ending Representatives, were also impacted by a national transportation strike which affected sales and distribution in the second quarter of 2018. On an Adjusted Constant $ basis, Brazil’s sales from Beauty products and Fashion & Home products declined 8% and 4%, respectively, including a 2% benefit in both categories due to the impact of the new revenue recognition standard. The decline in Constant $ Beauty sales in Brazil was mainly in Color.

Revenue in Argentina declined 25%, unfavorably impacted by foreign exchange. On a Constant $ basis, Argentina's revenue grew 22%. Argentina's revenue and Constant $ revenue included a benefit of approximately 1% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in Argentina benefited from higher average order, which was impacted by improved revenue growth management including inflationary pricing.

Segment margin increased 590 basis points, including 730 basis points from the Brazil IPI tax release. On a Constant $ basis, segment margin increased 690 basis points, including 800 basis points from the Brazil IPI tax release. The

reported segment margin increase and the Constant $ Adjusted segment margin decrease of 110 basis points both included a decline of approximately 20 basis points due to the impact of adopting the new revenue recognition standard. The remaining decrease in reported and in Constant $ Adjusted segment margin was primarily as a result of:

- a decline of 110 basis points due to higher Representative, sales leader and field expense, primarily in Brazil due to investments aimed at recovering activity levels that were disrupted by the national transportation strike in the second quarter of 2018, as well as increased focus on Representatives training in the second half of 2018;

- a decline of 90 basis points due to higher net brochure cost, primarily due to an increase in brochure volumes in Brazil;
- a decline of 60 basis points due to higher transportation costs in Brazil, primarily driven by inefficiencies caused by the national transportation strike and an increase in fuel prices;
- a decline of 50 basis points due to higher fixed expenses, primarily due to the impact of the Constant $ Adjusted revenue decline causing deleverage of our fixed expenses;
- a benefit of 110 basis points from lower net bad debt expense, primarily in Brazil due to improved credit control and collections processes; and
- a benefit of 80 basis points due to higher gross margin of 200 basis points from the favorable net impact of mix and pricing, driven by inflationary pricing in Argentina and revenue management initiatives in Brazil. These items were partially offset by 150 basis points due to higher supply chain costs driven by higher material costs.

Brazil IPI tax discussion

In May 2015, an Executive Decree on certain cosmetics went into effect in Brazil which increased the amount of IPI taxes that are to be remitted by Avon Brazil to the taxing authority on the sales of cosmetic products subject to IPI. As of September 30, 2018, due in part, to judicial decisions across the industry and other developments, we concluded, supported by the opinion of legal counsel, that the Executive Decree is unconstitutional. We therefore assessed the IPI tax under ASC 450, Contingencies and determined that the risk of loss during ongoing judicial reviews is reasonably possible but not probable, and accordingly, we released our liability accrued as of September 30, 2018 of $195. We considered the release of the liability as a non-GAAP adjustment, and therefore, we adjusted for the IPI tax of $168 (which was recorded in net sales in our Consolidated Income Statements) and the associated interest of $27 (which was recorded in other (income) expense, net in our Consolidated Income Statements) in our Adjusted non-GAAP results during the period ended December 31, 2018. The accrual for the Brazil IPI tax negatively impacted total revenue for the nine month period ended September 30, 2018 for Brazil, South Latin America, and total Avon by approximately 4-5%, approximately 2-3% and approximately 1%, respectively. For additional details on the IPI tax on cosmetics increase in Brazil, see Note 19, Contingencies, to the Consolidated Financial Statements included herein.

Argentina discussion

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

As a result of the devaluation of the Argentinian peso of approximately 25% from June 30, 2018 to December 31, 2018, operating profit was negatively impacted by approximately $8, largely in cost of sales in our Consolidated Income Statements, primarily due to inventory being accounted for at its historical dollar cost. During the six months ended December 31, 2018, we also recorded a benefit of approximately $6 in other expense, net primarily associated with the net monetary liability position of Argentina, and an approximate $2 positive impact on income taxes, both in our Consolidated Income Statements.

Our Argentinian operations contributed approximately $272, or approximately 5% of revenues, or approximately 7% of Constant $ Adjusted revenue during the year ended December 31, 2018. As of December 31, 2018, the net Argentine peso-denominated monetary liability position of Argentina was $33 and the net Argentine peso-denominated non-monetary asset position was $50, primarily consisting of inventory balances of $32.

South Latin America – 2017 Compared to 2016

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2017 | 2016 | US$ | Constant $ |
| Total revenue | $2,222.4 | $2,145.9 | 4 % | — % |
| Segment profit | 195.7 | 201.1 | (3 )% | (3 )% |
| Segment margin | 8.8 % | 9.4 % | (60) | (30 ) |
| Change in Active Representatives | | | | (4 )% |
| Change in units sold | | | | (3 )% |
| Change in Ending Representatives | | | | (3 )% |

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

Total revenue increased 4% compared to the prior-year period, primarily due to the favorable impact of foreign exchange which was primarily driven by the weakening of the U.S. dollar relative to the Brazilian real. On a Constant $ basis, revenue was relatively unchanged compared to the prior year, as higher average order was offset by a decrease in Active Representatives. The decline in Ending Representatives was primarily driven by a decline in Brazil as described below.

Revenue in Brazil increased 4%, favorably impacted by foreign exchange. Brazil's Constant $ revenue declined 4%, primarily due to a decrease in Active Representatives, partially offset by higher average order. On a Constant $ basis, Brazil's sales from Beauty products and Fashion & Home products decreased 4% and 5%, respectively. The decline in Constant $ Beauty sales in Brazil was driven by weaker performance in Color. Revenue in Brazil, as well as Active Representatives and Ending Representatives, was impacted by a difficult macroeconomic environment particularly in the first half of 2017, combined with the application of strict credit requirements for the acceptance of new Representatives as compared to the requirements in the prior year. In addition, Brazil's results were negatively impacted by competition primarily in the second half of 2017. Revenue in Argentina grew 10%, or 23% on a Constant $ basis primarily due to higher average order, which was impacted by the inflationary pricing.

Segment margin decreased 60 basis points, or 30 basis points on a Constant $ basis, in each case primarily as a result of:

- a decline of 60 basis points from higher bad debt expense, driven by Brazil due to the lower than anticipated collection of receivables, primarily impacted by the macroeconomic environment, as well as resulting from an adjustment to credit terms available to new Representatives during 2016;
- a decline of 60 basis points primarily due to higher fixed expenses, driven by the inflationary impact on costs outpacing revenue growth, particularly in Argentina, partially offset by lower expenses associated with employee incentive compensation plans;
- a decline of 50 basis points due to higher Representative, sales leader and field expense, most significantly in Brazil to support efforts to activate the field and improve Representative recruitment;
- a decline of 30 basis points from higher transportation expense, driven by Argentina due to inflationary cost increases; and
- a benefit of 180 basis points due to higher gross margin caused by 200 basis points from the favorable net impact of mix and pricing, primarily due to inflationary pricing, partially offset by 30 basis points from higher supply chain costs, which were primarily negatively impacted by higher material costs which included inflationary pressures in Argentina.

North Latin America – 2018 Compared to 2017

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2018 | 2017 | US$ | Constant $ |
| Total revenue | $809.3 | $811.8 | — % | 2 % |
| Segment profit | 70.4 | 83.4 | (16 )% | (15 )% |
| Segment margin | 8.7 % | 10.3 % | (160) | (170 ) |

| | |
|---|---|
| Change in Active Representatives | (4)% |
| Change in units sold | (3)% |
| Change in Ending Representatives | (7)% |

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

North Latin America consists largely of our Mexico business. Total revenue for the segment remained relatively unchanged compared to the prior-year period. On a Constant $ basis, revenue increased 2%. Revenue and Constant $ revenue included a benefit of approximately 4% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue were negatively impacted by a decrease in Active Representatives, partially offset by higher average order. The decline in Ending Representatives was primarily driven by a decline in Mexico.

Revenue in Mexico increased 2%, despite the unfavorable impact of foreign exchange. On a Constant $ basis, Mexico's revenue increased 5%. Mexico's revenue and Constant $ revenue included a benefit of approximately 4% due to the impact of the new revenue recognition standard. Revenue and Constant $ revenue in Mexico benefited from higher average order driven by incremental media investment in the Color and Fragrance categories in the second half of 2018, partially offset by a decrease in Active Representatives primarily due to quality issues in the Fashion & Home category in the first quarter of 2018.

Segment margin decreased 160 basis points, or 170 basis points on a Constant $ basis, including an immaterial impact of adopting the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a net decline of 170 basis points primarily from higher fixed expenses, primarily related to personnel cost;
- a decline of 50 basis points due to higher transportation costs, primarily related to an increase in fuel prices in Mexico;
- a decline of 40 basis points from higher advertising expense, primarily in Mexico due to incremental media investment in the Color and Fragrance categories to support new product launches in the second half of 2018;
- a benefit of 50 basis points due to lower net brochure costs; and
- a benefit of 30 basis points due to higher gross margin primarily due to 70 basis points from the favorable net impact of mix and pricing and 30 basis points from the favorable impact of foreign currency net gains, partially offset by 70 basis points from higher supply chain costs driven by higher material costs.

North Latin America – 2017 Compared to 2016

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2017 | 2016 | US$ | Constant $ |
| Total revenue | $811.8 | $829.9 | (2)% | (1)% |
| Segment profit | 83.4 | 116.1 | (28)% | (26)% |
| Operating margin | 10.3% | 14.0% | (370) | (350) |
| Change in Active Representatives | | | | (1)% |
| Change in units sold | | | | (3)% |
| Change in Ending Representatives | | | | (2)% |

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

North Latin America consists largely of the Mexico business. Total revenue for the segment decreased 2% compared to the prior-year period, partly due to the unfavorable impact from foreign exchange, which was primarily driven by the strengthening of the U.S. dollar relative to the Mexican peso. On a Constant $ basis, revenue decreased 1% due to a decrease in Active Representatives, both of which were negatively impacted by product fulfillment shortfalls in the region in the second quarter of 2017. Constant $ revenue for the region and Mexico were both negatively impacted by approximately 1 point and 1 point, respectively, due to the earthquake in Mexico. This earthquake occurred in late September 2017 and adversely impacted Mexico's fourth quarter 2017 results. The segment's Constant $ revenue benefited from growth in Central America, offset by a Constant $ revenue decline in Mexico. The decline in Ending Representatives was primarily driven by a decline in Central America.

Revenue in Mexico declined 4%, and was unfavorably impacted by foreign exchange. On a Constant $ basis, Mexico's revenue declined 2%, primarily due to a decrease in Active Representatives and the impact of the earthquake.

Segment margin decreased 370 basis points, or 350 basis points on a Constant $ basis, in each case primarily as a result of:

- a decline of 90 basis points due to lower gross margin caused primarily by 90 basis points from higher supply chain costs and 50 basis points from the unfavorable impact of foreign currency transaction net losses, partially offset by 50 basis points from the favorable net impact of mix and pricing. The impact of supply chain costs on gross margin was primarily due to lower volume and fixed overhead costs, as well as higher material costs;

- a decline of 80 basis points from higher bad debt expense, primarily in Mexico partially due to the implementation of a new collection process as a result of changes in regulations;
- a decline of 70 basis points due to higher Representative, sales leader and field expense, primarily as a result of increasing incentives to mitigate the impact of the product fulfillment shortfalls in the region and the earthquake in Mexico;
- a decline of 60 basis points from higher transportation costs driven by Mexico primarily due to increased fuel prices; and
- a decline of 30 basis points from higher net brochure costs, partly due to an increase in the number of pages in support of the segmentation of our Color category.

Asia Pacific – 2018 Compared to 2017

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2018 | 2017 | US$ | Constant $ |
| Total revenue | $470.8 | $471.9 | — % | 2 % |
| Segment profit | 42.0 | 50.8 | (17)% | (12)% |
| Segment margin | 8.9 % | 10.8 % | (190) | (140) |
| Change in Active Representatives | | | | (2)% |
| Change in units sold | | | | 1 % |
| Change in Ending Representatives | | | | (3)% |

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

Effective from the first quarter of 2018, given that we have exited Australia and New Zealand during 2018, the results of
Australia and New Zealand are now reported in Other operating segments and business activities for all periods presented,
while previously the results had been reported in the Asia Pacific segment.

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

Revenue in the Philippines decreased 1%, negatively impacted by the unfavorable impact of foreign exchange. On a Constant $ basis, revenue in the Philippines increased 4%. Revenue and Constant $ revenue in the Philippines included a benefit of approximately 2% due to the impact of adopting the new revenue recognition standard. Revenue and Constant $ revenue in the Philippines benefited from an increase in Active Representatives and higher average order, driven by the market's initiative to grow the Skincare category, mainly in the second half of 2018.

Segment margin decreased 190 basis points, or 140 basis points on a Constant $ basis, including a decline of approximately 30 basis points due to the impact of adopting the new revenue recognition standard. The decrease in reported and Constant $ segment margin was primarily as a result of:

- a decline of 120 basis points due to higher gross margin primarily caused by 80 basis points from higher supply chain costs due to higher logistics cost in the Philippines, and 20 basis points from the unfavorable impact of foreign current transaction losses;
- a decline of 30 basis points due to higher advertising expense, primarily in China, related to celebrity and digital advertising to support growth; and
- a benefit of 40 basis points due to lower fixed expenses primarily due to the impact of the Constant $ revenue growth with respect to out fixed expenses.

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Asia Pacific – 2017 Compared to 2016

| | | | %/Point Change | |
|---|---|---|---|---|
| | 2017 | 2016 | US$ | Constant $ |
| Total revenue | $471.9 | $494.0 | (4)% | (1)% |
| Segment profit | 50.8 | 62.5 | (19)% | (12)% |
| Operating margin | 10.8% | 12.7% | (190) | (140) |
| Change in Active Representatives | | | | (4)% |
| Change in units sold | | | | (1)% |
| Change in Ending Representatives | | | | (1)% |

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

Effective in the first quarter of 2017, given that we exited Thailand during 2016, the results of Thailand are now reported in

Other operating segments and business activities for all periods presented, while previously the results had been reported in

Asia Pacific. The impact was not material to Asia Pacific or Other operating segments and business activities and is consistent

with how we present other market exits.

Total revenue decreased 4% compared to the prior-year period, partially due to the unfavorable impact from foreign exchange. On a Constant $ basis, revenue decreased 1%, primarily due to a decrease in Active Representatives, most significantly in Malaysia, partially offset by higher average order. The decrease in Ending Representatives was impacted most significantly by a decline in Malaysia, which was partially offset by growth in the Philippines.

Revenue in the Philippines decreased 2%, or increased 3% on a Constant $ basis, primarily due to higher average order and an increase in Active Representatives. Revenue growth in the Philippines was driven by the latter half of 2017, as strong commercial offers, including pricing, which, along with television advertising associated with our Color category, helped drive momentum in the field. In addition, actions implemented to improve inventory availability provided benefits to revenue growth.

Segment margin decreased 190 basis points, or 140 basis points on a Constant $ basis, in each case primarily as a result of:

- a decline of 140 basis points primarily related to the net impact of declining revenue with respect to Representative, sales leader and field expense, primarily in the Philippines;
- a decline of 100 basis points due to lower gross margin caused primarily by 70 basis points from supply chain costs and 40 basis points from the unfavorable net impact of mix and pricing. The impact of supply chain costs on gross margin was primarily due to lower volume on fixed overhead costs;
- a decline of 40 basis points due to higher advertising expense, primarily in the Philippines, related to television advertising associated with our Color category during the latter half of 2017;
- a benefit of 100 basis points due to the lower fixed expenses, including the benefits associated with the Transformation Plan, primarily reductions in headcount; and
- a benefit of 40 basis points from lower bad debt expense, primarily in the Philippines, driven mainly by improved collection.

Earlier in 2017, we completed the review of our China operations and have determined that we will retain China in our portfolio of businesses.

Liquidity and Capital Resources

Our principal sources of funding historically have been cash flows from operations, public offerings of notes, bank financings, issuance of commercial paper, borrowings under lines of credit and a private placement of notes. At December 31, 2018, we had cash and cash equivalents totaling approximately $532.7 We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months.

We may seek to repurchase our equity or to retire our outstanding debt in open market purchases, privately negotiated transactions, through derivative instruments, cash tender offers or otherwise. Repurchases of equity and debt may be funded by cash, the incurrence of additional debt or the issuance of equity (including shares of preferred stock) or convertible securities and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material. We may also elect to incur additional debt or issue equity (including shares of preferred stock) or convertible securities to finance ongoing operations or to meet our other liquidity needs. Any issuances of equity

(including shares of preferred stock) or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact earnings per share in future periods. Our credit ratings were downgraded during the past several years, which may impact our ability to access such transactions on favorable terms, if at all. For more information, see "Risk Factors -Our credit ratings were downgraded during the past several years, which could limit our access to financing, affect the market price of our financing and increase financing costs. A further downgrade in our credit ratings may adversely affect our access to liquidity," "Risk Factors - Our indebtedness and any future inability to meet any of our obligations under our indebtedness, could adversely affect us by reducing our flexibility to respond to changing business and economic conditions" and "Risk Factors - A general economic downturn, a recession globally or in one or more of our geographic regions or markets or sudden disruption in business conditions or other challenges may adversely affect our business, our access to liquidity and capital, and our credit ratings" included in Item 1A on pages 7 through 20 of our 2018 Annual Report.

Our liquidity could also be negatively impacted by restructuring initiatives, dividends, capital expenditures, acquisitions, and certain contingencies, including any legal or regulatory settlements, described more fully in Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report. See our Cautionary Statement for purposes of the "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995 on pages 1 through 2 of our 2018 Annual Report.

Balance Sheet Data

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | $532.7 | $881.5 |
| Total debt | 1,593.6 | 1,897.9 |
| Working capital | 265.5 | 673.7 |

Cash Flows

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net cash from continuing operating activities | $92.7 | $271.2 | $128.0 |
| Net cash from continuing investing activities | (93.4) | (69.6) | (82.7) |
| Net cash from continuing financing activities | (306.9) | — | 137.0 |
| Effect of exchange rate changes on cash and equivalents | (37.5) | 34.1 | (50.4) |

Net Cash from Continuing Operating Activities

Net cash provided by continuing operating activities during 2018 was approximately $93 as compared to net cash provided by continuing operating activities of approximately $271 during 2017, a decrease of approximately $178. The year-over-year comparison of net cash used by continuing operating activities was unfavorably impacted by lower cash-related earnings and higher inventory purchases. These unfavorable impacts to the year-over-year comparison of cash from operating activities were partially offset by the judicial deposit receipt of approximately $68 relating to Brazil IPI taxes (described more fully in Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report) and lower net receivables.

Net cash provided by continuing operating activities during 2017 was approximately $271 as compared to approximately $128 during 2016, an increase of approximately $143. The year-over-year comparison was unfavorably impacted by approximately $27 of proceeds, net of legal fees, related to settling claims relating to professional services in connection with a previously disclosed legal matter, which was received in 2016. This unfavorable impact was partially offset by an injunction we received in May 2016 for cash deposits associated with IPI in Brazil. As a result, we were not required to make cash deposits in 2017, while we paid approximately $19 for these cash deposits in 2016, prior to May. See Note 19, Contingencies on pages F-57 through F-59 of our 2018 Annual Report for additional information on the IPI taxes.

The remaining approximate $135 benefit to the year-over-year comparison of net cash provided by continuing operating activities was primarily due to improvements in working capital, most significantly from lower purchases of inventory and the timing of payments, as well as lower net receivables.

We maintain defined benefit pension plans and unfunded supplemental pension benefit plans (see Note 14, Employee Benefit

Plans on pages F-42 through F-50 of our 2018 Annual Report). Our funding policy for these plans is based on legal requirements and available cash flows. The amounts necessary to fund future obligations under these plans could vary depending on estimated assumptions (as detailed in "Critical Accounting Estimates - Pension and Postretirement Expense" in
this MD&A). The future funding for these plans will depend on economic conditions, employee demographics, mortality rates,
the number of associates electing to take lump-sum distributions, investment performance and funding decisions. Based on

current assumptions, we expect to make contributions in the range of $5 to $10 to our U.S. defined benefit pension and postretirement plans and in the range of $10 to $15 to our non-U.S. defined benefit pension and postretirement plans during 2019.

Net Cash from Continuing Investing Activities

Net cash used by continuing investing activities during 2018 was approximately $93, as compared to approximately $70 during 2017. The approximate $23 increase to net cash used by continuing investing activities was primarily due to an approximate $22 cash distribution received from New Avon LLC in the third quarter of 2017.

Net cash used by continuing investing activities during 2017 was approximately $70, as compared to approximately $83 during 2016. The approximate $13 decrease to net cash used by continuing investing activities was primarily due to an approximate $22 cash distribution received from New Avon in the third quarter of 2017, partially offset by lower asset disposals as compared to the prior-year period. See Note 4, Investment in New Avon on page F-26 of our 2018 Annual Report for more information on the cash distribution received from New Avon.

Capital expenditures during 2018 were approximately $95 compared with approximately $97 during 2017 and approximately $93 during 2016.

Capital expenditures in 2019 are currently expected to be in the range of $120 to $140 and are expected to be funded by cash from operations.

Net Cash from Continuing Financing Activities

Net cash used by continuing financing activities during 2018 was approximately $307, as compared to zero in 2017. The approximate $307 unfavorable impact to net cash used by continuing financing activities was primarily due to a $238 repayment of debt in the second quarter of 2018 plus a make-whole premium of $6, as well as open market repurchases of $48 in the fourth quarter of 2018.

Net cash provided by continuing financing activities during 2017 was zero, as compared to approximately $137 during 2016. The approximate $137 decrease to net cash provided by continuing financing activities was primarily due to the net proceeds related to the $500 principal amount of 7.875% Senior Secured Notes issued in the August 2016 and the net proceeds from the sale of series C preferred stock. These drivers were partially offset by the repayment of certain of our debt in 2016 of approximately $720 in the aggregate and higher repayments of short-term debt in the prior-year period. See Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report and Note 18, Series C Convertible Preferred Shares on page F-57 of our 2018 Annual Report for more information.

We purchased approximately 1.1 million shares of our common stock for $3.2 during 2018, as compared to 1.6 million shares of our common stock for $7.2 during 2017 and 1.4 million shares for $5.6 during 2016, through acquisition of stock from employees in connection with tax payments upon vesting of restricted stock units and upon vesting of performance restricted stock units in 2018, 2017 and 2016.

We did not declare a dividend for 2018 or 2017 as we suspended the dividend effective in the first quarter of 2016.

Debt and Contractual Financial Obligations and Commitments

At December 31, 2018, our debt and contractual financial obligations and commitments by due dates were as follows:

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and Beyond | Total |
|---|---|---|---|---|---|---|---|
| Short-term debt | $11.0 | $— | $— | $— | $— | $ — | $11.0 |
| Long-term debt | — | 387.0 | — | 500.0 | 461.9 | 243.8 | 1,592.7 |
| Capital lease obligations | 1.1 | .6 | .4 | .2 | 0.1 | .1 | 2.5 |
| Total debt | 12.1 | 387.6 | 0.4 | 500.2 | 462.0 | 243.9 | 1,606.2 |
| Debt-related interest[1] | 119.1 | 98.8 | 93.5 | 78.7 | 28.5 | 21.8 | 440.4 |
| Total debt-related | 131.2 | 486.4 | 93.9 | 578.9 | 490.5 | 265.7 | 2,046.6 |
| Operating leases[2] | 45.4 | 29.4 | 22.6 | 18.1 | 9.2 | 5.6 | 130.3 |
| Purchase obligations | 345.6 | 186.4 | 87.5 | 37.1 | 7.9 | 5.9 | 670.4 |
| Benefit obligations[3] | 58.5 | 12.7 | 12.7 | 12.3 | 12.7 | 57.5 | 166.4 |
| Total debt and contractual financial obligations and commitments[4] | $580.7 | $714.9 | $216.7 | $646.4 | $520.3 | $ 334.7 | $3,013.7 |

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(1) Amounts are based on our current long-term credit ratings. See Note 8, Debt and Other Financing on pages F-30 through F-33 of our 2018 Annual Report for more information.

(2) Amounts are net of expected sublease rental income. See Note 16, Leases and Commitments on page F-52 of our 2018 Annual Report for more information.

(3) Amounts represent expected future benefit payments for our unfunded defined benefit pension and postretirement benefit plans, as well as expected contributions for 2019 to our funded defined benefit pension benefit plans. We are not able to estimate our contributions to our funded defined benefit pension and postretirement plans beyond 2019.

(4) The amount of debt and contractual financial obligations and commitments excludes amounts due under derivative transactions. The table also excludes information on non-binding purchase orders of inventory. The table does not include any reserves for uncertain income tax positions because we are unable to reasonably predict the ultimate amount or timing of settlement of these uncertain income tax positions. At December 31, 2018, our reserves for uncertain income tax positions, including interest and penalties, totaled approximately $107.

See Note 8, Debt and Other Financing, and Note 16, Leases and Commitments on pages F-30 to F-33, and on page F-52, respectively, of our 2018 Annual Report for more information on our debt and contractual financial obligations and commitments. Additionally, as disclosed in Note 17, Restructuring Initiatives on pages F-53 through F-56 of our 2018 Annual Report, at December 31, 2017, we have liabilities of approximately $59 associated with our restructuring actions, primarily associated with our Transformation Plan. The majority of future cash payments associated with these restructuring liabilities are expected to be made during 2019.

Off Balance Sheet Arrangements

At December 31, 2018, we had no material off-balance-sheet arrangements.

Capital Resources

Revolving Credit Facility

In June 2015, Avon International Operations, Inc. ("AIO"), a wholly-owned domestic subsidiary of the Company, entered into a five-year $400.0 senior secured revolving credit facility (the “2015 facility”). In December 2017, AIO entered into an amendment to the 2015 facility, which, among other things, modified the financial covenants (interest coverage and total leverage ratios) to provide the Company additional flexibility. As of December 31, 2018, there were no amounts outstanding under the 2015 facility.

In February 2019, Avon International Capital, p.l.c. ("AIC"), a wholly-owned foreign subsidiary of the Company, entered into a three-year €200.0 senior secured revolving credit facility (the “2019 facility”). The 2019 facility replaced the 2015 facility and the 2015 facility was terminated at such time. Borrowings under the 2019 facility bear interest at our option, at a rate per annum, equal to either LIBOR or EURIBOR (for any loan in euros) plus 225 basis points, in each case subject to adjustment based upon a leveraged-based pricing grid. The 2019 facility may be used for general corporate and working capital purposes. There are no amounts outstanding under the 2019 facility. The amount available to be drawn on under the 2019 facility is reduced by any standby letters of credit granted by AIC or any Obligor under the 2019 facility, including the standby letters of credit granted by AIO under the 2015 facility that were rolled over into the 2019 facility, which, as of December 31, 2018, were approximately $29.

All obligations of AIC under the 2019 facility are unconditionally guaranteed by the Company, AIO and each other material United States or English restricted subsidiary of the Company (collectively, the “Obligors”), in each case, subject to certain exceptions. The obligations of the Obligors are secured by first priority liens on and security interests in substantially all of the assets of the Obligors, in each case, subject to certain exceptions.

The 2019 facility will terminate in February 2022; provided, however, that it shall terminate on the 91st day prior to the maturity of the 4.60% Notes, if on such 91st day, the applicable notes are not redeemed, repaid, discharged, defeased or otherwise refinanced in full.

The 2019 facility contains affirmative and negative covenants, which are customary for secured financings of this type, as well as financial covenants (interest coverage and total leverage ratios). Depending on our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), it is possible that we may become non-compliant with our interest coverage or total leverage ratio absent the Company undertaking other alternatives to avoid noncompliance, such as obtaining additional amendments to the 2019 facility or

repurchasing certain debt. If we were to be non-compliant with our interest coverage or total leverage ratio, we would no longer have access to our 2019 facility and our credit ratings may be downgraded.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The overall objective of our financial risk management program is to reduce the potential negative effects from changes in foreign exchange and interest rates arising from our business activities. We may reduce our exposure to fluctuations in fair value or cash flows associated with changes in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments and through operational means. Since we may use foreign currency rate-sensitive instruments to hedge a portion of our existing and forecasted transactions, we expect that any loss in value for the hedge instruments generally would be offset by changes in the value of the underlying transactions.

We do not enter into derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives. The master agreements governing our derivative contracts generally contain standard provisions that could trigger early termination of the contracts in some 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.

Interest Rate Risk

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

Our long-term borrowings were analyzed at year-end to determine their sensitivity to interest rate changes. Based on the outstanding balance of all these financial instruments at December 31, 2018, a hypothetical 50-basis-point change (either an increase or a decrease) in interest rates prevailing at that date, sustained for one year, would not represent a material potential change in fair value, earnings or cash flows. This potential change was calculated based on DCF analyses using interest rates comparable to our current cost of debt.

Foreign Currency Risk

We conduct business globally, with operations in various locations around the world. Over the past three years, all of our consolidated revenue was derived from operations of subsidiaries outside of the United States ("U.S."). The functional currency for most of our foreign operations is their local currency. We are exposed to changes in financial market conditions in the normal course of our operations, primarily due to international businesses and transactions denominated in foreign currencies and the use of various financial instruments. We are not able to project, in any meaningful way, the possible effect of these foreign currency fluctuations on translated amounts or future earnings. At December 31, 2018, the primary foreign currencies for which we had net underlying foreign currency exchange rate exposures were the Argentine peso, Brazilian real, British pound, Chilean peso, Colombian peso, the euro, Mexican peso, Peruvian new sol, Philippine peso, Polish zloty, Romanian leu, Russian ruble, South African rand, Turkish lira and Ukrainian hryvnia.

We may reduce our exposure to fluctuations in fair value or cash flows associated with changes in foreign exchange rates by creating offsetting positions, including through the use of derivative financial instruments. Our hedges of our foreign currency exposure are not designed to, and, therefore, cannot entirely eliminate the effect of changes in foreign exchange rates on our consolidated financial position, results of operations and cash flows.

Our foreign-currency financial instruments were analyzed at year-end to determine their sensitivity to foreign exchange rate changes. Based on our outstanding foreign exchange contracts at December 31, 2018, all of which were taken out to hedge underlying foreign currency exposures, a hypothetical 10% appreciation of the U.S. dollar against our foreign exchange contracts would reduce earnings by $105 and a hypothetical 10% depreciation of the U.S. dollar against our foreign exchange contracts would increase earnings by $128. This hypothetical analysis does not consider our underlying foreign currency exposures. The hypothetical impact was calculated on the open positions using forward rates at December 31, 2018, adjusted for an assumed 10% appreciation or 10% depreciation of the U.S. dollar against these hedging contracts.

Credit Risk of Financial Instruments

At times, we attempt to minimize our credit exposure to counterparties by entering into derivative transactions and similar agreements with major international financial institutions with "A-" or higher credit ratings as issued by Standard & Poor’s Corporation. Our foreign currency derivatives are typically comprised of over-the-counter forward contracts, swaps or options with major international financial institutions. Although our theoretical credit risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring credit risk losses is remote and that such losses, if any, would not be material.

Non-performance of the counterparties on the balance of all the foreign exchange agreements would have resulted in a write-off of $1.3 at December 31, 2018. In addition, in the event of non-performance by such counterparties, we would be exposed to market risk on the underlying items being hedged as a result of changes in foreign exchange rates.

See Note 11, Financial Instruments and Risk Management on pages F-37 through F-38 of our 2018 Annual Report for more information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Index on page F-1 of our Consolidated Financial Statements and Notes thereto contained herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our principal executive and principal financial officers carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon their evaluation, the principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of December 31, 2018, at the reasonable assurance level. Disclosure controls and procedures are designed to ensure that information relating to Avon (including our consolidated subsidiaries) required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission’s rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management to allow timely decisions regarding disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is defined as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed as of December 31, 2018, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our assessment using those criteria, our management concluded that our internal control over financial

reporting as of December 31, 2018, was effective.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this 2018 Annual Report on Form 10-K, has audited the effectiveness of our internal control over financial reporting as of December 31, 2018. Their 2018 report is included on pages F-2 through F-4 of our 2018 Annual Report.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Information regarding directors is incorporated by reference to the proposal titled "Election of Directors" and the "Information Concerning the Board of Directors" sections of our proxy statement for the 2019 Annual Meeting of Shareholders ("2019 Proxy Statement").

Executive Officers

Information regarding executive officers is incorporated by reference to the "Executive Officers" section of our 2019 Proxy Statement.

Section 16(a) Beneficial Ownership Reporting Compliance

This information is incorporated by reference to the "Section 16(a) Beneficial Ownership Reporting Compliance" section of our 2019 Proxy Statement.

Code of Conduct

We have adopted a Code of Conduct, amended in June 2013, that applies to all members of the Board of Directors and to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer or controller. Our Code of Conduct is available, free of charge, on our investor website, www.avoninvestor.com. Our Code of Conduct is also available, without charge, by sending a letter to Investor Relations, Avon Products, Inc., 601 Midland Avenue, Rye, N.Y. 10580, by sending an email to investor.relations@avon.com or by calling (203) 682-8200. None of the provisions of the Code of Conduct may be waived. However, any amendment to, or waiver from, the provisions of the Code of Conduct that applies to any of those officers would be posted to the same location on our website in accordance with applicable rules.

Audit Committee; Audit Committee Financial Expert

This information is incorporated by reference to the "Information Concerning the Board of Directors" section of our 2019 Proxy Statement.

Material Changes in Nominating Procedures

This information is incorporated by reference to the "Information Concerning the Board of Directors" section of our 2019 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference to the "Information Concerning the Board of Directors," "Executive Compensation" and "Director Compensation" sections of our 2019 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is incorporated by reference to the "Equity Compensation Plan Information" and "Ownership of Shares" sections of our 2019 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This information is incorporated by reference to the "Information Concerning the Board of Directors" and "Transactions with Related Persons" sections of our 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This information is incorporated by reference to the proposal titled "Ratification of Appointment of Independent Registered Public Accounting Firm" section of our 2019 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) 1. Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm

See Index on page F-1.

(a) 2. Financial Statement Schedule

See Index on page F-1.

All other schedules are omitted because they are not applicable or because the required information is shown in the consolidated financial statements and notes.

(a) 3. Index to Exhibits

| Exhibit Number | Description |
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| 2.1 | Separation and Investment Agreement, dated as of December 17, 2015, by and among Avon Products, Inc., C-A NA LLC and Cleveland NA Investors LLC (incorporated by reference to Exhibit 2.1 to Avon's Current Report on Form 8-K filed on December 21, 2015). |
| 3.1 | Restated Certificate of Incorporation of Avon Products, Inc., as amended with the Secretary of State of the State of New York most recently on January 3, 2019. |
| 3.2 | By-Laws of Avon Products, Inc., effective October 6, 2016 (incorporated by reference to Exhibit 3.2 to Avon's Current Report on Form 8-K filed on October 13, 2016). |
| 4.1 | Indenture, dated as of February 27, 2008, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee (incorporated by reference to Exhibit 4.5 to Avon's Current Report on Form 8-K filed on March 4, 2008). |
| 4.2 | Sixth Supplemental Indenture, dated as of March 12, 2013, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee, with respect to the issuance of the 4.600% Notes due 2020 (incorporated by reference to Exhibit 4.3 to Avon's Current Report on Form 8-K filed on March 13, 2013). |
| 4.3 | Seventh Supplemental Indenture, dated as of March 12, 2013, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee, with respect to the issuance of the 5.000% Notes due 2023 (incorporated by reference to Exhibit 4.4 to Avon's Current Report on Form 8-K filed on March 13, 2013). |
| 4.4 | Eighth Supplemental Indenture, dated as of March 12, 2013, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee, with respect to the issuance of the 6.950% Notes due 2043 (incorporated by reference to Exhibit 4.5 to Avon's Current Report on Form 8-K filed on March 13, 2013). |
| 4.5 | Indenture, dated August 15, 2016, among Avon International Operations, Inc., the guarantors party thereto and Deutsche Bank Trust Company Americas, as trustee and collateral agent (incorporated by reference to Exhibit 4.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017). |
| 10.1* | Avon Products, Inc. 2005 Stock Incentive Plan (incorporated by reference to Appendix G to Avon's Proxy Statement as filed on March 28, 2005). |
| 10.2* | First Amendment of the Avon Products, Inc. 2005 Stock Incentive Plan, effective January 1, 2006 (incorporated by reference to Exhibit 10.12 to Avon's Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.3* | Second Amendment of the Avon Products, Inc. 2005 Stock Incentive Plan, effective January 1, 2007 (incorporated by reference to Exhibit 10.13 to Avon's Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.4* | Third Amendment to the Avon Products, Inc. 2005 Stock Incentive Plan, dated October 2, 2008 (incorporated by reference to Exhibit 10.14 to Avon's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 10.5* | Fourth Amendment to the Avon Products, Inc. 2005 Stock Incentive Plan, dated March 1, 2016. (incorporated by reference to Exhibit 10.7 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016). |
| 10.6* | Form of U.S. Stock Option Agreement under the Avon Products, Inc. Year 2005 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to Avon's Current Report on Form 8-K filed on September 6, |

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| | 2005). |
| 10.7* | Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Appendix E to Avon's Proxy Statement as filed on March 25, 2010). |
| 10.8* | First Amendment to the Avon Products, Inc. 2010 Stock Incentive Plan, dated March 1, 2016 (incorporated by reference to Exhibit 10.6 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016). |

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| 10.9* | Form of Stock Option Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on May 24, 2010). |
| 10.10* | Form of Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon's Current Report on Form 8-K filed on May 24, 2010). |
| 10.11* | Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Avon's Current Report on Form 8-K filed on May 24, 2010). |
| 10.12* | Form of Performance Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 8, 2011). |
| 10.13* | Form of Performance Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.21 to Avon's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 10.14* | Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon's Current Report on Form 8-K filed on March 8, 2011). |
| 10.15* | Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012). |
| 10.16* | Form of Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012). |
| 10.17* | Avon Products, Inc. 2013 Stock Incentive Plan (incorporated by reference to Appendix A to Avon's Proxy Statement as filed on April 2, 2013). |
| 10.18* | Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated (incorporated by reference to Appendix A to Avon's Proxy Statement as filed on March 27, 2015). |
| 10.19* | First Amendment to the Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated, dated March 1, 2016 (incorporated by reference to Exhibit 10.5 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016). |
| 10.20* | Form of Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Avon's Current Report on Form 8-K filed on May 7, 2013). |
| 10.21* | Form of Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015). |
| 10.22* | Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to Avon's Current Report on Form 8-K filed on May 7, 2013). |
| 10.23* | Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.3 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015). |
| 10.24* | Form of Performance Contingent Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to Avon's Current Report on Form 8-K filed on May 7, 2013). |
| 10.25* | Form of Performance Contingent Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.4 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015). |
| 10.26* | Form of Stock Option Award Agreement under the Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.11 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016). |

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| 10.27* | Avon Products, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Appendix B to Avon's Proxy Statement as filed on April 15, 2016). |
| 10.28* | Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon's Current Report on Form 8-K filed on May 26, 2016). |
| 10.29* | Form of Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to Avon's Current Report on Form 8-K filed on May 26, 2016). |
| 10.30* | Form of Performance Contingent Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to Avon's Current Report on Form 8-K filed on May 26, 2016). |
| 10.31* | Form of Stock Option Award Agreement under the Avon Products, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 to Avon's Current Report on Form 8-K filed on May 26, 2016). |

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| 10.32* | Form of Stock Appreciation Right Certificate Agreement under the Avon Products, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.6 to Avon's Current Report on Form 8-K filed on May 26, 2016). |
| 10.33* | Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.20 to Avon's Annual Report on Form 10-K for the year ended December 31, 2007). |
| 10.34* | First Amendment, dated as of December 7, 2010, to the Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.22 to Avon's Annual Report on Form 10-K for the year ended December 31, 2010). |
| 10.35* | Second Amendment, dated March 2, 2011, to the Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.4 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011). |
| 10.36* | Third Amendment, dated November 10, 2014, to the Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.27 to Avon's Annual Report on Form 10-K for the year ended December 31, 2014). |
| 10.37* | Fourth Amendment, dated February 29, 2016, to the Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.10 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016). |
| 10.38* | Avon Products, Inc. Compensation Plan for Non-Employee Directors, amended and restated as of May 6, 2010 (incorporated by reference to Exhibit 10.5 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010). |
| 10.39* | Avon Products, Inc. Compensation Plan for Non-Employee Directors, amended and restated as of January 1, 2013 (incorporated by reference to Exhibit 10.28 to Avon's Annual Report on Form 10-K/A for the year ended December 31, 2012). |
| 10.40* | Avon Products, Inc. Compensation Plan for Non-Employee Directors, amended and restated as of February 8, 2016 (incorporated by reference to Exhibit 10.29 to Avon's Annual Report on Form 10-K for the year ended December 31, 2015). |
| 10.41* | Board of Directors of Avon Products, Inc. Deferred Compensation Plan, amended and restated as of May 6, 2010 (incorporated by reference to Exhibit 10.6 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010). |
| 10.42* | Avon Products, Inc. 2013-2017 Executive Incentive Plan (incorporated by reference to Appendix B to Avon's Proxy Statement as filed on April 2, 2013). |
| 10.43* | First Amendment, dated March 1, 2016, to Avon Products, Inc. 2013-2017 Executive Incentive Plan (incorporated by reference to Exhibit 10.8 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016). |
| 10.44* | Benefit Restoration Pension Plan of Avon Products, Inc., as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.26 to Avon's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 10.45* | First Amendment, dated as of December 13, 2010, to the Benefit Restoration Pension Plan of Avon Products, Inc., as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.32 to Avon's Annual report on Form 10-K for the year ended December 31, 2011). |
| 10.46* | Second Amendment, dated as of September 19, 2012, to the Benefit Restoration Pension Plan of Avon Products, Inc., as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.3 to Avon's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012). |
| 10.47* | Third Amendment, dated as of November 10, 2014, to the Benefit Restoration Pension Plan of Avon Products, Inc., as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.35 to Avon's Annual Report on Form 10-K for the year ended December 31, 2014). |
| 10.48* | Fourth Amendment, dated February 29, 2016, to the Benefit Restoration Pension Plan of Avon Products, Inc., as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.9 to Avon's Quarterly |

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| | Report on Form 10-Q for the quarter ended March 31, 2016). |
| 10.49* | Avon Products, Inc. Management Incentive Plan, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.50 to Avon's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 10.50* | Avon Products, Inc. Management Incentive Plan, amended and restated effective as of January 1, 2015 (incorporated by reference to Exhibit 10.50 to Avon's Annual Report on Form 10-K for the year ended December 31, 2017). |
| 10.51* | Avon Products, Inc. Long-Term Cash Bonus Plan, effective as of January 1, 2015 (incorporated by reference to Exhibit 10.51 to Avon's Annual Report on Form 10-K for the year ended December 31, 2017). |
| 10.52* | Avon Products, Inc. Compensation Recoupment Policy (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 17, 2010). |

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| 10.53* | Avon Products, Inc. Amended and Restated Compensation Recoupment Policy, effective as of January 14, 2013 (incorporated by reference to Exhibit 10.41 to Avon's Annual Report on Form 10-K/A for the year ended December 31, 2012). |
| 10.54* | Avon Products, Inc. Change in Control Policy (incorporated by reference to Exhibit 10.2 to Avon's Current Report on Form 8-K filed on March 17, 2010). |
| 10.55* | Avon Products, Inc. Amended and Restated Change in Control Policy, dated as of January 9, 2013 (incorporated by reference to Exhibit 10.43 to Avon's Annual Report on Form 10-K/A for the year ended December 31, 2012). |
| 10.56* | Avon Products, Inc. Long Term Incentive Cash Plan, effective as of January 1, 2011 (incorporated by reference to Exhibit 10.5 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011). |
| 10.57* | Avon Products, Inc. International Retirement Plan, amended and restated effective as of January 1, 2009 (incorporated by reference to Exhibit 10.5 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015). |
| 10.58* | First Amendment, dated as of December 13, 2010, to the Avon Products, Inc. International Retirement Plan as amended and restated effective as of January 1, 2009 (incorporated by reference to Exhibit 10.6 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015). |
| 10.59* | Employment Offer Letter and Contract of Employment Agreement dated February 3, 2018, between Avon Cosmetics Limited and Jan Zijderveld (incorporated by reference to Exhibit 10.3 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.60* | International Relocation Letter Agreement, dated February 3, 2018, between Avon Cosmetics Limited and Jan Zijderveld (incorporated by reference to Exhibit 10.4 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.61* | Sign-On Restricted Stock Unit Award Agreement, dated as of February 3, 2018, between Avon Products, Inc. and Jan Zijderveld (incorporated by reference to Exhibit 10.5 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.62* | Performance-Contingent Restricted Stock Unit Award Agreement, for award granted effective March 14, 2018, between Avon Products, Inc. and Jan Zijderveld. (incorporated by reference to Exhibit 10.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018). |
| 10.63* | Option Agreement, for award granted effective March 14, 2018, between Avon Products, Inc. and Jan Zijderveld. (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018). |
| 10.64* | Sign-On Performance-Contingent Restricted Stock Unit Award Agreement, for award granted effective March 27, 2018, between Avon Products, Inc. and Jan Zijderveld. (incorporated by reference to Exhibit 10.3 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018). |
| 10.65* | Letter Agreement, dated as of April 4, 2012, between the Company and Sheri McCoy (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on April 10, 2012) as modified by the "CEO stock holding requirement" adopted on March 13, 2014 (incorporated by reference to Exhibit 10.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014). |
| 10.66* | International Assignment Letter Agreement, dated July 20, 2016, between Avon Products, Inc. and Sheri McCoy (incorporated by reference to Exhibit 10.59 to Avon's Annual Report on Form 10-K for the year ended December 31, 2016). |
| 10.67* | |

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| | Restricted Stock Unit Award Agreement, dated as of April 23, 2012 between the Company and Sheri McCoy (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012). |
| 10.68* | Letter Agreement, by and between Avon Products, Inc. and Sherilyn McCoy, dated as of August 2, 2017 (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on August 4, 2017). |
| 10.69* | Severance Benefit Letter Agreement and General Release of Claims, entered into on April 9, 2018 between the Company and Sheri McCoy. (incorporated by reference to Exhibit 10.4 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018). |
| 10.70* | Employment Offer Letter and Contract of Employment Agreement, effective December 11, 2018, between Avon Cosmetics Limited and Gustavo Arnal. |
| 10.71* | Employment Offer Letter and Contract of Employment Agreement dated November 28, 2016, between Avon Cosmetics Limited and James Wilson (incorporated by reference to Exhibit 10.67 to Avon's Annual Report on Form 10-K for the year ended December 31, 2016). |
| 10.72* | Employment Offer Letter and Contract of Employment Agreement dated June 12, 2017, between Avon Cosmetics Limited and Miguel Fernandez (incorporated by reference to Exhibit 10.9 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.73* | International Relocation Letter Agreement, dated June 12, 2017, between Avon Cosmetics Limited and Miguel Fernandez. (incorporated by reference to Exhibit 10.10 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |

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|---|---|
| 10.74* | Amendment, dated August 6, 2018, to Miguel Fernandez Relocation Letter dated June 12, 2017 (incorporated by reference to Exhibit 10.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018). |
| 10.75* | Employment Offer Letter and Contract of Employment Agreement dated May 18, 2017, between Avon Cosmetics Limited and James Thompson (incorporated by reference to Exhibit 10.6 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.76* | International Relocation Letter Agreement, dated May 18, 2017, between Avon Cosmetics Limited and James Thompson (incorporated by reference to Exhibit 10.7 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.77* | International Assignment Letter Agreement, dated August 8, 2016, between Avon Products, Inc. and Susan Ormiston (incorporated by reference to Exhibit 10.8 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018). |
| 10.78 | Revolving Credit Agreement, dated as of June 5, 2015, among Avon Products, Inc., Avon International Operations, Inc., the banks and other lenders party thereto, Citibank, N.A., as Administrative Agent, Collateral Agent and an L/C issuer (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on June 8, 2015). |
| 10.79 | First Amendment to Credit Agreement and General Security Agreement (Revolving Credit Agreement), dated as of December 7, 2015, among Avon Products, Inc., Avon International Operations, Inc., the banks and other lenders party thereto, Citibank, N.A., as Administrative Agent, Collateral Agent and an L/C issuer (incorporated by reference to Exhibit 10.53 to Avon's Annual Report on Form 10-K for the year ended December 31, 2015). |
| 10.80 | Second Amendment to Credit Agreement and General Security Agreement and First Amendment to API Limited Recourse Guaranty, dated August 1, 2016 (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on August 2, 2016). |
| 10.81 | Third Amendment to Credit Agreement, dated December 21, 2017 (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on December 21, 2017). |
| 10.82 | Multicurrency Revolving Facility Agreement, dated as of February 12, 2019, by and among Avon International Capital p.l.c., as borrower, Avon Products, Inc., the other obligors party thereto from time to time, the lenders party thereto from time to time, Citibank Europe plc, UK Branch, as agent, Citibank, N.A., London Branch, as common security agent, and the other parties party thereto from time to time (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on February 14, 2019). |
| | . |
| 10.83 | Investment Agreement, dated as of December 17, 2015, between Avon Products, Inc. and Cleveland Apple Investor LLC (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on December 21, 2015). |
| 10.84 | Investor Rights Agreement, dated as of March 1, 2016, between Avon Products, Inc. and Cleveland Apple Investor L.P. (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 7, 2016). |
| 10.85 | Intellectual Property License Agreement, dated as of March 1, 2016, among Avon Products, Inc., Avon International Operations, Inc., Avon NA IP LLC and New Avon LLC (incorporated by reference to Exhibit 10.2 to Avon's Current Report on Form 8-K filed on March 7, 2016). |
| 10.86 | Agreement, dated as of March 27, 2016, between Avon Products, Inc. and an investor group led by Barington Capital Group, L.P. (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 28, 2016). |
| 10.87 | |

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| | Nomination Agreement, dated March 26, 2018, by and among Avon Products, Inc., Barington Companies Equity Partners, L.P., Barington Companies Investors, LLC, Barington Companies Management, LLC, Barington Capital Group, L.P., James A. Mitarotonda, LNA Capital Corp., NuOrion Advisors, LLC, Guy Phillips, Shah Capital Management, Inc., Shah Capital Opportunity Fund, L.P., Shah Capital, LLC and Himanshu H. Shah (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 26, 2018) |
| 10.88 | Confidentiality Agreement, dated March 26, 2018, by and among Avon Products, Inc., James A. Mitarotonda, Barington Companies Equity Partners, L.P., Barington Capital Group, L.P., Barington Companies Investors, LLC and Barington Companies Management, LLC (incorporated by reference to Exhibit 10.2 to Avon's Current Report on Form 8-K filed on March 26, 2018) |
| 21 | Subsidiaries of the registrant. |
| 23.1 | Consent of PricewaterhouseCoopers LLP (United Kingdom). |
| 23.2 | Consent of PricewaterhouseCoopers LLP (United States). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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|---|---|
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Shareholders' Equity (Deficit), (vi) Notes to Consolidated Financial Statements and (vi) Schedule of Valuation and Qualifying Accounts. |
| * | The Exhibits identified above with an asterisk (*) are management contracts or compensatory plans or arrangements. |

Avon's Annual Report on Form 10-K for the year ended December 31, 2018, at the time of filing with the United States Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended, for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933, which incorporates by reference such Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 21st day of February 2019.

Avon Products, Inc.

/s/ Laura Barbrook
Laura Barbrook
Vice President and Corporate Controller - Principal Accounting Officer

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Jan Zijderveld<br>Jan Zijderveld | Chief Executive Officer – Principal Executive Officer and Director | February 21, 2019 |
| /s/ James Wilson<br>James Wilson | Executive Vice President and Chief Financial Officer - Principal Financial Officer | February 21, 2019 |
| /s/ Jose Armario<br>Jose Armario | Director | February 21, 2019 |
| /s/ W. Don Cornwell<br>W. Don Cornwell | Director | February 21, 2019 |
| /s/ Chan W. Galbato<br>Chan W. Galbato | Director | February 21, 2019 |
| /s/ Nancy Killefer<br>Nancy Killefer | Director | February 21, 2019 |
| /s/ Susan J. Kropf<br>Susan J. Kropf | Director | February 21, 2019 |
| /s/ Helen McCluskey<br>Helen McCluskey | Director | February 21, 2019 |
| | Director | |

| | | |
|---|---|---|
| /s/ Andrew G. McMaster, Jr.<br><br>Andrew G. McMaster, Jr. | | February 21, 2019 |
| /s/ James A. Mitarotonda<br><br>James A. Mitarotonda | Director | February 21, 2019 |
| /s/ Michael F. Sanford<br>Michael F. Sanford | Director | February 21, 2019 |
| /s/ Lenard B. Tessler<br><br>Lenard B. Tessler | Director | February 21, 2019 |

AVON PRODUCTS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE


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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Avon Products, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Avon Products, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and December 31, 2017, and the related consolidated statements of operations, comprehensive income (loss), cash flows and changes in shareholders' equity (deficit) for each of the two years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
London, United Kingdom
February 21, 2019

PricewaterhouseCoopers LLP (United Kingdom) has served as the Company’s auditor since 2017.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Avon Products, Inc.:
In our opinion, the consolidated statements of operations, comprehensive income, changes in shareholders' equity (deficit) and cash flows or the period from January 1, 2016 to December 31, 2016 present fairly, in all material respects, the results of operations and cash flows of Avon Products Inc. and its subsidiaries for the period from January 1, 2016 to December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) for the year ended December 31, 2016 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 22, 2017

AVON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

| Years ended December 31 | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net sales | $5,247.7 | $5,565.1 | $5,578.8 |
| Other revenue | 323.6 | 150.5 | 138.9 |
| Total revenue | 5,571.3 | 5,715.6 | 5,717.7 |
| Costs, expenses and other: | | | |
| Cost of sales | 2,364.0 | 2,203.3 | 2,257.0 |
| Selling, general and administrative expenses | 2,972.1 | 3,231.0 | 3,136.9 |
| Operating profit | 235.2 | 281.3 | 323.8 |
| Interest expense | 134.6 | 140.8 | 136.6 |
| Loss (gain) on extinguishment of debt | 0.7 | — | (1.1) |
| Interest income | (15.3) | (14.8) | (15.8) |
| Other expense, net | 7.1 | 34.6 | 172.9 |
| Total other expenses | 127.1 | 160.6 | 292.6 |
| Income from continuing operations, before taxes | 108.1 | 120.7 | 31.2 |
| Income taxes | (129.9) | (100.7) | (124.6) |
| (Loss) income from continuing operations, net of tax | (21.8) | 20.0 | (93.4) |
| Loss from discontinued operations, net of tax | — | — | (14.0) |
| Net (loss) income | (21.8) | 20.0 | (107.4) |
| Net loss (income) attributable to noncontrolling interests | 2.3 | 2.0 | (0.2) |
| Net (loss) income attributable to Avon | $(19.5) | $22.0 | $(107.6) |
| Loss per share: | | | |
| Basic from continuing operations | $(0.10) | $0.00 | $(0.25) |
| Basic from discontinued operations | — | — | (0.03) |
| Basic attributable to Avon | (0.10) | 0.00 | (0.29) |
| Diluted from continuing operations | $(0.10) | $0.00 | $(0.25) |
| Diluted from discontinued operations | — | — | (0.03) |
| Diluted attributable to Avon | (0.10) | 0.00 | (0.29) |
| Weighted-average shares outstanding: | | | |
| Basic | 441.9 | 439.7 | 437.0 |
| Diluted | 441.9 | 439.7 | 437.0 |

The accompanying notes are an integral part of these statements.

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

(In millions)

| Years ended December 31 | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net (loss) income | $(21.8) | $20.0 | $(107.4) |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (48.7) | 19.8 | 17.0 |
| Unrealized (losses) gains on revaluation of long-term intercompany balances, net of taxes of $0.0, $0.0 and $0.0 | (58.1) | 62.2 | 21.6 |
| Change in derivative gains on cash flow hedges, net of taxes of $0.0, $0.0 and $2.7 | 0.5 | — | 1.3 |
| Amortization of net actuarial loss and prior service cost, net of taxes of $0.6, $0.8 and $10.9 | 10.5 | 15.6 | 287.3 |
| Adjustments of net actuarial loss and prior service cost, net of taxes of $(1.1), $2.1 and $7.1 | (8.6) | 8.9 | 3.1 |
| Other comprehensive income related to New Avon investment, net of taxes of $0.0, $0.0 and $0.0 | — | 1.2 | 2.2 |
| Total other comprehensive (loss) income, net of taxes | (104.4) | 107.7 | 332.5 |
| Comprehensive (loss) income | (126.2) | 127.7 | 225.1 |
| Less: comprehensive loss attributable to noncontrolling interests | (2.6) | (1.5) | (2.1) |
| Comprehensive (loss) income attributable to Avon | $(123.6) | $129.2 | $227.2 |

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)

| December 31 | 2018 | 2017 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash, including cash equivalents of $36.2 and $116.7 | $532.7 | $881.5 |
| Accounts receivable (less allowances of $93.0 and $138.6) | 349.7 | 457.2 |
| Inventories | 542.0 | 598.2 |
| Prepaid expenses and other | 272.0 | 296.4 |
| Held for sale assets | 65.6 | — |
| Total current assets | 1,762.0 | 2,233.3 |
| Property, plant and equipment, at cost | | |
| Land | 22.6 | 31.3 |
| Buildings and improvements | 502.9 | 646.0 |
| Equipment | 682.3 | 804.6 |
| | 1,207.8 | 1,481.9 |
| Less accumulated depreciation | (650.2) | (779.2) |
| Property, plant and equipment, net | 557.6 | 702.7 |
| Goodwill | 87.4 | 95.7 |
| Other assets | 603.0 | 666.2 |
| Total assets | $3,010.0 | $3,697.9 |
| Liabilities and Shareholders' Deficit | | |
| Current Liabilities | | |
| Debt maturing within one year | $12.0 | $25.7 |
| Accounts payable | 816.5 | 832.2 |
| Accrued compensation | 85.5 | 130.3 |
| Other accrued liabilities | 451.3 | 405.6 |
| Sales and taxes other than income | 103.9 | 153.0 |
| Income taxes | 15.9 | 12.8 |
| Held for sale liabilities | 11.4 | — |
| Total current liabilities | 1,496.5 | 1,559.6 |
| Long-term debt | 1,581.6 | 1,872.2 |
| Employee benefit plans | 128.3 | 150.6 |
| Long-term sales taxes and taxes other than income | — | 193.1 |
| Long-term income taxes | 136.2 | 84.9 |
| Other liabilities | 72.1 | 84.4 |
| Total liabilities | 3,414.7 | 3,944.8 |
| Commitments and contingencies (Notes 16 and 19) | | |
| Series C convertible preferred stock | 492.1 | 467.8 |
| Shareholders' Deficit | | |
| Common stock, par value $.25 - authorized 1,500 shares; issued 761.8 and 758.7 shares | 190.3 | 189.7 |
| Additional paid-in capital | 2,303.6 | 2,291.2 |
| Retained earnings | 2,234.3 | 2,320.3 |
| Accumulated other comprehensive loss | (1,030.4) | (926.2) |
| Treasury stock, at cost (319.4 and 318.4 shares) | (4,602.3) | (4,600.0) |
| Total Avon shareholders' deficit | (904.5) | (725.0) |
| Noncontrolling interests | 7.7 | 10.3 |

| | | |
|---|---|---|
| Total shareholders' deficit | (896.8 ) | (714.7 ) |
| Total liabilities, series C convertible preferred stock and shareholders' deficit | $3,010.0 | $3,697.9 |

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The accompanying notes are an integral part of these statements.

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

| Years ended December 31 | 2018 | 2017 | 2016 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Net (loss) income | $(21.8) | $20.0 | $(107.4) |
| Loss from discontinued operations, net of tax | — | — | 14.0 |
| (Loss) income from continuing operations, net of tax | (21.8) | 20.0 | (93.4) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 81.1 | 84.3 | 83.3 |
| Amortization | 26.6 | 29.7 | 30.6 |
| Provision for doubtful accounts | 162.4 | 221.9 | 190.5 |
| Provision for obsolescence | 113.5 | 36.7 | 36.5 |
| Share-based compensation | 13.8 | 24.2 | 24.0 |
| Foreign exchange losses | 21.2 | 18.1 | 6.1 |
| Deferred income taxes | (49.0) | (30.2) | (8.5) |
| Charge for Argentinian monetary assets and liabilities | (6.3) | — | — |
| Brazil IPI release | (194.7) | — | — |
| Loss on deconsolidation of Venezuela | — | — | 120.5 |
| Other | 18.5 | 39.6 | (3.3) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (102.8) | (214.6) | (216.6) |
| Inventories | (99.6) | (19.2) | (28.6) |
| Prepaid expenses and other | (49.3) | 14.8 | 16.8 |
| Accounts payable and accrued liabilities | 73.1 | 12.3 | (17.6) |
| Income and other taxes | 63.2 | 4.1 | (4.7) |
| Noncurrent assets and liabilities | 42.8 | 29.5 | (7.6) |
| Net cash provided by operating activities of continuing operations | 92.7 | 271.2 | 128.0 |
| Cash Flows from Investing Activities | | | |
| Capital expenditures | (94.9) | (97.3) | (93.0) |
| Disposal of assets | 4.8 | 5.9 | 13.3 |
| Distribution from New Avon LLC | — | 22.0 | — |
| Reduction of cash due to Venezuela deconsolidation | — | — | (4.5) |
| Other investing activities | (3.3) | (.2) | 1.5 |
| Net cash used by investing activities of continuing operations | (93.4) | (69.6) | (82.7) |
| Cash Flows from Financing Activities | | | |
| Debt, net (maturities of three months or less) | (10.7) | 10.3 | (36.4) |
| Proceeds from debt | — | — | 508.7 |
| Repayment of debt | (289.1) | (2.9) | (733.0) |
| Repurchase of common stock | (3.2) | (7.2) | (5.6) |
| Net proceeds from the sale of series C convertible preferred stock | — | — | 426.3 |
| Other financing activities | (3.9) | (.2) | (23.0) |
| Net cash (used) provided by financing activities of continuing operations | (306.9) | — | 137.0 |
| Cash Flows from Discontinued Operations | | | |
| Net cash (used) provided by operating activities of discontinued operations | — | (8.6) | (67.6) |
| Net cash used by investing activities of discontinued operations | — | — | (94.6) |
| Net cash (used) provided by discontinued operations | — | (8.6) | (162.2) |
| Effect of exchange rate changes on cash and cash equivalents | (37.5) | 34.1 | (50.4) |
| Net (decrease) increase in cash and cash equivalents | (345.1) | 227.1 | (30.3) |
| Cash and cash equivalents at beginning of year[(1)] | 881.5 | 654.4 | 684.7 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at end of year[(2)] | $536.4 | $881.5 | $654.4 |
| Cash paid for: | | | |
| Interest | $139.0 | $141.7 | $142.8 |
| Income taxes, net of refunds received | $87.4 | $132.2 | $143.3 |

(1) Includes cash and cash equivalents of discontinued operations of $(2.2) at the beginning of the year in 2016

(2) Includes cash and cash equivalents of $3.7 classified as Held for sale assets in our Consolidated Balance Sheets at the end of the year in 2018

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

| (In millions, except per share data) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock Shares | Treasury Stock Amount | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balances at December 31, 2015 | 751.4 | $187.9 | $2,254.0 | $2,448.1 | $(1,366.2) | 315.9 | $(4,594.1) | $13.9 | $(1,056.4) |
| Net (loss) income | — | — | — | (107.6) | — | — | — | 0.2 | (107.4) |
| Other comprehensive income (loss) | — | — | — | — | 333.0 | — | | (0.5) | 332.5 |
| Dividends accrued - Series C convertible preferred stock | — | — | — | (18.3) | — | — | — | — | (18.3) |
| Exercise/ vesting/ expense of share-based compensation | 3.5 | 0.9 | 22.3 | — | — | — | — | — | 23.2 |
| Repurchase of common stock | — | — | — | — | — | 1.4 | (5.6) | — | (5.6) |
| Purchases and sales of noncontrolling interests, net of dividends paid of $1.8 | — | — | — | — | — | — | — | (1.8) | (1.8) |
| Income tax expense – stock transactions | — | — | (2.4) | — | — | — | — | — | (2.4) |
| Balances at December 31, 2016 | 754.9 | $188.8 | $2,273.9 | $2,322.2 | $(1,033.2) | 317.3 | $(4,599.7) | $11.8 | $(836.2) |
| Net income | — | — | — | 22.0 | | — | — | (2.0) | 20.0 |
| Other comprehensive income | — | — | — | | 107.0 | — | — | 0.7 | 107.7 |
| Dividends accrued - Series C convertible preferred stock | — | — | — | (23.1) | — | — | — | — | (23.1) |
| Exercise/ vesting/ expense of share-based compensation | 3.8 | 1.0 | 17.3 | (0.8) | — | (0.5) | 6.8 | — | 24.3 |
| Repurchase of common stock | — | (0.1) | — | — | — | 1.6 | (7.1) | — | (7.2) |
| Purchases and sales of noncontrolling interests, net of dividends paid of $0.2 | — | — | — | — | — | — | — | (0.2) | (0.2) |
| Balances at December 31, 2017 | 758.7 | $189.7 | $2,291.2 | $2,320.3 | $(926.2) | 318.4 | $(4,600.0) | $10.3 | $(714.7) |
| Net loss | — | — | — | (19.5) | — | — | — | (2.3) | (21.8) |
| Revenue Recognition Cumulative catch up | — | — | — | (41.1) | — | — | — | — | 41.1 |
| Other comprehensive income | — | — | — | | (104.2) | — | — | (0.2) | (104.4) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dividends accrued - Series C convertible preferred stock | — | — | — | (24.3) | — | — | — | — | (24.3) |
| Exercise/ vesting/ expense of share-based compensation | 3.1 | 0.7 | 12.4 | (1.1) | — | (0.1) | 0.8 | — | 12.8 |
| Repurchase of common stock | — | (0.1) | — | — | — | 1.1 | (3.1) | — | (3.2) |
| Purchases and sales of noncontrolling interests, net of dividends paid of $0.1 | — | — | — | — | — | — | — | (0.1) | (0.1) |
| Balances at December 31, 2018 | 761.8 | $190.3 | $2,303.6 | $2,234.3 | $(1,030.4) | 319.4 | $(4,602.3) | $7.7 | $(896.8) |

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 and share data)

## NOTE 1. Description of the Business and Summary of Significant Accounting Policies

### Business

When used in these notes, the terms "Avon," "Company," "we," "our" or "us" mean Avon Products, Inc.

We are a global manufacturer and marketer of beauty and related products. Our business is conducted primarily in one channel, direct selling. Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa; South Latin America; North Latin America; and Asia Pacific. Our product categories are Beauty and Fashion & Home. Beauty consists of skincare, fragrance and color (cosmetics). Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, gift and decorative products, housewares, entertainment and leisure products, children’s products and nutritional products. Sales are made to the ultimate consumer principally by independent Representatives.

In December 2015, we entered into definitive agreements with affiliates of Cerberus Capital Management L.P. ("Cerberus"), which included a $435 investment in Avon by an affiliate of Cerberus through the purchase of our convertible preferred stock and the separation of the North America business (including approximately $100 of cash, subject to certain adjustments) from Avon into New Avon LLC ("New Avon"), a privately-held company that is majority-owned and managed by an affiliate of Cerberus. These transactions closed in March 2016 and Avon retained approximately 20% ownership in New Avon. The North American business, which represented the Company's operations in the United States ("U.S."), Canada and Puerto Rico, was previously its own reportable segment and has been presented as discontinued operations for all periods. Refer to Note 3, Discontinued Operations and Assets and Liabilities Held for Sale for additional information regarding the investment by an affiliate of Cerberus and the separation of the North America business. As a result of this transaction, all of our consolidated revenue is derived from operations of subsidiaries outside of the U.S.

### Principles of Consolidation

The consolidated financial statements include the accounts of Avon and our majority and wholly-owned subsidiaries. Intercompany balances and transactions are eliminated.

### Use of Estimates

We prepare our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America, or GAAP. In preparing these statements, we are required to use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. On an ongoing basis, we review our estimates, including those related to stand-alone selling prices ("SSP") of promised goods or services delivered under sales incentives, allowances for sales returns, allowances for doubtful accounts receivable, provisions for inventory obsolescence, the determination of discount rates and other actuarial assumptions for pension and postretirement benefit expenses, restructuring expense, income taxes and tax valuation allowances, share-based compensation, loss contingencies and the evaluation of goodwill, property, plant and equipment and capitalized software for potential impairment.

### Foreign Currency

Financial statements of foreign subsidiaries operating in other than highly inflationary economies are translated at year-end exchange rates for assets and liabilities and average exchange rates during the year for income and expense accounts. The resulting translation adjustments are recorded within accumulated other comprehensive income (loss) ("AOCI"). Gains or losses resulting from the impact of changes in foreign currency rates on assets and liabilities denominated in a currency other than the functional currency are recorded in other expense, net.

For financial statements of Avon subsidiaries operating in highly inflationary economies, the U.S. dollar is required to be used as the functional currency. At December 31, 2018, only our Argentinian subsidiary is considered to be operating in a highly inflationary economy. Highly inflationary accounting requires monetary assets and liabilities, such as cash, receivables and payables, to be remeasured into U.S. dollars at the current exchange rate at the end of

each period with the impact of any changes in exchange rates being recorded in income. We record the impact of changes in exchange rates on monetary assets and liabilities in other expense, net. Similarly, deferred tax assets and liabilities are remeasured into U.S. dollars at the current exchange rates; however, the impact of changes in exchange rates is recorded in income taxes in our Consolidated Statements of Operations. Non-monetary assets and liabilities, such as inventory, property, plant and equipment and prepaid expenses are recorded in U.S. dollars at the historical rates at the time of acquisition of such assets or liabilities.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Argentina Currency

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

As a result of the devaluation of the Argentinian peso of approximately 25% from June 30, 2018 to December 31, 2018, operating profit was negatively impacted by approximately $8, largely in cost of sales in our Consolidated Income Statements, primarily due to inventory being accounted for at its historical dollar cost. During the six months ended December 31, 2018, we also recorded a benefit during the period of approximately $6 in other expense, net primarily associated with the net monetary liability position of Argentina, and an approximate $2 positive impact on income taxes, both in our Consolidated Income Statements. As of December 31, 2018, the net Argentine peso-denominated monetary liability position of Argentina was $33 and the net Argentine peso-denominated non-monetary asset position was $50, primarily consisting of inventory balances of $32.

Venezuela Currency

Currency restrictions enacted by the Venezuelan government since 2003 have impacted the ability of Avon Venezuela to obtain foreign currency to pay for imported products. In 2010, we began accounting for our operations in Venezuela under accounting guidance associated with highly inflationary economies.

Venezuela's restrictive foreign exchange control regulations and our Venezuelan operations' increasingly limited access to U.S. dollars resulted in 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 lack of exchangeability would continue for the foreseeable future, and as a result, we concluded that, effective March 31, 2016, this condition was other-than-temporary and we no longer met the accounting criteria of control in order to continue consolidating our Venezuelan operations. As a result, since March 31, 2016, we have accounted for our Venezuelan operations using the cost method of accounting.

As a result of the change to the cost method of accounting, in the first quarter of 2016, we recorded a loss of $120.5 in other expense, net. The loss was comprised of $39.2 in net assets of the Venezuelan business and $81.3 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 $23.7, property, plant and equipment, net of $15.0, other assets of $11.4, accounts receivable of $4.6, cash of $4.5, and accounts payable and accrued liabilities of $20.0. Our Consolidated Balance Sheets no longer include the assets and liabilities of our Venezuelan operations. We no longer include the results of our Venezuelan operations in our Consolidated Financial Statements, and will include income relating to our Venezuelan operations only to the extent that we receive cash for dividends or royalties remitted by Avon Venezuela.

Revenue Recognition

Nature of goods and services

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

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

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue recognition

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

Principal revenue streams and significant judgments

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

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

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

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

Revenue from Contracts with Customers

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

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

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

Our contracts with Representatives often include multiple promises to transfer products and/or services to the Representative, and determining which of these products and/or services are considered distinct performance obligations that should be accounted for separately. In addition, in assessing the recognition of revenue for the following performance obligations, management has exercised significant judgment in the following areas: estimation of variable consideration and the SSP of promised goods or services in order to determine and allocate the transaction price.

Performance obligation - Avon products and appointment kits

The Representative purchases Avon products and appointment kits through a purchase order. Avon offers appointment kits for purchase to Representatives, which may contain various Avon products. We recognize revenue for Avon products and appointment kits in net sales in our Consolidated Statements of Operations when the Representative obtains control of the

products, which occurs upon delivery of the product to the Representative. Transaction price is the amount we expect to receive in exchange for those products adjusted for variable consideration as discussed above and the estimated SSP of other performance obligations as discussed below. The cost of these products and appointment kits is recognized in cost of sales in our Consolidated Statements of Operations.

Performance obligation - Sales incentives

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

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

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

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

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

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

iii) Other revenue

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

Cash and Cash Equivalents

Cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are generally high-quality, short-term money market instruments with an original maturity of three months or less and consist of time deposits with a number of U.S. and non-U.S. commercial banks and money market fund investments.

Inventories

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. We classify inventory into various categories based upon its stage in the product life cycle, future marketing sales plans and the disposition process. We assign a degree of obsolescence risk to products based on this classification to estimate the level of obsolescence provision.

Brochure Costs

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

Brochure costs and associated fees that are presented as inventory were $13.2 at December 31, 2018 and zero at December 31, 2017, an increase driven by the implementation of ASU 606. Brochure costs and associated fees that are presented as prepaid expenses and other were $5.9 at December 31, 2018 and $26.6 at December 31, 2017, a decrease driven by the implementation of ASU 606.

Brochure costs were expensed to COGS and SG&A in 2018 amounted to $113.5 and $106.2, respectively. In 2017 and 2016 brochures costs of $244.0 and $244.7, respectively, were expensed to SG&A under the previous ASU 605. The fees charged to Representatives for brochures sold recorded in Other revenue in 2018 amounted to $117.0. In 2017 and 2016, the fees charged to Representatives were recorded as a reduction to SG&A expenses and amounted to 106.2 in 2018 $139.4 and $138.6, respectively.

Property, Plant and Equipment and Capitalized Software

Property, plant and equipment are stated at cost and are depreciated using a straight-line method over the estimated useful lives of the assets. The estimated useful lives generally are as follows: buildings, 45 years; land improvements, 20 years; machinery and equipment, 15 years; and office equipment, five to ten years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset. Upon disposal of property, plant and equipment, the cost of the assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Costs associated with repair and maintenance activities are expensed as incurred.

Certain systems development costs related to the purchase, development and installation of computer software, and implementation costs incurred in a hosting arrangement that is a service contract, are capitalized and amortized over the estimated useful life of the related project. Costs incurred prior to the development stage, as well as maintenance, training costs, and general and administrative expenses are expensed as incurred. The other assets balance included unamortized capitalized software costs of $89.3 at December 31, 2018 and $85.2 at December 31, 2017. The amortization expense associated with capitalized software was $26.5, $29.5 and $30.5 for the years ended December 31, 2018, 2017 and 2016, respectively.

We evaluate our property, plant and equipment and capitalized software for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated pre-tax undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The fair value of the asset is determined using revenue and cash flow projections, and royalty and discount rates, as appropriate.

Assets and Liabilities Held for Sale

A long-lived asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable within a year. A long-lived asset (or disposal group) classified as held for sale is initially measured at the lower of its carrying amount or fair value less cost to sell. An impairment loss is recognized for any initial or subsequent write-down of the long-lived asset (or disposal group) to fair value less costs to sell. A gain or loss not previously recognized by the date of the sale of the long-lived asset (or disposal group) is recognized at the date of derecognition.

Long-lived assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Long-lived assets classified as held for sale and the assets of a disposal group classified as held for sale are

presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Goodwill

Goodwill is not amortized and is assessed for impairment annually during the fourth quarter or on the occurrence of an event that indicates impairment may have occurred, at the reporting unit level. A reporting unit is the operating segment, or a component, which is one level below that operating segment. Components are aggregated as a single reporting unit if they have similar economic characteristics. When testing goodwill for impairment, we perform either a qualitative or quantitative assessment for each of our reporting units. Factors considered in the qualitative analysis include macroeconomic conditions, industry and market considerations, cost factors and overall financial performance specific to the reporting unit. If the qualitative analysis results in a more likely than not probability of impairment, the first quantitative step, as described below, is required.

The quantitative test to evaluate goodwill for impairment is a two-step process. In the first step, we compare the fair value of a reporting unit to its carrying value. If the fair value of a reporting unit is less than its carrying value, we perform a second step to determine the implied fair value of the reporting unit's goodwill. The second step of the impairment analysis requires a valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of the purchase price in a business combination. If the resulting implied fair value of the reporting unit's goodwill is less than its carrying value, that difference represents an impairment.

The impairment analysis performed for goodwill requires several estimates in computing the estimated fair value of a reporting unit. We typically 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 this business, and is most consistent with the approach that we would generally expect a marketplace participant would use. In estimating the fair value of our reporting units utilizing a DCF approach, we typically forecast revenue and the resulting cash flows for periods of five to ten years and include an estimated terminal value at the end of the forecasted period. When determining the appropriate forecast period for the DCF approach, we consider the amount of time required before the reporting unit achieves what we consider a normalized, sustainable level of cash flows. The estimation of fair value utilizing a DCF approach includes numerous uncertainties which require significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors.

Financial Instruments

We use derivative financial instruments, including forward foreign currency contracts, to manage foreign currency exposures.

If applicable, derivatives are recognized in our Consolidated Balance Sheets 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:

- 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 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.
- Changes in the fair value of a derivative that is not designated as a hedging instrument are recognized in earnings in other expense, net in our Consolidated Statements of Operations.

We present the earnings effect of the hedging instrument in our Consolidated Statements of Operations in the same income statement line item in which the earnings effect of the hedged item is reported.

For derivatives designated as cash flow hedges, if we conclude that the hedging relationship is perfectly effective at inception, a detailed effectiveness assessment in each period is not required as long as (i) the critical terms of the hedging instrument completely match the related terms of the hedged item (ii) it is considered probable that the counterparties to the hedging instrument and the hedged item will not default, and (iii) the hedged cash flows remain probable.

If the conditions above are not met, we will assess prospective and retrospective effectiveness using the cumulative dollar-offset method, which compares the change in fair value or present value of cash flows of the hedging instrument to the changes

in the fair value or present value of the cash flows of the hedged item. If the result of the quantification demonstrates that the hedge is still highly effective (meaning that cumulative changes in the fair value of the derivative are between 80% and 125% of the cumulative changes in the fair value of the hedged item), we will revert to qualitative assessments of hedge effectiveness in subsequent periods if an expectation of high effectiveness on a qualitative basis for subsequent periods can be reasonably supported. If effectiveness is not within the 80% to 125% range, hedge accounting will be discontinued, and changes in the fair value of the hedging instrument will be recorded in earnings from the date the hedge is no longer considered highly effective.

Deferred Income Taxes

Deferred income taxes have been provided on items recognized for financial reporting purposes in different periods than for income tax purposes using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided to reduce our deferred tax assets to an amount that is "more likely than not" to be realized. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income during the periods in which our temporary differences become deductible or before our net operating loss and tax credit carryforwards expire. See Note 10, Income Taxes for more information.

In accordance with guidance issued by the Financial Accounting Standards Board ("FASB"), we are choosing to treat the U.S. income tax consequences of Global Intangible Low-Taxed Income ("GILTI") as a period cost. As a result, as of December 31, 2018, no deferred income taxes have been provided.

Uncertain Tax Positions

We recognize the benefit of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We record interest expense and penalties payable to relevant tax authorities in income taxes in our Consolidated Statements of Operations.

SG&A Expenses

SG&A expenses include costs associated with selling; marketing; distribution, including shipping and handling costs; advertising; net brochure costs; research and development; information technology; and other administrative costs, including finance, legal and human resource functions.

Shipping and Handling

Shipping and handling costs are expensed as incurred and amounted to $503.5 in 2018, $530.8 in 2017 and $489.3 in 2016.

Advertising

Advertising costs, excluding brochure preparation costs, are expensed as incurred and amounted to $127.6 in 2018, $118.4 in 2017 and $108.9 in 2016.

Research and Development

Research and development costs are expensed as incurred and amounted to $48.0 in 2018, $52.9 in 2017 and $52.1 in 2016. Research and development costs include all costs related to the design and development of new products such as salaries and benefits, supplies and materials and facilities costs.

Share-based Compensation

All share-based payments to employees are recognized in the financial statements based on their fair value at the date of grant. If applicable, we use a Monte-Carlo simulation to calculate the fair value of performance restricted stock units with market conditions and the fair value of premium-priced stock options. We account for forfeitures on share-based payments as they occur.

Restructuring Expense

We record the estimated expense for our restructuring initiatives, such as our Transformation Plan and Open Up Avon, when such costs are deemed probable and estimable, when approved by the appropriate corporate authority and by accumulating detailed estimates of costs for such plans. These expenses include the estimated costs of employee severance and related benefits, inventory write-offs, impairment or accelerated depreciation of property, plant and equipment and capitalized software, and any other qualifying exit costs. Such costs represent our best estimate, but require assumptions about the programs that may change over time, including attrition rates. Estimates are evaluated

periodically to determine whether an adjustment is required.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension and Postretirement Expense

Pension and postretirement expense is determined based on a number of actuarial assumptions, which are generally reviewed and determined on an annual basis. These assumptions include the discount rate applied to plan obligations, the expected rate of return on plan assets, the rate of compensation increase of plan participants, price inflation, cost-of-living adjustments, mortality rates and certain other demographic assumptions, and other factors. Actual results that differ from assumptions are accumulated and amortized to expense over future periods and, therefore, generally affect recognized expense in future periods. We recognize the funded status of pension and other postretirement benefit plans in our Consolidated Balance Sheets. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The recognition of prior service costs or credits and net actuarial gains or losses, as well as subsequent changes in the funded status, are recognized as components of AOCI, net of tax, in shareholders' equity, until they are amortized as a component of net periodic benefit cost. We recognize prior service costs or credits and actuarial gains and losses beyond a 10% corridor to earnings based on the estimated future service period of the participants. The determination of the 10% corridor utilizes a calculated value of plan assets for our more significant plans, whereby gains and losses are smoothed over three- and five-year periods. We use a December 31 measurement date for all of our employee benefit plans. Service cost is presented in SG&A in our Consolidated Statements of Operations. The components of net periodic benefit costs other than service cost are presented in other expense, net in our Consolidated Statements of Operations.

Contingencies

We determine whether to disclose and/or accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable. We record loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable.

Earnings (Loss) per Share

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 year 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 year. Diluted EPS is calculated to give effect to all potentially dilutive common shares that were outstanding during the year.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For each of the three years ended December 31 the components of basic and diluted EPS were as follows:

| (Shares in millions) | 2018 | 2017 | 2016 |
|---|---|---|---|
| Numerator from continuing operations: | | | |
| Income (loss) from continuing operations less amounts attributable to noncontrolling interests | $(19.5) | $22.0 | $(93.6) |
| Less: Earnings (loss) allocated to participating securities | (.2) | .3 | (1.2) |
| Less: Earnings allocated to convertible preferred stock | 24.3 | 23.1 | 18.4 |
| Loss from continuing operations allocated to common shareholders | (43.6) | (1.4) | (110.8) |
| Numerator from discontinued operations: | | | |
| Loss from discontinued operations less amounts attributable to noncontrolling interests | $— | $— | $(14.0) |
| Less: Loss allocated to participating securities | — | — | (.2) |
| Loss from discontinued operations allocated to common shareholders | — | — | (13.8) |
| Numerator attributable to Avon: | | | |
| Net income (loss) attributable to Avon less amounts attributable to noncontrolling interests | $(19.5) | $22.0 | $(107.6) |
| Less: Earnings (loss) allocated to participating securities | (.2) | .3 | (1.4) |
| Less: Earnings allocated to convertible preferred stock | 24.3 | 23.1 | 18.4 |
| Loss attributable to Avon allocated to common shareholders | (43.6) | (1.4) | (124.6) |
| Denominator: | | | |
| Basic EPS weighted-average shares outstanding | 441.9 | 439.7 | 437.0 |
| Diluted effect of assumed conversion of stock options | — | — | — |
| Diluted effect of assumed conversion of preferred stock | — | — | — |
| Diluted EPS adjusted weighted-average shares outstanding | 441.9 | 439.7 | 437.0 |
| Loss per Common Share from continuing operations: | | | |
| Basic | $(.10) | $(.00) | $(.25) |
| Diluted | (.10) | (.00) | (.25) |
| Loss per Common Share from discontinued operations: | | | |
| Basic | $.00 | $.00 | $(.03) |
| Diluted | .00 | .00 | (.03) |
| Loss per Common Share attributable to Avon: | | | |
| Basic | $(.10) | $(.00) | $(.29) |
| Diluted | (.10) | (.00) | (.29) |

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

During the years ended December 31, 2018, 2017 and 2016, we did not include stock options to purchase 17.8 million shares, 16.9 million shares and 14.2 million shares of Avon common stock, respectively, in the calculation of diluted EPS as we had a loss from continuing operations, net of tax and the inclusion of these shares would decrease the net loss per share. Since the inclusion of such shares would be anti-dilutive, these are excluded from the calculation.

For the years ended December 31, 2018 and 2017, it is more dilutive to assume the series C convertible preferred stock is not converted into common stock; therefore, the weighted-average shares outstanding were not adjusted by the as-if converted series C convertible preferred stock because the effect would be anti-dilutive. The inclusion of the series C convertible preferred stock would decrease the net loss per share for the years ended December 31, 2018 and 2017. If the as-if converted series C convertible preferred stock had been dilutive, approximately 87.1 million additional shares would have been included in the diluted weighted average number of shares outstanding for the years ended December 31, 2018 and 2017. There were no shares of series C convertible preferred stock outstanding for the year ended December 31, 2016. See Note 18, Series C Convertible Preferred Stock.

NOTE 2. New Accounting Standards

New Accounting Standards Implemented

ASU 2014-09, Revenue from Contracts with Customers

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

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

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

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

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

Performance obligations - Avon products and appointment kits

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

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

Performance obligations/ material rights - sales incentives

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

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

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

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

Brochures - Brochures represent promotional materials that are given directly by the Representatives to their customers as a marketing activity. Under ASC 606, brochures that are sold by Avon to Representatives through purchase orders represent separate performance obligations in the contract as these are promises made between Avon

and the

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Representative. Although the brochures are used similar to marketing materials, the Representative generally orders and pays for the brochures, and Avon allocates consideration for purposes of revenue recognition. The revenue associated with brochures that are sold to Representatives is recognized in other revenue and the related cost is recognized in cost of sales in our Consolidated Statements of Operations. We recognize revenue when the Representative obtains control of the brochures, which occurs upon delivery to the Representative. When brochures are given away for free to Representatives as promotional items, the cost is recognized in SG&A expenses in our Consolidated Statements of Operations.

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

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

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

Impacts on consolidated financial statements

The following tables summarize the impacts of adopting ASC 606 on the Company's consolidated financial statements for the twelve months ended December 31, 2018:

| Line items impacted within the Consolidated Statements of Operations | Impact of change in revenue recognition standard | | | |
|---|---|---|---|---|
| | Per consolidated financial statements | Adjustments | | Balances excluding the impact of adopting ASC 606 |
| Revenue | | | | |
| Net sales | $5,247.7 | $ (28.5) | (1) | $5,219.2 |
| Other revenue | 323.6 | (200.7) | (2) | 122.9 |
| Total revenue | 5,571.3 | (229.2) | | 5,342.1 |
| Costs and expenses | | | | |
| Cost of sales | 2,364.0 | (277.4) | (3) | 2,086.6 |
| SG&A expenses | 2,972.1 | 60.4 | (4) | 3,032.5 |
| Operating profit | 235.2 | (12.2) | | 223.0 |
| Income before income taxes | 108.1 | (12.2) | | 95.9 |
| Income taxes | (129.9) | 3.6 | | (126.3) |
| Net loss | (21.8) | (8.6) | | (30.4) |
| Net loss attributable to Avon | (19.5) | (8.6) | | (28.1) |

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

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Line items impacted within the Consolidated Statements of Other Comprehensive Income | Impact of change in revenue recognition standard | | |
|---|---|---|---|
| | Per consolidated financial statements | Adjustments | Balances excluding the impact of adopting ASC 606 |
| Net loss | $(21.8) | $ (8.6) | $ (30.4) |
| Foreign currency translation adjustments | (48.7) | (3.5) | (52.2) |
| Total other comprehensive loss, net of income taxes | (104.4) | (3.5) | (107.9) |
| Comprehensive loss | (126.2) | (12.1) | (138.3) |
| Comprehensive loss attributable to Avon | (123.6) | (12.1) | (135.7) |

| Line items impacted within the Consolidated Balance Sheets | Impact of change in revenue recognition standard | | | |
|---|---|---|---|---|
| | Per consolidated financial statements | Adjustments | | Balances excluding the impact of adopting ASC 606 |
| Accounts receivable, net | $349.7 | $ (8.2) | (1) | $ 341.5 |
| Inventories | 542.0 | (42.8) | (2) | 499.2 |
| Prepaid expenses and other | 272.0 | 47.8 | (2) | 319.8 |
| Total current assets | 1,762.0 | (3.2) | | 1,758.8 |
| Other assets | 603.0 | (10.1) | (3) | 592.9 |
| Total assets | 3,010.0 | (13.3) | | 2,996.7 |
| Liabilities, Series C Convertible Preferred Stock and Shareholders' Deficit | | | | |
| Other accrued liabilities | 451.3 | (38.0) | (4) | 413.3 |
| Income taxes | 15.9 | (3.6) | | 12.3 |
| Total current liabilities | 1,496.5 | (41.6) | | 1,454.9 |
| Other liabilities | 72.1 | (0.7) | | 71.4 |
| Total liabilities | 3,414.7 | (42.3) | | 3,372.4 |
| Retained earnings | 2,234.3 | 32.5 | (5) | 2,266.8 |
| Accumulated other comprehensive loss | (1,030.4) | (3.5) | | (1,033.9) |
| Total Avon shareholders' deficit | (904.5) | 29.0 | | (875.5) |
| Total shareholders' deficit | (896.8) | 29.0 | | (867.8) |
| Total liabilities, series C convertible preferred stock and shareholders' deficit | 3,010.0 | (13.3) | | 2,996.7 |

(1) Relates to sales returns, which were reclassified from a reduction of accounts receivable to a refund liability (within other accrued liabilities) and a returns asset (within prepaid expenses and other).
(2) Primarily relates to sales incentives and brochures, both of which were reclassified from prepaid expenses and other to inventories, and were also impacted by the timing of recognition. In addition, prepaid expenses and other was impacted by the timing of recognition of brochures, as well as the reclassification of sales returns (described above).
(3) Relates to deferred tax assets associated with the cumulative-effect adjustment.

(4) Primarily relates to the contract liability for sales incentives, which is partially offset by the lower accrual for sales incentives. In addition, other accrued liabilities was impacted by the reclassification of sales returns (described above).
(5) Relates to the $41.1 cumulative-effect adjustment upon adoption of ASC 606, partially offset by the year-to-date $8.6 net loss adjustment.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Line items impacted within the Consolidated Statements of Cash Flows | Impact of change in revenue recognition standard | | |
|---|---|---|---|
| | Per consolidated financial statements | Adjustments | Balances excluding the impact of adopting ASC 606 |
| Cash Flows from Operating Activities | | | |
| Net loss | $(21.8) | $ (8.6) | $ (30.4) |
| Other | 18.5 | (3.5) | 15.0 |
| Accounts receivable | (102.8) | (.4) | (103.2) |
| Inventories | (99.6) | 3.5 | (96.1) |
| Prepaid expenses and other | (49.3) | 3.9 | (45.4) |
| Accounts payable and accrued liabilities | 73.1 | 10.5 | 83.6 |
| Income and other taxes | 63.2 | (3.6) | 59.6 |
| Noncurrent assets and liabilities | 42.8 | (1.8) | 41.0 |

ASU 2016-09, Compensation - Stock Compensation

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation, which is intended to simplify the accounting for share-based payment transactions. This new guidance changes several aspects of the accounting for share-based payment transactions, including accounting for income taxes, forfeitures and employer-tax withholding requirements. ASU 2016-09 also clarifies the Statements of Cash Flows presentation for certain components of share-based payment awards. We adopted this new accounting guidance in the first quarter of 2017, which did not have a material impact on our Consolidated Financial Statements.

ASU 2017-07, Compensation - Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits. This new guidance requires entities to (1) disaggregate the service cost component from the other components of net periodic benefit costs and present it with other current employee compensation costs in the Consolidated Statements of Operations and (2) present the other components of net periodic benefit costs below operating profit in other expense, net. We adopted this new accounting guidance effective January 1, 2018. The new accounting guidance was applied retrospectively and increased our operating profit for 2017 and 2016 by $8.0 and $1.9 respectively, but had no impact on net loss. The following tables summarize the impacts of adopting ASC 2017-07 on the Company's consolidated financial statements for the twelve months ended December 31, 2017 and 2016:

| Line items impacted within the Consolidated Statements of Operations | Impact of ASU 2017-07 adoption | | | | | |
|---|---|---|---|---|---|---|
| | Per consolidated financial statements | | Impact of adoption | | As originally reported | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| SG&A expenses | $3,231.0 | $3,136.9 | $(8.0) | $(1.9)[4] | $3,239.0 | $3,138.8 |
| Operating profit | 281.3 | 323.8 | 8.0 | 1.9 | 273.3 | 321.9 |
| Other expense, net | 34.6 | 172.9 | 8.0 | 1.9 | 26.6 | 171.0 |
| Income before income taxes | 120.7 | 31.2 | — | — | 120.7 | 31.2 |

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

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities to align the hedge accounting model more closely with risk management practices, and to simplify its application. Among other things, the new guidance eliminates the requirement to separately measure and report hedge ineffectiveness. The new guidance is effective for interim and annual reporting periods beginning after

December 15, 2018. The new guidance must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. We early adopted ASU 2017-12 effective July 1, 2018 and initiated a new hedging program during the third quarter 2018 to hedge foreign exchange risk relating to forecasted transactions. The adoption did not have a material impact on our Consolidated Financial Statements.

ASU 2018-15, Intangibles - Goodwill and Other-Internal - Use Software - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendment. We early adopted ASU 2018-15 effective October 1, 2018, which did not have a material impact on our Consolidated Financial Statements.

Accounting Standards to be Implemented

ASU 2016-02, Leases

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

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

The standard will have a material impact on our consolidated balance sheets but will not have a material impact on our Consolidated Income Statements. The most significant impact will be the recognition of right-of-use (ROU) assets and lease liabilities for operating leases, while our accounting for finance leases remains substantially unchanged. Adoption of the standard will result in the recognition of additional ROU assets and lease liabilities for operating leases of approximately $200 and approximately $195 as of January 1, 2019. The difference between these amounts will be recorded as an adjustment to retained earnings.

ASU 2018-02, Income Statement - Reporting Comprehensive Income

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

ASU 2016-13, Financial Instruments - Credit Losses

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

NOTE 3. Discontinued Operations and Assets and Liabilities Held for Sale

Discontinued Operations

North America

On December 17, 2015, the Company entered into definitive agreements with affiliates controlled by Cerberus. The agreements include an investment agreement providing for a $435.0 investment by Cleveland Apple Investor L.P. ("Cerberus Investor") (an affiliate of Cerberus) in the Company through the purchase of perpetual convertible preferred stock (see Note 18, 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 U.S., Canada and Puerto Rico, from the Company into New Avon, a privately-held company that is majority-owned and managed by Cerberus NA Investor LLC ("Cerberus NA") (an affiliate of Cerberus). These transactions closed on March 1, 2016.

Proceeds from the sale of the perpetual convertible preferred stock were used to fund the $100 cash contribution into New Avon, approximately $250 was used to reduce debt, and the remainder was used for restructuring and reinvestment in the business. The Company considered that the transactions with affiliates of Cerberus should help to drive enhanced focus on Avon's international markets, revitalize the North America business and deliver long-term

value to shareholders.

During 2016, Cerberus NA contributed approximately $170 of cash into New Avon in exchange for 80.1% of its ownership interests. The Company contributed (i) assets primarily related to our North America business (including approximately $100 of cash, subject to certain adjustments), (ii) certain assumed liabilities (primarily pension and postretirement liabilities) of our North America business and (iii) the employees of our North America business into New Avon in exchange for a 19.9% ownership interest of New Avon. The Company received approximately $6 of cash from New Avon as part of a customary working capital adjustment.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The North America business was previously its own reportable segment and has been presented as discontinued operations for all periods presented as the separation represented a significant strategic shift and was determined to have a major effect on our operations and financial results.

During the fourth quarter of 2015, the Company recorded an estimated loss on sale of discontinued operations of $340.0 before tax ($340.0 after tax) as the carrying value exceeded the estimated fair value less costs to sell. During 2016, the Company recognized an additional loss on sale of $15.6 before tax ($5.4 after tax), respectively. The cumulative loss on sale of $355.6 before tax ($345.4 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 $42.5.

In 2016, 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. Also in 2016, Avon and New Avon also entered into a transition services agreement, which expired on October 31, 2018, and covered, among other things, information technology, financial services and human resources, as well as other commercial agreements, including research and development, product supply and a sublease of office space from Avon to New Avon. See Note 5, Related Party Transactions.

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

| | Year ended December 31, 2016 |
|---|---|
| Total revenue | $ 135.2 |
| Cost of sales | 53.2 |
| SG&A expenses | 91.5 |
| Operating (loss) income | (9.5) |
| Other income (expense) items | .6 |
| Loss from discontinued operations, before tax | (8.9) |
| Loss on sale of discontinued operations, before tax | (15.6) |
| Income taxes | 10.5 |
| Loss from discontinued operations, net of tax | $ (14.0) |

There were no amounts recorded in discontinued operations for the year ended December 31, 2018 or 2017.

Assets and Liabilities Held for Sale

The major classes of assets and liabilities comprising Held for sale assets and Held for sale liabilities on the Consolidated Balance Sheet as of December 31, 2018 are shown in the following table. There were no assets or liabilities held for sale at December 31, 2017 or 2016.

| | 2018 | | | |
|---|---|---|---|---|
| | Avon Manufacturing (Guangzhou) | Rye Office | Malaysia Maximin | Total |
| Current held for sale assets | | | | |
| Inventories | $8.7 | $— | $ — | $8.7 |
| Property, Plant & Equipment (net) | 36.7 | 12.3 | 3.0 | 52.0 |
| Cash and cash equivalents | 3.7 | — | — | 3.7 |
| Other assets | 1.1 | — | 0.1 | 1.2 |

| | | | | |
|---|---|---|---|---|
| | $50.2 | $ 12.3 | $ 3.1 | $65.6 |
| Current held for sale liabilities | | | | |
| Accounts payable | 8.6 | — | — | 8.6 |
| Other liabilities | 2.6 | — | 0.2 | 2.8 |
| | $11.2 | $ — | $ .2 | $11.4 |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

China Manufacturing

On January 8, 2019, Avon Asia Holdings Company and Avon Products (China) Co., Ltd. executed an Equity Purchase Agreement for the sale of all the equity interests in Avon Manufacturing (Guangzhou), Ltd. to TheFaceShop Co., Ltd., an affiliate of LG Household & Health Care Ltd, for a total purchase price of $71.

Avon Manufacturing (Guangzhou), Ltd. met the held for sale criteria under ASC 360, Plant, Property and Equipment ("ASC 360") as of December 31, 2018, and the entity's assets and liabilities were classified as held for sale.

On February 15, 2019, we completed the sale to TheFaceShop Co., Ltd., an affiliate of LG Household & Health Care Ltd., of all of the equity interests in Avon Manufacturing (Guangzhou), Ltd. for a total purchase price of $71.0 million. Net cash proceeds (pre-tax) will be $47.0 after the required repayment by the Company of certain outstanding intercompany loans of $23.3 and after deducting cash on hand in Avon Manufacturing (Guangzhou), Ltd. of $.7.

Rye Office

On September 19, 2018, Avon issued a press release entitled “Avon Products Inc. to create leaner New York Operations. In this press release, Avon announced its intention to complete the sale of the Rye office in 2019 as a further step in its ongoing plan to streamline the business to fuel growth by consolidating its U.S. operations into its existing facilities in Suffern, New York.

Prior to December 31, 2018, we entered into a Letter of Intent with a third party to sell the Rye office. The due diligence period is currently ongoing.

The Rye office met the held for sale criteria under ASC 360 as of December 31, 2018, and was classified as an asset held for sale.

In February 2019, we signed an agreement to sell the Rye office. This transaction is expected to close by the end of the second quarter of 2019.

Malaysia Maximin

On November 12, 2018, the Company approved the sale in principal of Maximin Corporation Sdn Bhd (“Maximin”), which owns the Malaysia office and warehouse, in line with our current strategy. In early December, the Company entered into letter of intent with a third party. Refer to Note 23, Subsequent Events, for additional information on developments relating to the sale of Maximin.

Maximin met the held for sale criteria under ASC 360 as of December 31, 2018, and the entity's assets and liabilities were classified as held for sale.

In February 2019, we signed an agreement to sell Maximin. This transaction is expected to close by the end of the first quarter of 2019.

NOTE 4. Investment in New Avon

In connection with the separation of the Company's North America business (as discussed in Note 3, Discontinued Operations and Assets and Liabilities Held for Sale), which closed on March 1, 2016, the Company retained a 19.9% ownership interest in New Avon, a privately-held company that is majority-owned and managed by an affiliate of Cerberus Capital Management L.P. ("Cerberus"). The Company has accounted for its ownership interest in New Avon using the equity method of accounting, which resulted in the Company recognizing its proportionate share of New Avon's income or loss and other comprehensive income or loss. Our recorded investment balance in New Avon at December 31, 2018 and December 31, 2017 was zero.

During the years ended December 31, 2017 and 2016, the Company's proportionate share of the losses of New Avon was $20.2 and $11.9, of which $11.5 and $11.9, respectively, of these amounts was recorded within other expense, net. In addition, during the third quarter of 2017, the Company received a cash distribution of $22.0 from New Avon, which reduced our recorded investment balance in New Avon. During the third quarter of 2017, we recorded only $1.7 of the Company's proportionate share of the losses in New Avon, as this reduced our recorded investment balance in New Avon to zero. As a result, we have not recorded our proportionate share of New Avon's losses since the fourth quarter of 2017. If New Avon experiences future losses while our recorded investment balance is zero, we would not record our proportionate share of such loss. In addition, the Company's proportionate share of the post-separation other comprehensive income of New Avon was benefits of $.1 and $2.2 during the years ended

December 31, 2017 and 2016, respectively, and was recorded within other comprehensive income (loss).
The Company also recorded an additional loss of $.5 within other expense, net and a benefit of $1.1 within other comprehensive income (loss), during the year ended December 31, 2017, primarily associated with purchase accounting adjustments reported by New Avon.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Related Party Transactions

The following tables present the related party transactions with New Avon, affiliates of Cerberus and the Instituto Avon in Brazil. There are no other related party transactions. New Avon is majority owned and managed by Cerberus NA. See Note 3, Discontinued Operations and Assets and Liabilities Held for Sale and Note 4, Investment in New Avon for further details.

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| Statement of Operations Data | | |
| Revenue from sale of product to New Avon[1] | $ 25.7 | $ 32.5 |
| Gross profit from sale of product to New Avon[1] | $ 1.6 | $ 1.9 |
| Cost of sales for purchases from New Avon[2] | $ 2.9 | $ 3.8 |
| SG&A expenses: | | |
| Transition services, intellectual property, research and development and subleases[3] | $ (5.9) | $ (32.2) |
| Project management team[4] | 1.2 | 2.6 |
| Net reduction of SG&A expenses | $ (4.7) | $ (29.6) |
| Interest income from Instituto Avon[5] | $ .1 | — |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance Sheet Data | | |
| Inventories[6] | $ .3 | $ .4 |
| Receivables due from New Avon[7] | $ 7.0 | $ 9.8 |
| Receivables due from Instituto Avon[5] | $ 3.2 | $ — |
| Payables due to New Avon[8] | $ .2 | $ .2 |
| Payables due to an affiliate of Cerberus[9] | $ .6 | $ .4 |

(1) The Company supplies product to New Avon as part of a manufacturing and supply agreement. The Company recorded revenue of $25.7 and $32.5, within other revenue, and gross profit of $1.6 and $1.9 associated with this agreement during the years ended December 31, 2018 and 2017, respectively.

(2) New Avon also supplies product to the Company as part of the same manufacturing and supply agreement noted above. The Company purchased $2.8 and $3.2 from New Avon associated with this agreement during the years ended December 31, 2018 and 2017, respectively, and recorded $2.9 and $3.8 associated with these purchases within cost of sales during the years ended December 31, 2018 and 2017, respectively.

(3) The Company also entered into a transition services agreement to provide certain services to New Avon, which expired on October 31, 2018, as well as an intellectual property ("IP") license agreement, an agreement for technical support and innovation and subleases for office space. In addition, New Avon performed certain services for the Company under a similar transition services agreement which expired during the third quarter of 2017. The Company recorded a net $5.9 and $32.2 reduction of SG&A expenses associated with these agreements during the years ended December 31, 2018 and 2017, respectively, which generally represents a recovery of the related costs.

(4) The Company also entered into agreements with an affiliate of Cerberus, which provide for the secondment of Cerberus affiliate personnel to the Company's project management team responsible for assisting with the execution of the transformation plan (the "Transformation Plan") announced in January 2016 and Open Up Avon strategy (“Open

Up Avon") announced in September 2018. The Company recorded $1.2 and $2.6 in SG&A expenses associated with these agreements during the years ended December 31, 2018 and 2017, respectively. See Note 17, Restructuring Initiatives for additional information related to the Transformation Plan and Open Up Avon.

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

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Hospital do Câncer de Barretos), in order to invest in equipment with the objective of expanding breast cancer prevention and treatment.
(6) Inventories relate to purchases from New Avon, associated with the manufacturing and supply agreement, which have not yet been sold, and were classified within inventories in our Consolidated Balance Sheets.
(7) The receivables due from New Avon relate to the agreements for transition services, the IP license, research and development and subleases for office space, as well as the manufacturing and supply agreement, and were classified within prepaid expenses and other in our Consolidated Balance Sheets.
(8) The payables due to New Avon relate to the manufacturing and supply agreement, and were classified within other accrued liabilities in our Consolidated Balance Sheets.
(9) The payables due to an affiliate of Cerberus relate to the agreement for the project management team, and were classified within other accrued liabilities in our Consolidated Balance Sheets.
In addition, the Company also issued standby letters of credit to the lessors of certain equipment, a lease for which was transferred to New Avon in connection with the separation of the Company's North America business. The initial liability for the estimated value of such standby letters of credit was $2.1, which was included in the additional loss on sale of the North America business recognized in loss from discontinued operations, net of tax in our Consolidated Statements of Operations during the year ended December 31, 2016. At both December 31, 2018 and 2017, the Company had a liability of $1.4 for the estimated value of such standby letters of credit. The reduction of this estimated liability of $.2 during the years ended December 31, 2017 was recognized in other expense, net in our Consolidated Statements of Operations.
See Note 18, Series C Convertible Preferred Stock, for discussion of preferred shares issued to Cerberus Investor.

NOTE 6. Revenue

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

| | Twelve Months Ended December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | |
| | Europe, Middle East & Africa | South Latin America | North Latin America | Asia Pacific | Total reportable segments | Other operating segments and business activities | Total |
| Beauty: | | | | | | | |
| Skincare | $619.2 | $564.3 | $ 166.9 | $124.3 | $ 1,474.7 | $ 6.4 | $1,481.1 |
| Fragrance | 636.6 | 483.9 | 218.1 | 89.5 | 1,428.1 | 2.9 | 1,431.0 |
| Color | 398.7 | 310.7 | 81.8 | 54.1 | 845.3 | 4.8 | 850.1 |
| Total Beauty | 1,654.5 | 1,358.9 | 466.8 | 267.9 | 3,748.1 | 14.1 | 3,762.2 |
| Fashion & Home: | | | | | | | |
| Fashion | 298.0 | 190.6 | 94.4 | 167.8 | 750.8 | 3.0 | 753.8 |
| Home | 45.3 | 283.4 | 204.2 | 28.4 | 561.3 | 2.0 | 563.3 |
| Total Fashion & Home | 343.3 | 474.0 | 298.6 | 196.2 | 1,312.1 | 5.0 | 1,317.1 |
| Brazil IPI tax release * | — | 168.4 | — | — | 168.4 | — | 168.4 |
| Net sales | 1,997.8 | 2,001.3 | 765.4 | 464.1 | 5,228.6 | 19.1 | 5,247.7 |
| Representative fees | 95.3 | 135.7 | 43.9 | 6.5 | 281.4 | 2.0 | 283.4 |
| Other | 0.7 | 9.9 | — | 0.2 | 10.8 | 29.4 | 40.2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other revenue | 96.0 | 145.6 | 43.9 | 6.7 | 292.2 | 31.4 | 323.6 |
| Total revenue | $2,093.8 | $2,146.9 | $ 809.3 | $470.8 | $ 5,520.8 | $ 50.5 | $5,571.3 |

* Includes the impact of the Brazil IPI tax release, which was recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively, in our Consolidated Income Statements (See Note 19, Contingencies for further information).

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contract balances

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

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

The following table provides information about receivables and contract liabilities from contracts with customers at December 31, 2018:

| | December 31, 2018 |
|---|---|
| Accounts receivable, net of allowances of $93.0 | $ 349.7 |
| Contract liabilities | $ 84.4 |

At January 1, 2018 and December 31, 2018 we had a contract liability of $91.8 and $84.4, respectively, relating to certain material rights (loyalty points, status program and prospective discounts). During the twelve months ended December 31, 2018, we recognized $89.5 of revenue related to the contract liability balance at January 1, 2018, as the result of performance obligations satisfied. In addition, we deferred an additional $82.3 related to certain material rights granted during the period, for which the performance obligations are not yet satisfied. Of the amount deferred during the period, substantially all will be recognized within a year, with the significant majority to be captured within a quarter. The remaining movement in the contract liability balance is attributable to foreign exchange differences arising on the translation of the balance as at December 31, 2018 as compared with December 31, 2017.

Contract costs

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

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

NOTE 7. Inventories

Inventories at December 31 consisted of the following:

| | 2018 | 2017 |
|---|---|---|
| Raw materials | $157.8 | $190.6 |
| Finished goods | 384.2 | 407.6 |
| Total | $542.0 | $598.2 |

These amounts are net of the allowance for inventory obsolescence, and include the impact of an incremental one-off inventory obsolescence expense recognized at December 31, 2018, resulting from the structural reset of inventory announced in January 2019 (refer to Note 17, Restructuring Initiatives, for additional information regarding Open Up

Avon and the structural reset of inventory).

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. Debt and Other Financing

Debt

Debt at December 31 consisted of the following:

| | 2018 | 2017 |
|---|---|---|
| Debt maturing within one year: | | |
| Notes payable | $8.8 | $22.6 |
| Current portion of long-term debt | 3.2 | 3.1 |
| Total | $12.0 | $25.7 |
| Long-term debt: | | |
| 6.50% Notes, due March 2019 | $— | $237.2 |
| 4.60% Notes, due March 2020 | 386.4 | 408.8 |
| 7.875% Senior Secured Notes, due August 2022 | 494.2 | 492.6 |
| 5.00% Notes, due March 2023 | 458.5 | 484.5 |
| Other debt, payable through 2025 with interest from .4% to 12.1% | 4.6 | 5.2 |
| 6.95% Notes, due March 2043 | 241.1 | 241.0 |
| Total | 1,584.8 | 1,869.3 |
| Unamortized deferred gain - swap terminations | — | 6.0 |
| Less current portion | (3.2) | (3.1) |
| Total long-term debt | $1,581.6 | $1,872.2 |

Notes payable included short-term borrowings of international subsidiaries at average annual interest rates of approximately 19.0% at December 31, 2018 and 23.0% at December 31, 2017.

Other debt included obligations under capital leases of $2.5 at December 31, 2018 and $4.0 at December 31, 2017, which primarily relate to leases of automobiles and equipment.

Public Notes

In March 2013, we issued, in a public offering, $250.0 principal amount of 2.375% Notes due March 15, 2016 (the "2.375% Notes"), $500.0 principal amount of 4.60% Notes due March 15, 2020 (the "4.60% Notes"), $500.0 principal amount of 5.00% Notes due March 15, 2023 (the "5.00% Notes") and $250.0 principal amount of 6.95% Notes due March 15, 2043 (the "6.95% Notes") (collectively, the "2013 Notes"). In March 2008, we issued $350.0 principal amount of 6.50% Notes due March 1, 2019 (the "6.50% Notes"). Interest on the 2013 Notes is payable semi-annually on March 15 and September 15 of each year, and interest on the 6.50% Notes is payable semi-annually on March 1 and September 1 of each year. In August 2015, we prepaid the entire principal amount of our 2.375% Notes.

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

In August 2016, we completed cash tender offers which resulted in a reduction of principal of $108.6 of our 5.75% Notes due March 1, 2018 (the "5.75% Notes"), $73.8 of our 4.20% Notes due July 15, 2018 (the "4.20% Notes"), $68.1 of our 6.50% Notes and $50.1 of our 4.60% Notes. In connection with the cash tender offers, we incurred a gain on extinguishment of debt of $3.9 before tax in the third quarter of 2016, consisting of a deferred gain of $12.8 associated with the March 2012 and January 2013 interest-rate swap agreement terminations (see Note 11, Financial Instruments and Risk Management), partially offset by the $5.8 of early tender premium paid for the cash tender offers, $1.2 of a deferred loss associated with treasury lock agreements designated as cash flow hedges of the anticipated interest payments on the 5.75% Notes (see Note 11, Financial Instruments and Risk Management), $1.0 of deal costs and the write-off of $.9 of debt issuance costs and discounts related to the initial issuances of the notes that

were the subject of the cash tender offers.

In October 2016, we repurchased $44.0 of our 6.50% Notes, $44.0 of our 4.20% Notes, $40.0 of our 4.60% Notes and $35.2 of our 5.75% Notes. The aggregate repurchase price was equal to the principal amount of the notes, plus a premium of $6.2 and accrued interest of $1.1. In connection with these repurchases of debt, we incurred a loss on extinguishment of debt of $1.0 before tax in the fourth quarter of 2016 consisting of the $6.2 premium paid for the repurchases, $.5 for the write-off of debt issuance costs and discounts related to the initial issuance of the notes that were repurchased and $.4 for a deferred loss

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

associated with treasury lock agreements designated as cash flow hedges of the anticipated interest payments on the 5.75% Notes (see Note 11, Financial Instruments and Risk Management), partially offset by a deferred gain of approximately $6.1 associated with the March 2012 and January 2013 interest-rate swap agreement terminations (see Note 11, Financial Instruments and Risk Management).

On November 30, 2016, we prepaid the remaining principal amount of our 4.20% Notes and 5.75% Notes. The prepayment price was equal to the remaining principal amount of $132.2 for our 4.20% Notes and $106.2 for our 5.75% Notes, plus a make-whole premium of $12.1 for both series of notes and accrued interest of $3.6 for both series of notes. In connection with the prepayment of our 4.20% Notes and 5.75% Notes, we incurred a loss on extinguishment of debt of $2.9 before tax in the fourth quarter of 2016 consisting of the $12.1 make-whole premium, $1.0 of a deferred loss associated with treasury lock agreements designated as cash flow hedges of the anticipated interest payments on the 5.75% Notes (see Note 11, Financial Instruments and Risk Management) and the write-off of $.3 of debt issuance costs and discounts related to the initial issuances of the notes that were prepaid, partially offset by a deferred gain of $10.5 associated with the January 2013 interest-rate swap agreement termination (see Note 10, Financial Instruments and Risk Management).

In December 2016, we repurchased $11.1 of our 5.00% Notes and $6.2 of our 6.95% Notes, and the aggregate repurchase price was equal to the principal amount of the notes, less a discount received of $1.3 and plus accrued interest of $.3. In connection with this repurchase of debt, we incurred a gain on extinguishment of debt of $1.1 before tax in the fourth quarter of 2016 consisting of the $1.3 discount received for the repurchases, partially offset by $.2 for the write-off of debt issuance costs and discounts related to the initial issuance of the notes that were repurchased.

In June 2018, we prepaid the remaining principal amount of our 6.50% Notes. The prepayment price was equal to the remaining principal amount of $237.8, plus a make-whole premium of $6.2 and accrued interest of $4.6. In connection with the prepayment, we incurred a loss on extinguishment of debt of $2.9 before tax in the second quarter of 2018 consisting of the $6.2 make-whole premium, and the write-off of $.3 of debt issuance costs and discounts related to the initial issuances of the notes that were prepaid, partially offset by a write off of a deferred gain of $3.6 associated with the March 2012 interest-rate swap agreement termination (see Note 11, Financial Instruments and Risk Management).

In the fourth quarter of 2018, we repurchased $23.0 of our 4.60% Notes and $27.0 of our 5.00% Notes. The aggregate repurchase price was equal to the principal amount of the notes, less a discount received of $2.4 and accrued interest of $.7. In connection with these repurchases of debt, we incurred a gain on extinguishment of debt of $2.1 before tax in the fourth quarter of 2018 consisting of the $2.4 discount received for the repurchases, partially offset by $0.3 for the write-off of debt issuance costs and discounts related to the initial issuance of the notes that were repurchased.

At December 31, 2018 and 2017, the carrying values of our public notes were comprised of the following:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Remaining Principal | Unamortized Discounts | Unamortized Debt Issuance Costs | Total | Remaining Principal | Unamortized Discounts | Unamortized Debt Issuance Costs | Total |
| 6.50% Notes, due March 2019 | $— | $ — | $ — | $ — | $237.9 | $ (.4) | $ (.3) | $237.2 |
| 4.60% Notes, due March 2020 | 387.0 | (.5) | (.1) | 386.4 | 409.9 | (.2) | (.9) | 408.8 |
| 5.00% Notes, due March 2023 | 461.9 | (1.5) | (1.9) | 458.5 | 488.9 | (2.5) | (1.9) | 484.5 |
| 6.95% Notes, due March 2043 | 243.8 | (.6) | (2.1) | 241.1 | 243.8 | (.6) | (2.2) | 241.0 |

The indentures governing our outstanding notes described above contain certain customary covenants and customary events of default and cross-default provisions. Further, we would be required to make an offer to repurchase all of our outstanding notes described above at a price equal to 101% of their aggregate principal amount plus accrued and unpaid interest in the event of a change in control involving Avon and, at such time, the outstanding notes are rated below investment grade.

Senior Secured Notes

In August 2016, Avon International Operations, Inc. (“AIO”), a wholly-owned domestic subsidiary of the Company, issued, in a private placement exempt from registration under the Securities Act of 1933, as amended, $500.0 in aggregate principal amount of 7.875% Senior Secured Notes, which will mature on August 15, 2022 (the "Senior Secured Notes"). Interest on our Senior Secured Notes is payable semi-annually on February 15 and August 15 of each year. The carrying value of our Senior Secured Notes represented the $500.0 principal amount, net of unamortized debt issuance costs of $5.8 and $7.4 at December 31, 2018 and 2017, respectively. This represents the total debt for AIO at December 31, 2018 and 2017.

All obligations of AIO under our Senior Secured Notes are unconditionally guaranteed by the Company, AIO and each other material United States or English restricted subsidiary of the Company (collectively, the “Obligors”), in each case, subject to certain exceptions. The obligations of the Obligors are secured by first priority liens on and security interests in substantially all of the assets of the Obligors, in each case, subject to certain exceptions.

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The indenture governing our Senior Secured Notes contains certain customary covenants and restrictions as well as customary events of default and cross-default provisions. The indenture also contains a covenant requiring AIO and its restricted subsidiaries to, at the end of each year, own at least a certain percentage of the total assets of API and its restricted subsidiaries, subject to certain qualifications. Further, we would be required to make an offer to repurchase all of our Senior Secured Notes, at a price equal to 101% of their aggregate principal amount plus accrued and unpaid interest, in the event of a change in control involving Avon.

Maturities of Long-Term Debt

Annual maturities of long-term debt, which includes our notes and capital leases outstanding at December 31, 2018, are as follows:

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and Beyond | Total |
|---|---|---|---|---|---|---|---|
| Maturities | $1.1 | $387.6 | $0.4 | $500.2 | $462.0 | $243.9 | $1,595.2 |

Other Financing

Revolving Credit Facility

In June 2015, Avon International Operations, Inc. ("AIO"), a wholly-owned domestic subsidiary of the Company, entered into a five-year $400.0 senior secured revolving credit facility (the “2015 facility”). In December 2017, AIO entered into an amendment to the 2015 facility, which, among other things, modified the financial covenants (interest coverage and total leverage ratios) to provide the Company additional flexibility. As of December 31, 2018, there were no amounts outstanding under the 2015 facility.

In February 2019, Avon International Capital, p.l.c. ("AIC"), a wholly-owned foreign subsidiary of the Company, entered into a three-year €200.0 senior secured revolving credit facility (the “2019 facility”). The 2019 facility replaced the 2015 facility and the 2015 facility was terminated at such time. Borrowings under the 2019 facility bear interest at our option, at a rate per annum, equal to either LIBOR or EURIBOR (for any loan in euros) plus 225 basis points, in each case subject to adjustment based upon a leveraged-based pricing grid. The 2019 facility may be used for general corporate and working capital purposes. There are no amounts outstanding under the 2019 facility. The amount available to be drawn on under the 2019 facility is reduced by any standby letters of credit granted by AIC or any Obligor under the 2019 facility, including the standby letters of credit granted by AIO under the 2015 facility that were rolled over into the 2019 facility, which, as of December 31, 2018, were approximately $29 million.

All obligations of AIC under the 2019 facility are unconditionally guaranteed by the Company, AIO and each other material United States or English restricted subsidiary of the Company (collectively, the “Obligors”), in each case, subject to certain exceptions. The obligations of the Obligors are secured by first priority liens on and security interests in substantially all of the assets of the Obligors, in each case, subject to certain exceptions.

The 2019 facility will terminate in February 2022; provided, however, that it shall terminate on the 91st day prior to the maturity of the 4.60% Notes, if on such 91st day, the applicable notes are not redeemed, repaid, discharged, defeased or otherwise refinanced in full.

The 2019 facility contains affirmative and negative covenants, which are customary for secured financings of this type, as well as financial covenants (interest coverage and total leverage ratios). Depending on our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges), it is possible that we may become non-compliant with our interest coverage or total leverage ratio absent the Company undertaking other alternatives to avoid noncompliance, such as obtaining additional amendments to the 2019 facility or repurchasing certain debt. If we were to be non-compliant with our interest coverage or total leverage ratio, we would no longer have access to our 2019 facility and our credit ratings may be downgraded.

Letters of Credit

At December 31, 2018 and December 31, 2017, we also had letters of credit outstanding under our revolving credit facility totaling 29.4 and $37.7, respectively. The balances at December 31, 2018 and 2017 primarily relate to letters of credit issued to 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. The balances at December 31, 2018 and December 31, 2017 also include letters of credit which guarantee various insurance activities.

Long-Term Credit Ratings

Our long-term credit ratings are: Moody’s ratings of Stable Outlook with B1 for corporate family debt, B3 for senior unsecured debt, and Ba1 for our Senior Secured Notes; S&P ratings of Stable Outlook with B for corporate family debt and senior

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unsecured debt and BB- for our Senior Secured Notes; and Fitch rating of Stable Outlook with B+, each of which are below investment grade. We do not believe these long-term credit ratings will have a material impact on our near-term liquidity. However, any rating agency reviews could result in a change in outlook or downgrade, which could further limit our access to new financing, particularly short-term financing, reduce our flexibility with respect to working capital needs, affect the market price of some or all of our outstanding debt securities, and likely result in an increase in financing costs, and less favorable covenants and financial terms under our financing arrangements.

NOTE 9. Accumulated Other Comprehensive Income (Loss)

The tables below present the changes in AOCI by component and the reclassifications out of AOCI during 2018 and 2017:

| | Foreign Currency Translation Adjustments | Cash Flow Hedges | Net Investment Hedges | Pension and Postretirement Benefits | Investment in New Avon | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ (829.6) | $ — | $ (4.3) | $ (95.7) | $ 3.4 | $(926.2) |
| Other comprehensive (loss) income other than reclassifications | (106.6) | .5 | — | (8.6) | — | (114.7) |
| Reclassifications into earnings: | | | | | | |
| Derivative gains on cash flow hedges, net of tax of $0.0 | — | — | — | — | — | — |
| Amortization of net actuarial loss and prior service cost, net of tax of $.6[(1)] | — | — | — | 10.5 | — | 10.5 |
| Total reclassifications into earnings | — | | — | 10.5 | — | 10.5 |
| Balance at December 31, 2018 | $ (936.2) | $ 0.5 | $ (4.3) | $ (93.8) | $ 3.4 | $(1,030.4) |

| | Foreign Currency Translation Adjustments | Net Investment Hedges | Pension and Postretirement Benefits | Investment in New Avon | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | $ (910.9) | $ (4.3) | $ (120.2) | $ 2.2 | (1,033.2) |
| Other comprehensive income other than reclassifications | 81.3 | — | 8.9 | 1.2 | 91.4 |
| Reclassifications into earnings: | | | | | |
| Amortization of net actuarial loss and prior service cost, net of tax of $.8[(1)] | — | — | 15.6 | — | 15.6 |
| Total reclassifications into earnings | — | — | 15.6 | — | 15.6 |
| Balance at December 31, 2017 | $ (829.6) | $ (4.3) | $ (95.7) | $ 3.4 | $(926.2) |

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

A foreign exchange net loss of $6.9 for 2018, a gain of $16.3 for 2017, and a net loss of $23.7 for 2016 resulting from the translation of actuarial losses and prior service cost recorded in AOCI, are included in changes in foreign currency translation adjustments in our Consolidated Statements of Comprehensive Income (Loss).

NOTE 10. Income Taxes

Income from continuing operations, before taxes for the years ended December 31 was as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| United States | $39.3 | $(147.6) | $(403.0) |
| Foreign | 68.8 | 268.3 | 434.2 |
| Total | $108.1 | $120.7 | $31.2 |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The provision for income taxes for the years ended December 31 was as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Federal: | | | |
| Current | $(6.1) | $— | $— |
| Deferred | 3.7 | (34.0) | — |
| Total Federal | (2.4) | (34.0) | — |
| Foreign: | | | |
| Current | 182.3 | 130.6 | 128.5 |
| Deferred | (53.0) | 3.8 | (4.2) |
| Total Foreign | 129.3 | 134.4 | 124.3 |
| State and Local: | | | |
| Current | 3.0 | .3 | .3 |
| Deferred | — | — | — |
| Total State and other | 3.0 | .3 | .3 |
| Total | $129.9 | $100.7 | $124.6 |

The effective tax rate for the years ended December 31 was as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Statutory federal rate | 21.0 % | 35.0 % | 35.0 % |
| State and local taxes, net of federal tax benefit | 2.2 | .2 | .6 |
| U.S. Tax Reform | — | (24.7) | — |
| Tax on foreign income | (16.2) | 6.0 | (24.4) |
| Tax on uncertain tax positions - Brazil | 67.4 | — | — |
| Tax on uncertain tax positions - Rest of World | 8.5 | (3.6) | 34.1 |
| Reorganizations | (91.3) | — | (93.6) |
| Net change in valuation allowances | 128.3 | 62.4 | 375.1 |
| Venezuela deconsolidation, devaluation and highly inflationary accounting | — | — | 23.9 |
| Imputed royalties and associated non-deductible expenses | .6 | 9.5 | 50.3 |
| Research credits | (1.3) | (1.3) | (5.4) |
| Other | 1.0 | (.1) | 3.8 |
| Effective tax rate | 120.2 % | 83.4 % | 399.4 % |

In 2018, as a result of continued business model changes related to the move of the Company's headquarters from the US to the UK, the Company recognized one time tax benefits of $98.7 reflected in the "Reorganizations" line above associated primarily with the: rationalization and re-alignment of the Company's legal entity structure, the ownership transfer of certain operational assets within the consolidated group and the tax benefit associated with the Foreign Derived Intangible Income provisions of the Tax Cuts and Jobs Act in the U.S.

In 2018, the Net Change in Valuation Allowances line in the rate reconciliation above includes $138.6 of increases to the Valuation Allowances primarily associated with Deferred Tax Assets generated in 2018. Reductions to Valuation Allowances of $93.0 were reflected in other captions of the rate reconciliation net of the associated Deferred Tax Assets which were expensed or written off during 2018 as follows: $57.2 for excess tax basis in deconsolidated subsidiaries that was re-allocated against investments in consolidated subsidiaries, $15.3 for reduction of future tax benefits anticipated for state deferred tax assets, $11.7 of other Deferred Tax Assets and a reduction of $8.8 of Deferred Tax Assets associated with the repatriation of earnings from consolidated subsidiaries.

In 2017, as a result of the enactment of the Tax Cuts and Jobs Act in the U.S., the Company recognized a net income tax benefit of $29.9 associated with the following items which are reflected in the "U.S. Tax Reform" line above: $33.5 for a valuation allowance release associated with minimum tax credits which can be utilized and/or refunded in the future and $3.6 for an uncertain tax position for potential withholding taxes on the repatriation of unremitted earnings. In addition, there was no impact on our financial position or results associated with each of the following: a write-off

of deferred tax assets and their associated valuation allowance of $161.4 due to the rate change from 35% to 21%; a reversal of deferred tax liabilities and

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recording of a valuation allowance of $66.7 associated with unremitted earnings; establishment of deferred tax assets for other miscellaneous withholding tax items and their associated valuation allowance of $5.5; and a one-time tax on offshore earnings and the associated utilization of foreign tax credits of $2.9.

Included in the net change in valuation allowance noted above for 2017, we released valuation allowances of $25.5 associated with a number of markets in Europe, Middle East & Africa as a result of a business model change related to the move of the Company's headquarters from the U.S. to the UK.

Deferred tax assets (liabilities) at December 31 consisted of the following:

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Tax loss and deduction carryforwards | $2,144.3 | $2,022.1 |
| Tax credit carryforwards | 830.5 | 981.0 |
| All other future deductions | 560.8 | 471.0 |
| Valuation allowance | (3,257.5) | (3,217.7) |
| Total deferred tax assets | 278.1 | 256.4 |
| Deferred tax liabilities | $(85.1) | $(74.9) |
| Net deferred tax assets | $193.0 | $181.5 |

Deferred tax assets (liabilities) at December 31 were classified as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Other assets | $212.6 | $203.8 |
| Total deferred tax assets | 212.6 | 203.8 |
| Deferred tax liabilities: | | |
| Long-term income taxes | $(19.6) | $(22.3) |
| Total deferred tax liabilities | (19.6) | (22.3) |
| Net deferred tax assets | $193.0 | $181.5 |

During 2018, the Company also recorded a net increase to its valuation allowance of $45.6 in income tax expense primarily for deferred tax assets generated in 2018 that are not currently more likely than not to be realized. In the future, the Company will continue to evaluate whether its financial results will allow for the valuation allowances to be released. Release of the valuation allowance in the future would occur when the deferred tax assets associated with the valuation allowance are determined to be more likely than not of being realized.

At December 31, 2018, exclusive of ASU 2013-11 reductions, we had recognized deferred tax assets of $842.5 relating to tax credit carryforwards (U.S. foreign tax credits, minimum tax credits, research and experimentation credits and other tax credits) for which a valuation allowance of $812.5 has been provided. The tax credit carryforwards consist of U.S. foreign tax credits of $793.8 which are subject to expiration between 2020 and 2027; U.S. minimum tax credits of $18.0 which are not subject to expiration; U.S. research and experimentation credits of $21.0 which are subject to expiration between 2027 and 2038 and other tax credits of $9.7 which are subject to expiration between 2019 and 2033.

At December 31, 2018, exclusive of ASU 2013-11 reductions, we had recognized deferred tax assets of $2,166.2 relating to foreign and state tax loss carryforwards for which a valuation allowance of $2,073.3 has been provided. The deferred tax assets relating to tax loss carryforwards consist of $2,045.5 of foreign tax loss carryforwards, for which a valuation allowance of $1,974.5 has been provided, and $98.8 of state tax loss carryforwards, for which a valuation allowance of $98.8 has been provided.

The foreign tax loss carryforwards at December 31, 2018 were $8,616.2, of which $6,927.5 are not subject to expiration and $1,688.7 are subject to expiration between 2019 and 2048. The state tax loss carryforwards at December 31, 2018, after taking into consideration the estimated effects of pre-apportionment states, were $1,396.7 which are subject to expiration between 2019 and 2038.

At December 31, 2018, as a result of our U.S. liquidity profile, we continue to assert that our foreign earnings are not indefinitely reinvested. Accordingly, we adjusted our deferred tax liability to account for our 2018 undistributed earnings of foreign subsidiaries and for the tax effect of earnings that were actually repatriated to the U.S. during the year. The net impact on the deferred tax liability associated with the Company's undistributed earnings is a decrease of $5.1, resulting in a deferred

tax liability balance of $17.5 related to the incremental tax cost on approximately $1.1 billion of undistributed foreign earnings at December 31, 2018.

At December 31, 2018, the valuation allowance primarily represents amounts for substantially all U.S. deferred tax assets, certain foreign tax loss carryforwards and certain other foreign deferred tax assets. The recognition of deferred tax assets was based on the evaluation of current and estimated future profitability of the operations, reversal of deferred tax liabilities and the likelihood of utilizing tax credit and/or loss carryforwards. Tax planning strategies were also considered and evaluated as support for the realization of deferred tax assets. Where these sources of income existed along with sufficient positive evidence that indicated it was more likely than not that such sources of income could be relied upon, then the deferred tax assets were not reduced by a valuation allowance.

Uncertain Tax Positions

At December 31, 2018, we had $137.6 of total gross unrecognized tax benefits of which approximately $123.2 would favorably impact the provision for income taxes, if recognized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|---|---|
| Balance at December 31, 2015 | $53.0 |
| Additions based on tax positions related to the current year | 1.8 |
| Additions for tax positions of prior years | 9.4 |
| Reductions for tax positions of prior years | (2.8) |
| Reductions due to lapse of statute of limitations | (.7) |
| Reductions due to settlements with tax authorities | (2.0) |
| Balance at December 31, 2016 | 58.7 |
| Additions based on tax positions related to the current year | 1.4 |
| Additions for tax positions of prior years | 17.6 |
| Reductions for tax positions of prior years | (7.9) |
| Reductions due to lapse of statute of limitations | (3.1) |
| Reductions due to settlements with tax authorities | (18.0) |
| Balance at December 31, 2017 | 48.6 |
| Additions based on tax positions related to the current year | 43.6 |
| Additions for tax positions of prior years | 65.5 |
| Reductions for tax positions of prior years | (3.7) |
| Reductions due to lapse of statute of limitations | (.9) |
| Reductions due to settlements with tax authorities | (15.4) |
| Balance at December 31, 2018 | $137.6 |

We accrue interest and penalties related to unrecognized tax benefits in the provision for income taxes. We reversed previously recorded expenses for interest and penalties, net of taxes by $1.3 during the year ended December 31, 2018, and recorded expenses of $0.0 and $2.5 for interest and penalties, net of taxes during the years ended December 31, 2017 and 2016, respectively. At December 31, 2018 and December 31, 2017 we had $7.4 and $9.9, respectively, recorded for interest and penalties, net of tax benefit. The unrecognized tax benefits, including interest and penalties, were classified within long-term income taxes in our Consolidated Balance Sheets.

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We file income tax returns in the U.S. and foreign jurisdictions. As of December 31, 2018, the tax years that remained subject to examination by major tax jurisdiction for our most significant subsidiaries were as follows:

| Jurisdiction | Open Years |
|---|---|
| Brazil | 2013-2018 |
| Mexico | 2013-2018 |
| Philippines | 2014-2018 |
| Poland | 2013-2018 |
| Russia | 2017-2018 |
| United Kingdom | 2017-2018 |
| United States (Federal) | 2017-2018 |

We anticipate that it is reasonably possible that the total amount of unrecognized tax benefits will not change materially within the next twelve months.

Given the timing of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, the SEC issued guidance under SAB 118 directing taxpayers to consider the impact of the new legislation as “provisional” when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effects resulting from the change in law. As of December 22, 2017, except for the impact of remeasuring our deferred tax assets at the 21% rate, we accounted for all other impacts of the new legislation, including but not limited to effects on existing deferred taxes and valuation allowances, a one-time tax on offshore earnings, potential changes to and impact of our indefinite reinvestment assertion, and the measurement of deferred taxes on foreign unremitted earnings, on a provisional basis on our financial statements. The amounts reported at that time represented our best estimate given the data we had available and based on our interpretation of the U.S. legislation. During 2018, the U.S. Treasury issued various guidance on the application of certain provisions that may impact our calculations. As of December 31, 2018, the Company completed its accounting for the impact of the Tax Cuts and Jobs Act including any necessary adjustments to the “provisional” amounts previously recorded. The recording of the additional adjustments had no material impact on our financial position or results.

NOTE 11. Financial Instruments and Risk Management

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

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

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

Interest Rate Risk

A portion of our borrowings is subject to interest rate risk. In the past we have used interest-rate swap agreements, which effectively converted the fixed rate on long-term debt to a floating interest rate, to manage our interest rate exposure. The agreements were designated as fair value hedges. At December 31, 2018 and 2017, we do not have any interest-rate swap agreements. Approximately 1% of our debt portfolio at December 31, 2018 and 2017, respectively, was exposed to floating interest rates.

In January 2013, we terminated eight of our interest-rate swap agreements previously 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 was amortized as a reduction to interest expense over the remaining term of the underlying debt obligations. During the year ended December 31, 2016, the net impact of the gain amortization was $35.4, including $23.6 related to the extinguishment of debt (see Note 8, Debt and Other Financing). At December 31, 2018, there is no unamortized deferred gain associated with the January 2013 interest-rate swap termination, as the underlying debt obligations have been paid.

In March 2012, we terminated two of our interest-rate swap agreements previously designated as fair value hedges, with notional amounts totaling $350. As of the interest-rate swap agreements' termination date, the aggregate favorable adjustment to the carrying value (deferred gain) of our debt was $46.1, which is being amortized as a reduction to interest expense over the remaining term of the underlying debt obligations through March 2019. During the years ended December 31, 2018 and 2017, the net impact of the gain amortization was $6.0 and $4.9, respectively, including $3.6 related to the extinguishment of debt during the year ended December 31, 2018 (see Note 8, Debt and Other Financing). At December 31, 2018, there was no unamortized deferred gain associated with the March 2012 interest-rate swap termination, as the underlying debt obligations have been paid.

Foreign Currency Risk

We may use foreign exchange forward contracts to manage a portion of our foreign currency exchange rate exposures. At December 31, 2018, we had outstanding foreign exchange forward contracts with notional amounts totaling approximately $1,275 for various currencies, of which $22 were designated as cash flow hedges.

We may use foreign exchange forward contracts to manage foreign currency exposure of certain intercompany loans. The change in fair value of these contracts is immediately recognized in earnings and substantially offsets the foreign currency impact recognized in earnings relating to the associated intercompany loans. During the years ended December 31, 2018 and 2017, we recorded a gain of $1.5 and a gain of $3.0, respectively, in other expense, net in our Consolidated Statements of Operations related to these undesignated foreign exchange forward contracts. Also during the years ended December 31, 2018 and 2017, we recorded a gain of $2.2 and a loss of $5.2, respectively, related to the associated intercompany loans, caused by changes in foreign currency exchange rates.

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

Credit Risk of Financial Instruments

At times, we attempt to minimize our credit exposure to counterparties by entering into derivative transactions and similar agreements with major international financial institutions with "A-" or higher credit ratings as issued by Standard & Poor's Corporation. Our foreign currency derivatives are typically comprised of over-the-counter forward contracts, swaps or options with major international financial institutions. Although our theoretical credit risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring credit risk losses is remote and that such losses, if any, would not be material.

Non-performance of the counterparties on the balance of all the foreign exchange agreements would have resulted in a write-off of $1.3 at December 31, 2018. In addition, in the event of non-performance by such counterparties, we would be exposed to market risk on the underlying items being hedged as a result of changes in foreign exchange rates.

NOTE 12. Fair Value

Assets and Liabilities Recorded at Fair Value

The fair value measurement provisions required by GAAP 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

Other than our defined benefit pension and postretirement plan assets, the assets and liabilities measured at fair value on a recurring basis are comprised of foreign exchange forward contracts (see Note 11, Financial Instruments and Risk Management) and available-for-sale securities, which were immaterial at December 31, 2018 and 2017. See Note 14, Employee Benefit Plans, for the fair value hierarchy for our plan assets. The available-for-sale securities include securities held in a trust in order to fund future benefit payments for non-qualified retirement plans (see Note 14, Employee Benefit Plans).

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, available-for-sale securities, short-term investments, accounts receivable, debt maturing within one year, accounts payable, long-term debt and foreign exchange forward contracts. The

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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 December 31 consisted of the following:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Available-for-sale securities | $3.8 | $ 3.8 | $3.7 | $ 3.7 |
| Debt maturing within one year[1] | (12.0) | (12.0) | (25.7) | (25.7) |
| Long-term debt[1] | (1,581.6) | (1,460.2) | (1,872.2) | (1,718.6) |
| Foreign exchange forward contracts | (5.1) | (5.1) | — | — |

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

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

- Available-for-sale securities - The fair values of these investments were the quoted market prices for issues listed on securities exchanges.
- Debt maturing within one year and long-term debt - The fair values of our debt and other financing were determined using Level 2 inputs based on indicative market prices.
- Foreign exchange forward contracts - The fair values of forward contracts were estimated based on quoted forward foreign exchange prices at the reporting date.

NOTE 13. Share-Based Compensation Plans

The Avon Products, Inc. 2013 Stock Incentive Plan, as amended and restated (the “2013 Plan”) and the Avon Products, Inc. 2016 Omnibus Incentive Plan (the "2016 Plan"), which are shareholder-approved plans, provide for several types of share-based incentive compensation awards including stock options, restricted stock, restricted stock units and performance restricted stock units. Following shareholder approval of the 2016 Plan in May 2016, there were no further awards made under the 2013 Plan. Under the 2013 Plan, the maximum number of shares that may be awarded is 55,000,000 shares, where the maximum number of shares are reduced as follows: (i) in the case of the grant of an award of an option or stock appreciation right ("SAR"), by each share subject to such an award and (ii) in the case of the grant of an award payable in shares other than an option or SAR by 3.13 multiplied by each share subject to such an award. Under the 2016 Plan, the maximum number of shares that may be awarded is 48,000,000 shares, where the maximum number of shares are reduced as follows: (i) in the case of the grant of an award of an option or SAR, by each share subject to such an award and (ii) in the case of the grant of an award payable in shares other than an option or SAR by 2.4 multiplied by each share subject to such an award. Shares issued under share-based awards will be primarily funded with issuance of new shares.

We have issued stock options under the 2016 Plan, and restricted stock units and performance restricted stock units under the 2013 Plan and the 2016 Plan. We also have outstanding stock options under our prior shareholder-approved plans. Stock option awards are granted with an exercise price generally at a premium to the closing market price of our stock at the date of grant. Stock options generally vest in thirds over the three-year period following each option grant date and have ten-year contractual terms. Restricted stock units granted to Associates generally vest and settle after three years. Restricted stock units awarded to non-management directors vest in approximately one year and settle upon a director's departure from the Board of Directors. Performance restricted stock units generally vest after three years only upon the satisfaction of certain performance conditions.

For the years ended December 31:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Compensation cost for stock options, performance restricted stock units and restricted stock units | $13.8 | $24.2 | $24.0 |
| Total income tax benefit recognized for share-based arrangements | 2.0 | 1.4 | 1.9 |

All of the compensation cost for stock options, performance restricted stock units and restricted stock units, including those that will be funded with treasury shares, for 2018, 2017 and 2016 was recorded in SG&A expenses in our Consolidated Statements of Operations.

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Stock Options

During 2018, 2017 and 2016, we granted premium-priced stock options, in which the exercise price was equal to a 25% premium and 30% premium, respectively, from the closing market price of our stock price at the date of grant. The premium-priced stock options vest on a three-year graded vesting schedule. The fair value of each premium-priced stock option is estimated on the date of grant using a Monte-Carlo simulation. When estimating the fair value of each option, we used the following weighted-average assumptions for options granted during the years ended December 31, 2018, 2017 and 2016:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Risk-free rate[1] | 2.7% | 2.1% | 1.6% |
| Expected term[2] | 7 years | 7 years | 7 years |
| Expected Avon volatility[3] | 42% | 41% | 39% |
| Expected dividends | —% | —% | —% |

(1) The risk-free rate was based upon the rate on a zero coupon U.S. Treasury bill, for periods within the contractual life of the option, in effect at the time of grant.

(2) The expected term of the option was based on the vesting terms of the respective option and a contractual life of 10 years.

(3) Expected Avon volatility was based on the daily historical volatility of our stock price, over a period similar to the expected life of the option.

The weighted-average grant-date fair value per share of options granted were $1.04, $1.54 and $1.37 during 2018, 2017 and 2016, respectively.

A summary of stock options as of December 31, 2018, and changes during 2018, is as follows:

| | Shares (in 000's) | Weighted-Average Exercise Price | Weighted-Average Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2018 | 17,165 | $ 14.95 | | |
| Granted | 5,952 | 3.49 | | |
| Exercised | — | — | | |
| Forfeited | 1,082 | 5.82 | | |
| Expired | 3,073 | 34.27 | | |
| Outstanding at December 31, 2018 | 18,962 | $ 9.05 | 6.4 | $ — |
| Exercisable at December 31, 2018 | 8,679 | $ 14.05 | 4.1 | $ — |

We recognize expense on stock options using a graded vesting method, which recognizes the associated expense based on the timing of option vesting dates. At December 31, 2018, there was $6.1 of unrecognized compensation cost related to stock options outstanding. That cost is expected to be recognized over a weighted-average period of 1.8 years.

There were no stock options exercised during 2018, 2017 or 2016.

Restricted Stock Units and Performance Restricted Stock Units

During 2018, 2017 and 2016, we granted performance restricted stock units that would vest and settle after three years based on the relative total shareholder return of our common stock against companies included in the S&P 400 index as of the date of grant over a three year performance period ("2018 PRSUs", "2017 PRSUs" and "2016 PRSUs", respectively). The grant date fair value per share of these awards already reflects the estimated probability of achieving the market condition, and therefore we record the expense ratably over the performance period.

During 2015, we granted performance restricted stock units that would vest and settle after three years only upon the satisfaction of certain performance conditions over two years ("2015 PRSUs"). In addition, if the performance conditions are achieved above target, these performance restricted stock units are subject to a market condition in which the number of performance restricted stock units that vest will be limited to the target amount if the Company's

absolute total shareholder return during the three-year service period is negative. We have adjusted the compensation cost recognized to-date to reflect our performance, which reflects an estimated payout below target, and as such, the absolute total shareholder return market condition will not impact the number of performance restricted stock units that vest.

The fair value of the 2018 PRSUs, 2017 PRSUs, 2016 PRSUs and 2015 PRSUs was estimated on the date of grant using a Monte-Carlo simulation that estimates the fair value based on the Company's share price activity, expected term of the award, risk-free interest rate, expected dividends and the expected volatility of the stock of the Company. When estimating the fair

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value of the 2018 PRSUs, 2017 PRSUs, 2016 PRSUs and the 2015 PRSUs, we used the following weighted-average assumptions:

| | 2018 PRSUs | 2017 PRSUs | 2016 PRSUs | 2015 PRSUs |
|---|---|---|---|---|
| Risk-free rate[1] | 2.5% | 1.6% | 1.1% | 1.1% |
| Expected Avon volatility[2] | 61.4% | 61% | 56% | 38% |
| Expected average volatility[3] | 29.5% | 29% | 28% | N/A |
| Expected dividends | —% | —% | —% | 3% |

(1) The risk-free rate was based upon the rate on a zero coupon U.S. Treasury bill, for periods within the three year performance period, in effect at the time of grant.

(2) Expected Avon volatility was based on the weekly historical volatility of our stock price, over a period similar to the three year performance period of the 2018 PRSUs, 2017 PRSUs and 2016 PRSUs and the three year service period of the 2016 PRSUs.

(3) Expected average volatility was based on the weekly historical volatility of the stock prices of each member of companies included in the S&P 400 index as of the date of the grant, over a period similar to the three year performance period of the 2018 PRSUs. 2017 PRSUs and 2016 PRSUs.

The weighted-average grant-date fair value per share of the 2018 PRSUs, 2017 PRSUs, 2016 PRSUs and 2015 PRSUs was $2.63, $4.52, $4.42 and $7.49 respectively.

A summary of restricted stock units at December 31, 2018, and changes during 2018, is as follows:

| | Restricted Stock Units (in 000's) | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| January 1, 2018 | 4,804 | $ 5.26 |
| Granted | 2,433 | 2.61 |
| Vested | (1,705) | 7.06 |
| Forfeited | (534) | 4.45 |
| December 31, 2018 | 4,998 | $ 3.37 |

A summary of performance restricted stock units at December 31, 2018, and changes during 2018, is as follows:

| | Performance Restricted Stock Units (in 000's) | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| January 1, 2018[1] | 4,356 | $ 5.50 |
| Granted | 1,301 | 2.93 |
| Vested | (986) | 7.49 |
| Forfeited | (1,494) | 5.93 |
| December 31, 2018[1] | 3,177 | $ 3.76 |

(1) Based on initial target payout.

The total fair value of restricted stock units and performance restricted stock units that vested during 2018 was $7.2, based upon market prices on the vesting dates. At December 31, 2018, there was $9.5 of unrecognized compensation cost related to these restricted stock units and performance restricted stock units compensation arrangements outstanding. That cost is expected to be recognized over a weighted-average period of 1.7 years.

Later in 2015, we granted 1,123,183 performance restricted stock units that vested and settled in 2016 only upon the satisfaction of certain performance conditions through 2015. The terms of this award did not result in a fair value measurement date until 2016. During 2016 we recognized compensation cost of $2.0 for these performance restricted stock units. As this award vested and settled in 2016, no additional compensation cost was recognized in 2018 and 2017.

Restricted Stock Units and Performance Restricted Stock Units Funded With Treasury Shares
In March 2018, we granted 200,000 performance restricted stock units that will be funded with treasury shares, outside of the 2016 Plan, in reliance upon The New York Stock Exchange rules. These performance restricted stock units have a weighted-average grant-date fair value of $2.79 and would vest and settle after three years only upon the satisfaction of certain performance conditions over one year. During 2018, none of these performance restricted stock units vested, and 200,000

performance restricted stock units were outstanding at December 31, 2018. During 2018, we recognized compensation cost of $.1 for these performance restricted stock units. At December 31, 2018, there was $.4 unrecognized compensation cost related to these performance restricted stock units.

In February 2018 we granted 600,000 restricted stock units that will be funded from treasury shares, outside of our shareholder-approved plans, in reliance upon The New York Stock Exchange rules. The restricted stock units granted in February 2018 have a weighted-average grant-date fair value of $2.25 and vest and settle in full after three years. During 2018, none of these restricted stock units vested, and there were 600,000 restricted stock units outstanding at December 31, 2018. During 2018 we recognized compensation cost of $.4 for these restricted stock units. At December 31, 2018, there was $.9 unrecognized compensation cost related to these restricted stock units.

In March 2015, we granted 121,951 performance restricted stock units that will be funded with treasury shares, outside of the 2013 Plan, in reliance upon The New York Stock Exchange rules. These performance restricted stock units have a weighted-average grant-date fair value of $7.49 and the same terms exist for these awards as the 2015 PRSUs discussed above. During 2018, 121951 of these restricted stock units vested, and no performance restricted stock units were outstanding at December 31, 2018. During 2018, 2017 and 2016, we recognized compensation cost of $.0, $.1 and $.1, respectively, for these performance restricted stock units. At December 31, 2018, there was no unrecognized compensation cost related to these performance restricted stock units.

In March 2015 and April 2012, we granted 489,596 and 200,000 restricted stock units, respectively, that will be funded with treasury shares, outside of our shareholder-approved plans, in reliance upon The New York Stock Exchange rules. The restricted stock units granted in March 2015 have a weighted-average grant-date fair value of $9.00 and vest and settle ratably over three years. The restricted stock units granted in April 2012 had a weighted-average grant-date fair value of $21.69 and vested and settled ratably over five years. During 2018, 163,198 of these restricted stock units vested, and there were no restricted stock units were outstanding at December 31, 2018. During 2018, 2017 and 2016, we recognized compensation cost of $.1, $.8 and $1.7, respectively, for these restricted stock units. At December 31, 2018, there was no unrecognized compensation cost related to these restricted stock units as the awards had vested.

NOTE 14. Employee Benefit Plans

Defined Contribution Plans

We offer a defined contribution plan for employees in the United Kingdom ("UK"), which allows eligible participants to contribute eligible compensation through payroll deductions. We double employee contributions up to the first 5% of eligible compensation and therefore the maximum level provided by Avon is 10% of eligible compensation. We made matching contributions in cash to the UK defined contribution plan of $5.9 in 2018, $6.7 in 2017 and $6.5 in 2016, which follow the same investment allocation that the participant has selected for his or her own contributions.

We also offer a qualified defined contribution plan for U.S.-based employees, the Avon Personal Savings Account Plan (the "PSA"), which allows eligible participants to contribute up to 25% of eligible compensation through payroll deductions. We match employee contributions dollar for dollar up to the first 3% of eligible compensation and fifty cents for each dollar contributed from 4% to 6% of eligible compensation. We made matching contributions in cash to the PSA of $2.2 in 2018, $2.6 in 2017 and $3.8 in 2016, which follow the same investment allocation that the participant has selected for his or her own contributions. Prior to the separation of the North America business, the costs associated with the contributions to the PSA were allocated between Discontinued Operations and Global as the plan included both North America and U.S. Corporate Avon associates. See Note 3, Discontinued Operations and Assets and Liabilities Held for Sale.

For U.S.-based employees hired on or after January 1, 2015, we made additional contributions to a Retirement Savings Account ("RSA") within the PSA. Such contributions will range from 3% to 6% of a participant's eligible compensation depending on the sum of the participant's age and length of service (as of December 31 of the prior year). Investment of such contributions will follow the same investment allocation that the participant has selected for his or her own contributions to the PSA. A participant will be vested in the RSA generally after three full years of applicable service.

Defined Benefit Pension and Postretirement Plans

Avon and certain subsidiaries have contributory and noncontributory defined benefit retirement plans for substantially all employees of those subsidiaries. Benefits under these plans are generally based on an employee's length of service and average compensation near retirement, and certain plans have vesting requirements. Plans are funded based on legal requirements and cash flow.

Our largest non-U.S. defined benefit pension plan is in the UK. The UK defined benefit pension plan was frozen for future accruals as of April 1, 2013. The U.S. defined benefit pension plan, the Avon Products, Inc. Personal Retirement Account Plan (the "PRA"), is closed to employees hired on or after January 1, 2015. Qualified retirement benefits for U.S.-based employees hired on or after January 1, 2015 will be provided solely through the PSA, as described above.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of the separation of the North America business, in 2016 we transferred $499.6 of pension liabilities under the PRA 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 PRA, 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 Assets and Liabilities Held for Sale. We continue to retain certain U.S. pension and other postretirement liabilities primarily associated with employees who are actively employed by Avon in the U.S. providing services other than with respect to the North America business. Prior to this separation, our net periodic benefit costs for the U.S. pension and postretirement benefit plans were allocated between Discontinued Operations and Global as the plan included both North America and U.S. Corporate Avon associates.

We provide health care benefits, subject to certain limitations, to certain retired associates in the U.S. and certain foreign countries. In the U.S., such health care benefits for Corporate Avon associates hired on or before January 1, 2005 are in the form of a health reimbursement account. U.S. Corporate Avon associates hired after January 1, 2005 are not eligible for retiree health care benefits. Certain retiree health care obligations for current and former employees of the North America business and certain other former Avon employees based in the U.S. were transferred to New Avon.

We recognize the funded status of defined benefit pension and other postretirement benefit plans on the balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The recognition of prior service costs or credits and net actuarial gains or losses, as well as subsequent changes in the funded status, are recognized as components of AOCI, net of tax, in shareholders' equity, until they are amortized as a component of net periodic benefit cost. We recognize prior service costs or credits and actuarial gains and losses beyond a 10% corridor to earnings based on the estimated future service period of the participants. The determination of the 10% corridor utilizes a calculated value of plan assets for our more significant plans, whereby gains and losses are smoothed over three- and five-year periods.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reconciliation of Benefit Obligations, Plan Assets and Funded Status

The following table summarizes changes in the benefit obligation, plan assets and the funded status of our significant defined benefit pension and postretirement plans. We use a December 31 measurement date for all of our employee benefit plans.

| | Pension Plans | | | | | |
|---|---|---|---|---|---|---|
| | U.S. Plans | | Non-U.S. Plans | | Postretirement Benefits | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Change in Benefit Obligation: | | | | | | |
| Beginning balance | $(88.9) | $(87.6) | $(714.2) | $(652.9) | $(28.2) | $(26.0) |
| Service cost | (2.9) | (4.3) | (4.7) | (4.6) | (.1) | (.1) |
| Interest cost | (2.3) | (3.0) | (15.4) | (18.0) | (1.1) | (1.3) |
| Actuarial (loss) gain | 9.9 | .6 | 47.4 | (15.5) | 1.2 | .3 |
| Benefits paid | 7.8 | 5.4 | 35.5 | 42.5 | 1.4 | .4 |
| Actual expenses and taxes | — | — | 0.5 | — | — | — |
| Plan amendments | — | — | (2.2) | — | — | — |
| Curtailments | 1.7 | — | — | — | — | — |
| Settlements | — | — | 2.6 | — | — | — |
| Special termination benefits | — | — | — | — | (.1) | — |
| Foreign currency changes and other | — | — | 33.5 | (65.7) | .9 | (1.5) |
| Ending balance | $(74.7) | $(88.9) | $(617.0) | $(714.2) | $(26.0) | $(28.2) |
| Change in Plan Assets: | | | | | | |
| Beginning balance | $63.1 | $51.4 | $705.4 | $613.7 | $— | $— |
| Actual return on plan assets | (5.4) | 5.5 | (27.7) | 49.9 | — | — |
| Company contributions | 12.8 | 11.6 | 11.6 | 19.7 | 1.4 | .4 |
| Benefits paid | (7.8) | (5.4) | (35.5) | (42.5) | (1.4) | (.4) |
| Settlements | — | — | (2.6) | — | — | — |
| Foreign currency changes and other | — | — | (35.4) | 64.6 | — | — |
| Ending balance | $62.7 | $63.1 | $615.8 | $705.4 | $— | $— |
| Funded Status: | | | | | | |
| Funded status at end of year | $(12.0) | $(25.8) | $(1.2) | $(8.8) | $(26.0) | $(28.2) |
| Amount Recognized in Balance Sheet: | | | | | | |
| Other assets | $— | $— | $88.1 | $82.0 | $— | $— |
| Accrued compensation | (1.0) | (1.0) | (2.8) | (2.2) | (4.5) | (2.7) |
| Employee benefit plans liability | (11.0) | (24.8) | (86.5) | (88.6) | (21.5) | (25.5) |
| Net amount recognized | $(12.0) | $(25.8) | $(1.2) | $(8.8) | $(26.0) | $(28.2) |
| Pretax Amounts Recognized in Accumulated Other Comprehensive Loss: | | | | | | |
| Net actuarial loss | $33.1 | $41.4 | $173.6 | $176.8 | $— | $1.2 |
| Prior service (credit) cost | (.1) | (.2) | 1.3 | (.9) | .6 | (1.3) |
| Total pretax amount recognized | $33.0 | $41.2 | $174.9 | $175.9 | $.6 | $(.1) |
| Supplemental Information: | | | | | | |
| Accumulated benefit obligation | $72.7 | $85.9 | $179.9 | $199.8 | N/A | N/A |
| Plans with Projected Benefit Obligation in Excess of Plan Assets: | | | | | | |
| Projected benefit obligation | $74.7 | $88.9 | $195.3 | $216.7 | N/A | N/A |
| Fair value plan assets | 62.7 | 63.1 | 106.0 | 125.9 | N/A | N/A |

| | | | | | | |
|---|---|---|---|---|---|---|
| Plans with Accumulated Benefit Obligation in Excess of Plan Assets: | | | | | | |
| Projected benefit obligation | $74.7 | $88.9 | $185.7 | $202.0 | N/A | N/A |
| Accumulated benefit obligation | 72.7 | 85.9 | 174.6 | 191.9 | N/A | N/A |
| Fair value plan assets | 62.7 | 63.1 | 98.0 | 114.0 | N/A | N/A |

The U.S. pension plans include a funded qualified plan (the PRA) and unfunded non-qualified plans. At December 31, 2018, the PRA had benefit obligations of $65.4 and plan assets of $62.7. At December 31, 2017, the PRA had benefit obligations of $76.7 and plan assets of $63.0. We believe we have adequate investments and cash flows to fund the liabilities associated with the unfunded non-qualified plans. The Non-U.S. pension plans include a funded qualified pension plan in the UK. At December 31, 2018, the UK qualified pension plan had benefit obligations of $416.5 and plan assets of $501.7. At December 31, 2017, the UK qualified pension plan had benefit obligations of $494.0 and plan assets of $573.6.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Loss

| | Pension Benefits | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. Plans | | | Non-U.S. Plans | | | Postretirement Benefits | | |
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Net Periodic Benefit Cost: | | | | | | | | | |
| Service cost | $2.9 | $4.3 | $6.4 | $4.7 | $4.6 | $5.0 | $.1 | $.1 | $.1 |
| Interest cost | 2.3 | 3.0 | 6.5 | 15.4 | 18.0 | 21.8 | 1.1 | 1.3 | 1.7 |
| Expected return on plan assets | (3.5) | (3.2) | (8.2) | (31.9) | (28.2) | (33.0) | — | — | — |
| Amortization of prior service credit | — | (.1) | (.2) | (.1) | (.1) | (.1) | (.4) | (.3) | (1.2) |
| Amortization of net actuarial losses | 4.1 | 5.2 | 10.8 | 6.8 | 7.6 | 6.5 | — | .1 | .3 |
| Settlements/curtailments | 1.4 | — | .1 | (.4) | 3.7 | .3 | (.3) | — | (.1) |
| Other | — | — | — | | (.7) | — | .1 | 1.6 | — |
| Net periodic benefit cost[1] | $7.2 | $9.2 | $15.4 | $(5.5) | $4.9 | $.5 | $.7 | $2.8 | $.8 |
| Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income: | | | | | | | | | |
| Actuarial (gains) losses | $(2.8) | $(2.9) | $13.6 | $12.2 | $(7.4) | $(24.6) | $(1.2) | $(.3) | $(2.6) |
| Prior service cost (credit) | — | — | — | 2.2 | — | — | — | | 1.0 |
| Amortization of prior service credit | .1 | .1 | 1.3 | .1 | .1 | .1 | .6 | .3 | 26.7 |
| Amortization of net actuarial losses | (5.6) | (5.2) | (274.4) | (6.4) | (11.3) | (7.8) | — | (.1) | (11.3) |
| Foreign currency changes | — | — | — | (9.1) | 18.9 | (29.6) | — | — | (.1) |
| Total recognized in other comprehensive (loss) income* | $(8.3) | $(8.0) | $(259.5) | $(1.0) | $.3 | $(61.9) | $(.6) | $(.1) | $13.7 |
| Total recognized in net periodic benefit cost and other comprehensive income (loss) | $(1.1) | $1.2 | $(244.1) | $(6.5) | $5.2 | $(61.4) | $.1 | $2.7 | $14.5 |

(1) Includes $4.4 of the U.S. pension plans in 2016, and immaterial amounts of the postretirement benefit plans (related to the U.S.) in 2016, which are included in discontinued operations. 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 table above.

* Amounts represent the pre-tax effect classified within other comprehensive (loss) income. The net of tax amounts are classified within our Consolidated Statements of Comprehensive Income (Loss).

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

The amounts in AOCI that are expected to be recognized as components of net periodic benefit cost during 2019 are as follows:

| | Pension Benefits | | |
|---|---|---|---|
| | U.S. Plans | Non-U.S. Plans | Postretirement Benefits |
| Net actuarial loss | $3.0 | $ 5.0 | $ — |
| Prior service credit | — | — | (.2) |

Assumptions

Weighted-average assumptions used to determine benefit obligations recorded in our Consolidated Balance Sheets as of December 31 were as follows:

| | Pension Benefits | | Postretirement |
|---|---|---|---|
| | U.S. Plans | Non-U.S. Plans | Benefits |

| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| Discount rate | 4.24% | 3.48% | 2.91 % | 2.56 % | 5.17% | 4.75% |
| Rate of compensation increase | 4.00% | 4.00% | 2.69 % | 2.71 % | N/A | N/A |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The discount rate used for determining the present value of future pension obligations for each individual defined benefit pension plan is based on a review of bonds that receive a high-quality rating from a recognized rating agency. The discount rates for our more significant plans, including the UK defined benefit pension plan and the PRA, were based on the internal rates of return for a portfolio of high-quality bonds with maturities that are consistent with the projected future benefit payment obligations of each plan. The weighted-average discount rate for U.S. and non-U.S. defined benefit pension plans determined on this basis has increased to 3.06% at December 31, 2018, from 2.66% at December 31, 2017.

Effective as of January 1, 2018, we changed the method we use to estimate the service and interest cost components of net periodic benefit cost for the PRA and the majority of our significant non-U.S. pension plans, including the UK defined benefit pension plan. Historically, including in 2017, we estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Beginning in 2018, we have elected to use a full yield curve approach in the estimation of these components of net periodic benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates, which we believe results in a more precise measurement of service and interest costs.

Weighted-average assumptions used to determine net benefit cost recorded in our Consolidated Statements of Operations for the years ended December 31 were as follows:

| | Pension Benefits | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. Plans | | | Non-U.S. Plans | | | Postretirement Benefits | | |
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Discount rate | 3.48% | 3.67% | 4.19% | 2.56% | 2.69% | 3.58% | 4.75% | 5.33% | 4.50% |
| Rate of compensation increase | 4.00% | 4.00% | 4.00% | 2.71% | 2.79% | 2.94% | N/A | N/A | N/A |
| Rate of return on assets | 5.50% | 5.50% | 7.00% | 5.20% | 5.09% | 6.40% | N/A | N/A | N/A |

In determining the long-term rates of return, we consider the nature of each plan's investments, an expectation for each plan's investment strategies, historical rates of return and current economic forecasts, among other factors. We generally evaluate the expected rate of return on plan assets annually and adjust as necessary. In determining the net cost for the year ended December 31, 2018, the assumed rate of return on assets globally was 5.23%, which represents the weighted-average rate of return on all plan assets. Amounts associated with the pension and postretirement benefit plans in Canada and the postretirement benefit plan in Puerto Rico, which are associated with discontinued operations, have been excluded from all amounts above.

A significant portion of our pension plan assets relate to the UK defined benefit pension plan. The assumed rate of return for determining 2018 net periodic benefit cost for the UK defined benefit pension plan was 5.20%. In addition, the 2018 rate of return assumption for the UK defined benefit pension plan was based on an asset allocation of approximately 80% in corporate and government bonds and mortgage-backed securities (which are expected to earn approximately 2% to 4% in the long-term) and approximately 20% in equity securities, emerging market debt and high yield securities (which are expected to earn approximately 5% to 9% in the long-term). In addition to the physical assets, the asset portfolio for the UK defined benefit pension plan has derivative instruments which increase our exposure to fixed income (in order to better match liabilities) and, to a lesser extent, impact our equity exposure.

Historically, the pension plan with the most significant pension plan assets was the PRA. The assumed rate of return for determining 2018 net periodic benefit cost for the PRA was 5.50%. In addition, the 2018 rate of return assumption for the PRA was based on an asset allocation of approximately 70% in corporate and government bonds (which are expected to earn approximately 3% to 5% in the long-term) and approximately 30% in equity securities (which are expected to earn approximately 6% to 8% in the long-term).

Similar assessments were performed in determining rates of return on other non-U.S. defined benefit pension plan assets, to arrive at our weighted-average assumed rate of return of 5.20% for determining 2018 net cost for all non-US defined benefit pension plan assets.

Plan Assets

Our U.S. and non-U.S. funded defined benefit pension plans target and weighted-average asset allocations at December 31, 2018 and 2017, by asset category were as follows:

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | U.S. Pension Plan | | | Non-U.S. Pension Plans | | |
|---|---|---|---|---|---|---|
| | % of Plan Assets | | | % of Plan Assets | | |
| | Target | at Year-End | | Target | at Year-End | |
| Asset Category | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Equity securities | 30 % | 30 % | 30 % | 15 % | 16 % | 18 % |
| Debt securities | 70 | 70 | 70 | 80 | 79 | 77 |
| Other | — | — | — | 5 | 5 | 6 |
| Total | 100% | 100% | 100% | 100 % | 100 % | 100 % |

The following tables present the fair value hierarchy for pension assets measured at fair value on a recurring basis as of December 31, 2018 :

| | U.S. Pension Plan | | | |
|---|---|---|---|---|
| Asset Category | Level 1 | Level 2 | Total | |
| Equity Securities: | | | | |
| Domestic equity | $— | $8.4 | $8.4 | |
| International equity | — | 6.3 | 6.3 | |
| Emerging markets | — | 1.8 | 1.8 | |
| | — | 16.5 | 16.5 | |
| Fixed Income Securities: | | | | |
| Corporate bonds | — | 32.2 | 32.2 | |
| Government securities | — | 13.3 | 13.3 | |
| | — | 45.5 | 45.5 | |
| Cash | .7 | | .7 | |
| Total | $.7 | $62.0 | $62.7 | |

| | Non-U.S. Pension Plans | | | |
|---|---|---|---|---|
| Asset Category | Level 1 | Level 2 | Level 3 | Total |
| Equity Securities: | | | | |
| Domestic equity | $— | $25.8 | $ — | $25.8 |
| International equity | — | 72.5 | — | 72.5 |
| | — | 98.3 | — | 98.3 |
| Fixed Income Securities: | | | | |
| Corporate bonds | — | 212.7 | — | 212.7 |
| Government securities | — | 201.7 | — | 201.7 |
| Other | — | 70.1 | — | 70.1 |
| | — | 484.5 | — | 484.5 |
| Other | | | | |
| Cash | 35.1 | — | — | 35.1 |
| Derivatives | — | (4.1 ) | — | (4.1 ) |
| Real estate | — | — | 2.0 | 2.0 |
| Other | — | — | — | — |
| | 35.1 | (4.1 ) | 2.0 | 33.0 |
| Total | $35.1 | $578.7 | $ 2.0 | $615.8 |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present the fair value hierarchy for pension assets measured at fair value on a recurring basis as of December 31, 2017:

| | U.S. Pension Plan | | |
|---|---|---|---|
| Asset Category | Level 1 | Level 2 | Total |
| Equity Securities: | | | |
| Domestic equity | $— | $7.4 | $7.4 |
| International equity | — | 9.7 | 9.7 |
| Emerging markets | — | 2.0 | 2.0 |
| | — | 19.1 | 19.1 |
| Fixed Income Securities: | | | |
| Corporate bonds | — | 31.8 | 31.8 |
| Government securities | — | 12.2 | 12.2 |
| | — | 44.0 | 44.0 |
| Cash | — | — | — |
| Total[3] | $— | $63.1 | $63.1 |

| | Non-U.S. Pension Plans | | | |
|---|---|---|---|---|
| Asset Category | Level 1 | Level 2 | Level 3 | Total |
| Equity Securities: | | | | |
| Domestic equity | $— | $33.9 | $ — | $33.9 |
| International equity | — | 91.1 | — | 91.1 |
| | — | 125.0 | — | 125.0 |
| Fixed Income Securities: | | | | |
| Corporate bonds | — | 223.9 | — | 223.9 |
| Government securities | — | 236.0 | — | 236.0 |
| Other | — | 79.9 | — | 79.9 |
| | — | 539.8 | — | 539.8 |
| Other: | | | | |
| Cash | 29.3 | — | — | 29.3 |
| Derivatives | — | 34.1 | — | 34.1 |
| Real estate | — | — | .9 | .9 |
| Other | — | — | .6 | .6 |
| | 29.3 | 9.8 | 1.5 | 40.6 |
| Total | $29.3 | $674.6 | $ 1.5 | $705.4 |

A reconciliation of the beginning and ending balances for our Level 3 investments is provided in the table below:

| | Amount |
|---|---|
| Balance at January 1, 2017 | $ 1.5 |
| Actual return on plan assets held | (.1) |
| Foreign currency changes | .1 |
| Balance at December 31, 2017 | 1.5 |
| Purchases and sales net | (.7) |
| Actual return on plan assets held | 1.4 |
| Foreign currency changes | (.2) |
| Balance at December 31, 2018 | $ 2.0 |

Investments in equity securities classified as Level 1 in the fair value hierarchy are valued at quoted market prices. Investments in equity securities classified as Level 2 in the fair value hierarchy include collective funds that are valued at quoted market prices for non-active securities. Fixed income securities are based on broker quotes for non-active securities. Mutual funds are valued at quoted market prices. Real estate is valued by reference to investment and leasing transactions at similar types of property, supplemented by third party appraisals. Derivative instruments are not publicly traded and each derivative contract is

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

specifically negotiated with a unique financial counterparty. The derivative instruments are valued based upon valuation statements received from the financial counterparties, which use underlying yield curves or market indices.
The overall objective of the plan assets associated with the PRA and the UK defined benefit pension plan is to provide the means to pay benefits to participants and their beneficiaries in the amounts and at the times called for by the plan. This is expected to be achieved through the investment of our contributions and other trust assets and by utilizing investment policies designed to achieve adequate funding over a reasonable period of time.
In some of our defined benefit pension plans, we have adopted investment strategies which are designed to match the movements in the pension liability through an increased allocation towards debt securities. In addition, we also utilize derivative instruments in our UK defined benefit pension plans to achieve the desired market exposures or to hedge certain risks. Derivative instruments may include, but are not limited to, futures, options, swaps or swaptions. Investment types, including the use of derivatives are based on written guidelines established for each investment manager and monitored by the plan's investment committee.
Pension trust assets are invested so as to achieve a return on investment, based on levels of liquidity and investment risk that are prudent and reasonable as circumstances change from time to time. While we recognize the importance of the preservation of capital, we also adhere to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns. Consequently, prudent risk-taking is justifiable.
The asset allocation decision includes consideration of the non-investment aspects of the PRA and the UK defined benefit pension plan, including future retirements, lump-sum elections, growth in the number of participants, company contributions, and cash flow. These characteristics of the plan place certain demands upon the level, risk, and required growth of trust assets. We regularly conduct analyses of the plan’s current and likely future financial status by forecasting assets, liabilities, benefits and company contributions over time. In so doing, the impact of alternative investment policies upon the plan’s financial status is measured and an asset mix which balances asset returns and risk is selected.
Our decision with regard to asset mix is reviewed periodically. Asset mix guidelines include target allocations and permissible ranges for each asset category. Assets are monitored on an ongoing basis and rebalanced as required to maintain an asset mix within the permissible ranges. The guidelines will change from time to time, based on an ongoing evaluation of the factors discussed above.
Cash flows
We expect to make contributions related to continuing operations in the range of $5 to $10 to our U.S. defined benefit pension and postretirement plans and in the range of $10 to $15 to our non-U.S. defined benefit pension and postretirement plans during 2019.
Total benefit payments expected to be paid from the plans are as follows:

| | Pension Benefits | | | |
|---|---|---|---|---|
| | U.S. Plans | Non-U.S. Plans | Total | Postretirement Benefits |
| 2019 | $12.6 | $ 41.1 | $53.7 | $ 4.5 |
| 2020 | 21.4 | 40.4 | 61.8 | 2.4 |
| 2021 | 5.5 | 41.2 | 46.7 | 2.3 |
| 2022 | 4.6 | 52.6 | 57.2 | 2.2 |
| 2023 | 4.0 | 54.8 | 58.8 | 2.1 |
| 2024-2028 | 15.8 | 280.7 | 296.5 | 8.7 |

Postemployment Benefits
We provide postemployment benefits, which include salary continuation, severance benefits, disability benefits and continuation of health care benefits to eligible former employees. The accrued cost for such postemployment benefits was $9.2 and $9.7 at December 31, 2018 and 2017, respectively, and was included in employee benefit plans in our Consolidated Balance Sheets.
Supplemental Retirement Programs

In the U.S., in addition to qualified retirement plans (i.e., the PSA and the PRA), we also maintain unfunded non-qualified plans. We offer a non-qualified deferred compensation plan, the Avon Products, Inc. Deferred Compensation Plan (the "DCP"), for certain higher paid key employees. The DCP is an unfunded, unsecured plan for which obligations are paid to participants out of our general assets. The DCP allows for the deferral of up to 50% of a participant’s base salary, the deferral of up to 100%

of incentive compensation bonuses, and the deferral of contributions that would normally have been made to the PSA but are not deferred because the amount was in excess of U.S. Internal Revenue Code limits on contributions to the PSA. Participants may elect to have their deferred compensation invested in one or more of three permitted investment alternatives. Expense associated with the DCP was $.1 in 2018, $1.4 in 2017 and $1.0 in 2016. The benefit obligation under the DCP was $16.4 at December 31, 2018 and $21.0 at December 31, 2017 and was included in other liabilities and accrued compensation in our Consolidated Balance Sheets.

We maintain supplemental retirement programs consisting of the Supplemental Executive Retirement Plan of Avon Products, Inc. ("SERP") and the Benefit Restoration Pension Plan of Avon Products, Inc. ("BRP") under which non-qualified supplemental pension benefits are paid to higher paid key employees in addition to amounts received under our qualified defined benefit retirement plan, which is subject to IRS limitations on covered compensation. The SERP has not been offered to new employees in the last eight years, and the BRP is closed to employees hired on or after January 1, 2015 in conjunction with the closure of the PRA. The annual cost of these programs has been included in the determination of the net periodic benefit cost shown previously and amounted to $2.1 in 2018, $3.0 in 2017 and $3.9 in 2016. The benefit obligation under these programs was $9.3 at December 31, 2018 and $12.3 at December 31, 2017 and was included in employee benefit plans and accrued compensation in our Consolidated Balance Sheets.

We also maintain a Supplemental Life Plan ("SLIP") under which additional death benefits ranging from $.4 to $2.0 are provided to certain active and retired officers. The SLIP has not been offered to new officers in over eight years.

We established a grantor trust to provide assets that may be used for the benefits payable under the SERP and SLIP. The trust is irrevocable and, although subject to creditors' claims, assets contributed to the trust can only be used to pay such benefits with certain exceptions. The assets held in the trust are included in other assets and at December 31 consisted of the following:

| | 2018 | 2017 |
|---|---|---|
| Corporate-owned life insurance policies | $35.8 | $36.0 |
| Cash and cash equivalents | 1.2 | 1.1 |
| Total | $37.0 | $37.1 |

The assets are recorded at fair market value, except for investments in corporate-owned life insurance policies which are recorded at their cash surrender values as of each balance sheet date, which is a proxy of fair value. Changes in the cash surrender value during the period are recorded as a gain or loss within SG&A expenses in our Consolidated Statements of Operations.

NOTE 15. Segment Information

Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa; South Latin America; North Latin America; and Asia Pacific. The segments have similar business characteristics and each offers similar products through similar customer access methods.

The accounting policies of the segments are the same as those described in Note 1, Description of the Business and Summary of Significant Accounting Policies. We evaluate the performance of our segments based on revenues and segment profits or losses. Segment revenues primarily reflect direct sales of products to Representatives based on the Representative's geographic location.

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 17, Restructuring Initiatives), a loss contingency related to a non-U.S. pension plan (see Note 14, Employee Benefit Plans), certain significant asset impairment charges (see Note 20, Goodwill), 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.

Other operating segments and business activities include the business results for Venezuela, as it was deconsolidated effective March 31, 2016, as well as markets that have been exited. Effective in the first quarter of 2017, given that we exited Thailand during 2016, the results of Thailand are now reported in Other operating segments and business

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

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized financial information concerning our reportable segments as of December 31 is shown in the following tables:

| Total Revenue | 2018 | 2017 | 2016 |
|---|---|---|---|
| Europe, Middle East & Africa | $2,093.8 | $2,126.5 | $2,138.2 |
| South Latin America [2] | 2,146.9 | 2,222.4 | 2,145.9 |
| North Latin America | 809.3 | 811.8 | 829.9 |
| Asia Pacific | 470.8 | 471.9 | 494.0 |
| Total segment revenue | 5,520.8 | 5,632.6 | 5,608.0 |
| Other operating segments and business activities | 50.5 | 83.0 | 109.7 |
| Total revenue | $5,571.3 | $5,715.6 | $5,717.7 |

| Operating Profit | 2018 | 2017 | 2016 |
|---|---|---|---|
| Segment Profit | | | |
| Europe, Middle East & Africa | $267.5 | $329.6 | $322.8 |
| South Latin America [2] | 314.6 | 195.7 | 201.1 |
| North Latin America | 70.4 | 83.4 | 116.1 |
| Asia Pacific | 42.0 | 50.8 | 62.5 |
| Total segment profit [2] | 694.5 | 659.5 | 702.5 |
| Other operating segments and business activities | 3.6 | 2.5 | 4.1 |
| Unallocated global expenses | (282.4) | (302.3) | (332.6) |
| CTI restructuring initiatives | (180.5) | (60.2) | (77.4) |
| Loss contingency | — | (18.2) | — |
| Legal settlement[1] | — | — | 27.2 |
| Operating profit [2] | $235.2 | $281.3 | $323.8 |

(1) In the third quarter of 2016, we settled claims relating to professional services that had been provided to the Company prior to 2013 in connection with a previously disclosed legal matter. The proceeds, net of legal fees, of $27.2 before tax ($27.2 after tax) were recognized as a reduction of SG&A in the third quarter of 2016 and were subsequently received by the Company in the fourth quarter of 2016.

(2) Includes the impact of the Brazil IPI tax release, which was recorded in net sales and other (income) expense, net in the amounts of approximately $168 and approximately $27, respectively, in our Consolidated Income Statements (See Note 19, Contingencies for further information).

| Total Assets | 2018 | 2017 | 2016 |
|---|---|---|---|
| Europe, Middle East & Africa | $1,048.8 | $1,190.5 | $949.3 |
| South Latin America | 1,001.0 | 1,273.6 | 1,306.3 |
| North Latin America | 329.7 | 335.8 | 344.4 |
| Asia Pacific | 272.0 | 278.2 | 291.8 |
| Total from reportable segments | 2,651.5 | 3,078.1 | 2,891.8 |
| Total from discontinued operations | — | — | 1.3 |
| Other operating segments | 5.4 | 18.9 | 6.5 |
| Global | 353.1 | 600.9 | 519.3 |
| Total assets | $3,010.0 | $3,697.9 | $3,418.9 |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Capital Expenditures | 2018 | 2017 | 2016 |
|---|---|---|---|
| Europe, Middle East & Africa | $37.0 | $29.4 | $18.8 |
| South Latin America | 27.5 | 35.4 | 39.2 |
| North Latin America | 9.1 | 12.9 | 11.7 |
| Asia Pacific | 2.9 | 2.3 | 4.3 |
| Total from reportable segments | 76.5 | 80.0 | 74.0 |
| Other operating segments | — | — | 0.2 |
| Global | 18.4 | 17.3 | 18.8 |
| Total capital expenditures | $94.9 | $97.3 | $93.0 |

| Depreciation and Amortization | 2018 | 2017 | 2016 |
|---|---|---|---|
| Europe, Middle East & Africa | $27.3 | $29.9 | $28.2 |
| South Latin America | 30.1 | 34.3 | 30.9 |
| North Latin America | 14.2 | 13.6 | 13.1 |
| Asia Pacific | 8.3 | 8.9 | 10.4 |
| Total from reportable segments | 79.9 | 86.7 | 82.6 |
| Other operating segments | .3 | .4 | 1.3 |
| Global | 27.5 | 26.9 | 30.0 |
| Total depreciation and amortization | $107.7 | $114.0 | $113.9 |

Total Revenue by Major Country

A major country is defined as one with total revenues greater than 10% of consolidated total revenues.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Brazil | $1,262.8 | $1,263.8 | $1,220.4 |
| All other | 4,308.5 | 4,451.8 | 4,497.3 |
| Total | $5,571.3 | $5,715.6 | $5,717.7 |

Long-Lived Assets by Major Country

A major country is defined as one with long-lived assets greater than 10% of consolidated long-lived assets, and also includes our country of domicile (the U.S.). Long-lived assets primarily include property, plant and equipment associated with our continuing operations. Long-lived assets in Brazil consist primarily of property, plant and equipment related to manufacturing and distribution facilities and long-lived assets in the U.S. consist primarily of property, plant and equipment, including our global research and development facility.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Brazil | $283.2 | $396.9 | $400.9 |
| U.S. | 152.6 | 174.4 | 196.1 |
| All other | 458.0 | 554.3 | 559.9 |
| Total | $893.7 | $1,125.6 | $1,156.9 |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16. Leases and Commitments

Minimum rental commitments under noncancelable operating leases, primarily for equipment and office facilities at December 31, 2018, are included in the following table under leases. Purchase obligations include commitments to purchase paper, inventory and other services.

| Year | Leases | Purchase Obligations |
|---|---|---|
| 2019 | $56.4 | $ 345.6 |
| 2020 | 42.0 | 186.4 |
| 2021 | 35.3 | 87.5 |
| 2022 | 31.1 | 37.1 |
| 2023 | 22.4 | 7.9 |
| Later years | 46.9 | 5.9 |
| Sublease rental income | (103.8 ) | N/A |
| Total | $130.3 | $ 670.4 |

Rent expense was $61.7 in 2018, $66.2 in 2017 and $75.0 in 2016. Plant construction, expansion and modernization projects with an estimated cost to complete of $31.8 were in progress at December 31, 2018.

NOTE 17. Restructuring Initiatives

Transformation Plan and Open Up Avon

Transformation Plan

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

As a result of these restructuring actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $205.4 before taxes, of which $38.0 was recorded during the twelve months ended December 31, 2018, in our Consolidated Statements of Operations. There are no further restructuring actions to be taken associated with our Transformation Plan, as beginning in the third quarter of 2018, all new restructuring actions approved will operate under our new Open Up Avon plan described below.

Open Up Avon

In September 2018, we initiated a new strategy in order to return Avon to growth ("Open Up Avon"). As one element of this plan, we are targeting pre-tax annualized cost savings of approximately $400 by 2021, to be generated from efficiencies in manufacturing and sourcing, distribution, general and administrative activities, and back office functions, as well as through revenue management, interest and tax. These savings are expected to be achieved through restructuring actions (that may result in charges related to severance, contract terminations and inventory and other asset write-offs), as well as other cost-savings strategies that would not result in restructuring charges. In January 2019, we announced significant advancements in this strategy, including a structural reset of inventory processes and an aggregate 18% reduction in global workforce. The structural reset of inventory processes includes a 15% reduction in inventory levels and 25% reduction in Stock Keeping Units (SKUs). The structural reset resulted in an incremental one-off inventory obsolescence expense of $88 million recognized at December 31, 2018. As a result of Open Up Avon restructuring actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $143.2 before taxes, which was recorded during the year ended December 31, 2018, in our Consolidated Statements of Operations.

Restructuring Charges - 2018

During the year ended December 31, 2018, we recorded costs to implement of $181.2, of which $38.0 related to the Transformation Plan and $143.2 related to Open Up Avon, in our Consolidated Statements of Operations. The costs consisted of the following:

- net charges of $43.3 for employee-related costs, including severance benefits;
- implementation costs of $30.9 primarily related to professional service fees;
- accelerated depreciation of $5.2;
- asset impairment of $4.0, primarily related to manufacturing equipment;
- inventory write-off of $89.8;
- foreign currency translation adjustment charges of $.7;
- dual running costs of $4.1; and
- contract termination and other costs of $3.2.

Of the total costs to implement during the year ended December 31, 2018, $89.7 was recorded in SG&A expenses and $91.5 was recorded in cost of sales.

Restructuring Charges - 2017

During the year ended December 31, 2017, we recorded costs to implement of $60.8 related to the Transformation Plan, in our Consolidated Statements of Operations. The costs consisted of the following:

- net charge of $26.9 for employee-related costs, including severance benefits, of which $7.9 was associated with the closure of the Australia and New Zealand markets;

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- contract termination and other net charges of $27.3, associated with vacating our previous corporate headquarters, including the impairment of fixed assets;
- implementation costs of $4.1 primarily related to professional service fees;
- accelerated depreciation of $1.9; and
- inventory write-off of $.6 primarily associated with the closure of the Australia and New Zealand markets.

Of the total costs to implement during the year ended December 31, 2017, $60.2 was recorded in SG&A expenses and $.6 was recorded in cost of sales.

Restructuring Charges - 2016

During the year ended December 31, 2016, we recorded costs to implement of $83.7 related to the Transformation Plan, in our Consolidated Statements of Operations. The costs consisted of the following:

- net charge of $62.6 for employee-related costs, including severance benefits;
- contract termination and other net charges of $8.7;
- implementation costs of $7.4 primarily related to professional service fees;
- charge of $2.7 due to the accumulated foreign currency translation adjustments associated with the closure of the Thailand market;
- accelerated depreciation of $1.9; and
- inventory write-off of $.4.

Of the total costs to implement during the year ended December 31, 2016, $83.3 was recorded in SG&A expenses and $.4 was recorded in cost of sales.

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

The liability balance for the restructuring actions, primarily associated with our Transformation Plan, at December 31, 2018 is as follows:

| | Employee-Related Costs | Inventory Write-offs | Foreign Currency Translation Adjustment Write-offs | Contract Terminations/Other | Total |
|---|---|---|---|---|---|
| 2016 charges | $ 73.4 | $ 0.4 | $ 2.7 | $ 8.7 | $85.2 |
| Balance at December 31, 2016 | $ 48.6 | $ — | $ — | $ 2.8 | $51.4 |
| 2017 charges | $ 31.9 | $ .6 | $ — | $ — | $32.5 |
| Adjustments | (5.0) | — | — | 27.3 | 22.3 |
| Cash payments | (34.8) | — | — | (8.1) | (42.9) |
| Non-cash write-offs | — | (.6) | — | (14.0) | (14.6) |
| Foreign exchange | .5 | — | — | — | .5 |
| Balance at December 31, 2017 | $ 41.2 | $ — | $ — | $ 8.0 | $49.2 |
| 2018 charges | $ 29.5 | $ 1.4 | $ 0.7 | $ 5.5 | $37.1 |
| Adjustments | (12.6) | — | — | (3.4) | (16.0) |
| Cash payments | (21.3) | — | — | (6.3) | (27.6) |
| Non-cash write-offs | — | (1.4) | (0.7) | — | (2.1) |
| Foreign exchange | (2.4) | — | — | (.2) | (2.6) |
| Balance at December 31, 2018 | $ 34.4 | $ — | $ — | $ 3.6 | $38.0 |

The liability balance for the restructuring actions, primarily associated with Open Up Avon, at December 31, 2018 is as follows:

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Employee-Related Costs | Inventory Write-offs | Foreign Currency Translation Adjustment Write-offs | Contract Terminations/Other | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ — | $ — | $ — | $ — | $— |
| 2018 charges | $ 26.4 | $ 88.5 | $ — | $ 0.8 | $115.7 |
| Adjustments | — | — | — | — | — |
| Cash payments | (6.8) | — | — | 0.3 | (6.5) |
| Non-cash write-offs | — | (88.5) | — | — | (88.5) |
| Foreign exchange | — | — | — | — | — |
| Balance at December 31, 2018 | $ 19.6 | $ — | $ — | $ 1.1 | $20.7 |

The majority of cash payments, if applicable, associated with the year-end liability are expected to be made during 2019.

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

| | Employee-Related Costs | Inventory/ Asset Write-offs | Contract Terminations/Other | Foreign Currency Translation Adjustment Write-offs | Total |
|---|---|---|---|---|---|
| Transformation Plan | | | | | |
| Charges incurred to-date | $ 128.0 | $ 2.2 | $ 40.7 | $ 3.4 | $174.3 |
| Estimated charges to be incurred on approved initiatives | — | — | — | — | — |
| Total expected charges on approved initiatives | $ 128.0 | $ 2.2 | $ 40.7 | $ 3.4 | $174.3 |
| | | | | | |
| Open Up Avon | | | | | |
| Charges incurred to-date | $ 26.3 | $ 88.5 | $ 2.3 | $ — | $117.1 |
| Estimated charges to be incurred on approved initiatives | — | — | .5 | — | .5 |
| Total expected charges on approved initiatives | $ 26.3 | $ 88.5 | $ 2.8 | $ — | $117.6 |

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

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Europe, Middle East & Africa | South Latin America | North Latin America | Asia Pacific | Global & Other Operating Segments | Total |
|---|---|---|---|---|---|---|
| Transformation Plan | | | | | | |
| 2015 | $ — | $ — | $ — | $— | $ 21.4 | $21.4 |
| 2016 | 30.9 | 13.2 | 4.4 | 9.1 | 16.8 | 74.4 |
| 2017 | .9 | 5.6 | (.6) | (.5) | 49.4 | 54.8 |
| 2018 | 5.0 | 4.1 | .6 | .6 | 13.4 | 23.7 |
| Charges incurred to-date | 36.8 | 22.9 | 4.4 | 9.2 | 101.0 | 174.3 |
| Estimated charges to be incurred on approved initiatives | — | — | — | — | — | — |
| Total expected charges on approved initiatives | $ 36.8 | $ 22.9 | $ 4.4 | $9.2 | $ 101.0 | $174.3 |
| | | | | | | |
| Open Up Avon | | | | | | |
| 2018 | 32.2 | 36.4 | 27.9 | 14.4 | 6.2 | 117.1 |
| Charges incurred to-date | 32.2 | 36.4 | 27.9 | 14.4 | 6.2 | 117.1 |
| Estimated charges to be incurred on approved initiatives | — | — | — | — | .5 | .5 |
| Total expected charges on approved initiatives | $ 32.2 | $ 36.4 | $ 27.9 | $14.4 | $ 6.7 | $117.6 |

The charges above are not included in segment profit, as this excludes costs to implement restructuring initiatives. The amounts shown in the tables above as charges recorded to-date relate to initiatives that have been approved and recorded in the consolidated financial statements as the costs are probable and estimable. The amounts shown in the tables above as total expected charges on approved initiatives represent charges recorded to-date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording an expense have not yet been met.

Other Restructuring Initiatives

During 2018, 2017 and 2016, we recorded net benefits of $.7, $.4 and $5.5, respectively, primarily in SG&A expenses, in our Consolidated Statements of Operations, associated with the restructuring programs launched in 2005 and 2009 and the restructuring initiative launched in 2012 (the "Other Restructuring Initiatives"), each of which are substantially complete. The net benefit in 2016 primarily consisted of a net gain of $3.7 due to the sale of a distribution center in the U.S. The liability balance associated with the Other Restructuring Initiatives is not material at December 31, 2018.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. Series C Convertible Preferred Stock

On March 1, 2016, the Company issued and sold to Cerberus Investor 435,000 shares of newly issued series C preferred stock for an aggregate purchase price of $435 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. Cumulative preferred dividends accrue daily on the series C preferred stock at a rate of 1.25% per quarter. The series C preferred stock had accrued unpaid dividends of $65.8 as of December 31, 2018. There were no dividends declared in the years ended December 31, 2018 and 2017.

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 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 December 31, 2018, 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.

NOTE 19. Contingencies

Settlements of FCPA Investigations

As previously reported, the United States District Court for the Southern District of New York (the "USDC") approved in December 2014 a deferred prosecution agreement (“DPA”) entered into between the Company and the U.S.

Department of Justice related to charges of violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act (“FCPA”). In addition, Avon Products (China) Co. Ltd., a subsidiary of the Company operating in China, pleaded guilty to conspiring to violate the books and records provision of the FCPA. The USDC also entered a judgment in January 2015 approving our consent agreement with the U.S. Securities and Exchange Commission (the “SEC”) (the "Consent") to settle the SEC’s complaint charging violations of the books and records and internal control provisions of the FCPA.

As part of these resolutions, the Company agreed, among other things, to pay fines, disgorgement and prejudgment interest in an aggregate amount of $135 and to have a compliance monitor. The DPA expired, and the charges against the Company were

dismissed with prejudice on February 5, 2018. Under the terms of the Consent, the Company was subject to a continued self-monitoring period until July 2018, which has now concluded.

Brazilian Tax Assessments

In December 2012, our Brazilian subsidiary received an excise (IPI) tax assessment for the year 2008 with respect to excise tax (IPI) and taxes charged on gross receipts (PIS and COFINS) from the Brazilian tax authorities. In the second quarter of 2014, the PIS and COFINS assessments were officially closed in favor of Avon Brazil. As in prior IPI cases that have been settled in Avon's favor, the 2012 IPI assessment asserts that the establishment in 1995 of separate manufacturing and distribution companies in Brazil was done without a valid business purpose and that Avon Brazil did not observe minimum pricing rules to define the taxable basis of excise tax. The structure adopted in 1995 is comparable to that used by many other companies in Brazil. We believe that our Brazilian corporate structure is appropriate, both operationally and legally, and that the 2012 IPI assessment is unfounded.

These matters are being vigorously contested. In January 2013, we filed a protest seeking a first administrative level review with respect to the 2012 IPI assessment. In July 2013, the 2012 IPI assessment was upheld at the first administrative level and we appealed this decision to the second administrative level. The 2012 IPI assessment totals approximately $306, including penalties and accrued interest. On April 18, 2018, Avon received official notification that the second administrative level has issued a partially favorable and partially unfavorable decision. In this decision, the original assessment was reduced by approximately $63 (including associated penalty and interest), subject to Federal Revenue appeal. The remaining $243 of the assessment was upheld at the second administrative level. On April 20, 2018, we appealed this decision in the third administrative level.

On October 3, 2017, Avon Brazil received a new tax assessment notice regarding IPI for 2014. The 2017 IPI assessment totals approximately $236, including penalties and accrued interest. In line with the other assessments received in the past, the Brazilian tax authorities assert that the structure adopted in 2005 has no valid business purpose and that Avon Brazil did not observe minimum pricing rules to define the taxable basis of excise tax. On April 2, 2018, Avon was notified of an unfavorable decision at the first administrative level. On April 27, 2018, we filed an appeal in the second administrative level.

In the event that the 2012 and the 2017 IPI assessments are upheld in the third and final administrative level, it may be necessary for us to provide security to pursue further appeals in the judicial levels, which, depending on the circumstances, may result in a charge to earnings and an adverse effect on the Company's Consolidated Statements of Cash Flows. It is not possible to reasonably estimate the likelihood or potential amount of assessments that may be issued for subsequent periods (tax years up through 2010 are closed by statute). We believe that the 2012 and the 2017 IPI assessments are unfounded, however, based on the likelihood that these will be upheld, we assess the risks as disclosed above as reasonably possible. At December 31, 2018, we have not recognized a liability for the 2012 or 2017 IPI assessments.

Brazil IPI Tax on Cosmetics

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

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

other developments, we concluded, supported by the opinion of legal counsel, that the Executive Decree is unconstitutional. We therefore assessed the IPI tax under ASC 450, Contingencies and determined that the risk of loss during ongoing judicial reviews was reasonably possible but not probable. Accordingly, we released the associated liability as of September 30, 2018 of approximately $195 and have ceased accruing the IPI taxes from October 1, 2018. The liability had been classified within long-term sales taxes and taxes other than income in our Consolidated Balance Sheet, and the release was recorded in net sales and other (income) expense, in the amounts of approximately $168 and approximately $27, respectively, in our Consolidated Income Statements.

An unfavorable ruling to our objection of this IPI tax increase would have an adverse effect on the Company's Consolidated Income Statements and Consolidated Statements of Cash Flows as Avon Brazil would have to remit the reasonably possible amount of $220 to the taxing authorities (including the judicial deposit that was returned to us on July 30, 2018). We are not able to reliably predict the timing of the outcome of our objection to this tax increase. A favorable judicial ruling to our

objection of this IPI tax would have an adverse effect on the Company's Consolidated Statements of Cash Flows as Avon Brazil would have to remit all or a portion of the associated income tax liability to the taxing authorities. The Company is accruing a tax reserve, which amounts to approximately $73 at December 31, 2018. This reserve will be settled on final adjudication of the law through a combination of cash and use of deferred tax assets.

Talc-Related Litigation

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

Brazilian Labor-Related Litigation

On an ongoing basis, the Company is subject to numerous and diverse labor-related lawsuits filed by employees in Brazil. These cases are assessed on an aggregated and ongoing basis based on historical outcomes of similar cases. The claims made are often for significantly larger sums than have historically been paid out by the Company. Our practice continues to be to recognize a liability based on our assessment of historical payments in similar cases. Our best estimate of the probable loss for such current cases at December 31, 2018 is approximately $11 and, accordingly, we have recognized a liability for this amount.

Shareholder Litigation

On February 14, 2019, a purported shareholder’s class action complaint (Bevinal v. Avon Products, Inc., et al., No. 19-cv-1420) was filed in the United States District Court for the Southern District of New York against the Company and certain present and former officers of the Company. The complaint is brought on behalf of a purported class consisting of all purchasers of Avon common stock between August 2, 2016 and August 2, 2017, inclusive. The complaint asserts violations of Sections 10(b) and 20(a) of the Exchange Act based on allegedly false or misleading statements and alleged market manipulation with respect to, among other things, changes made to Avon’s credit terms for representatives in Brazil. In light of the early stage of the litigation, we are unable to predict the outcome of this matter and are unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome.

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 December 31, 2018, is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. Goodwill

Goodwill

| | Europe, Middle East & Africa | South Latin America | Asia Pacific | Total |
|---|---|---|---|---|
| Gross balance at December 31, 2017 | $27.3 | $72.7 | $85.0 | $185.0 |
| Accumulated impairments | (6.9) | — | (82.4) | (89.3) |
| Net balance at December 31, 2017 | $20.4 | $72.7 | $2.6 | $95.7 |
| | | | | |
| Changes during the period ended December 31, 2018: | | | | |
| Divestitures | $— | $— | $— | $— |
| Impairment | — | — | — | — |
| Foreign exchange | (2.4) | (5.9) | — | (8.3) |
| | | | | |
| Gross balance at December 31, 2018 | $24.9 | $66.8 | $85.0 | $176.7 |
| Accumulated impairments | (6.9) | — | (82.4) | (89.3) |
| Net balance at December 31, 2018 | $18.0 | $66.8 | $2.6 | $87.4 |

NOTE 21. Supplemental Balance Sheet Information

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

| Components of Prepaid expenses and other | 2018 | 2017 |
|---|---|---|
| Prepaid taxes and tax refunds receivable | $145.0 | $111.6 |
| Receivables other than trade | 69.2 | 67.2 |
| Prepaid brochure costs, paper and other literature | 14.9 | 64.8 |
| Other | 42.9 | 52.8 |
| Prepaid expenses and other | $272.0 | $296.4 |

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

| Components of Other assets | 2018 | 2017 |
|---|---|---|
| Deferred tax assets (Note 10) | $212.6 | $203.8 |
| Capitalized software (Note 1) | 89.3 | 85.2 |
| Judicial deposits other than Brazil IPI tax (see below) | 74.1 | 82.2 |
| Net overfunded pension plans (Note 14) | 88.1 | 82.0 |
| Long-term receivables | 73.2 | 75.6 |
| Judicial deposit for Brazil IPI tax on cosmetics (Note 19) | — | 73.8 |
| Trust assets associated with supplemental benefit plans (Note 14) | 37.0 | 37.1 |
| Tooling (plates and molds associated with our beauty products) | 12.6 | 12.5 |
| Investment in New Avon (Note 4) | — | — |
| Other | 16.1 | 14.0 |
| Other assets | $603.0 | $666.2 |

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22. Results of Operations by Quarter (Unaudited)

| 2018 | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| Total revenue | $1,393.5 | $1,351.9 | $1,424.2 | $1,401.7 | $5,571.3 |
| Gross profit | 813.8 | 812.2 | 885.8 | 695.5 | 3,207.3 |
| Operating profit[1] | 44.9 | 53.0 | 186.9 | (49.6) | 235.2 |
| Income (Loss) from continuing operations, before taxes | 10.4 | (0.3) | 182.1 | (84.1) | 108.1 |
| (Loss) income from continuing operations, net of tax[2] | (21.1) | (37.0) | 113.8 | (77.5) | (21.8) |
| Net loss attributable to noncontrolling interests | .8 | .9 | .7 | (.1) | 2.3 |
| Net (loss) income attributable to Avon | $(20.3) | $(36.1) | $114.5 | $(77.6) | $(19.5) |
| | | | | | |
| (Loss) earnings per common share from continuing operations | | | | | |
| Basic | $(.06) | $(.09) | $.21 | $(.19) | $(.10)[3] |
| Diluted | (.06) | (.09) | .21 | (.19) | (.10)[3] |

| 2017 | First | Second | Third | Fourth | Year | |
|---|---|---|---|---|---|---|
| Total revenue | $1,333.1 | $1,395.9 | $1,417.8 | $1,568.8 | $5,715.6 | |
| Gross profit | 816.0 | 870.9 | 867.8 | 957.6 | 3,512.3 | |
| Operating profit[1] | 29.8 | 32.7 | 87.3 | 131.5 | 281.3 | |
| (Loss) income from continuing operations, before taxes | (6.7) | (12.2) | 48.0 | 91.6 | 120.7 | |
| (Loss) income from continuing operations, net of tax[3] | (36.5) | (45.8) | 11.9 | 90.4 | 20.0 | |
| Net (income) loss attributable to noncontrolling interests | — | .3 | .6 | 1.1 | 2.0 | |
| Net (loss) income attributable to Avon | $(36.5) | $(45.5) | $12.5 | $91.5 | $22.0 | |
| | | | | | | |
| (Loss) earnings per common share from continuing operations | | | | | | |
| Basic | $(.10) | $(.12) | $.01 | $.17 | $— | [4] |
| Diluted | (.10) | (.12) | .01 | .17 | — | [4] |

(1) Operating profit (loss) was impacted by the following:

| 2018 | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| Brazil IPI tax release | $— | $ — | $(168.4) | $— | $(168.4) |
| Costs to implement restructuring initiatives: | | | | | |
| Cost of sales | 0.6 | 0.5 | (0.1) | 90.5 | 91.5 |
| SG&A expenses | 10.3 | 23.2 | 19.9 | 35.6 | 89.0 |
| Total costs to implement restructuring initiatives | $10.9 | $ 23.7 | $19.8 | $126.1 | $180.5 |

| 2017 | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| Costs to implement restructuring initiatives: | | | | | |
| Cost of sales | $(.1) | $ — | $— | $.7 | $.6 |
| SG&A expenses | 10.1 | 20.3 | 6.2 | 23.0 | 59.6 |
| Total costs to implement restructuring initiatives | $10.0 | $ 20.3 | $6.2 | $23.7 | $60.2 |
| Loss contingency | $— | $ 18.2 | $— | $— | $18.2 |

In addition to the items impacting operating profit (loss) above:

(2) (Loss) income from continuing operations, net of tax during 2018 was impacted by one-time tax reserves of approximately $18 associated with our uncertain tax positions, and an expense of approximately $3 associated with the ownership transfer of certain operational assets within the consolidated group.

(3) (Loss) income from continuing operations, net of tax during 2017 was impacted by a $29.9 net income tax benefit recognized in the fourth quarter as a result of the enactment of the Tax Cuts and Jobs Act in the U.S., a release of

valuation allowances of $25.5 associated with a number of markets in Europe, Middle East & Africa as a result of a business model change related to the move of the Company's headquarters from the U.S. to the UK, and a $10.4 benefit as a result of a favorable court decision in Brazil, partially offset by a charge of $16.0 associated with valuation allowances to adjust deferred tax assets in Mexico.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) The sum of per share amounts for the quarters does not necessarily equal that for the year because the computations were made independently.

See Note 17, Restructuring Initiatives, "Results Of Operations - Consolidated" within MD&A on pages 35 through 43, Note 15, Segment Information, "Venezuela Discussion" within MD&A on pages 42 through 43, Note 1, Description of the Business and Summary of Significant Accounting Policies, Note 14, Employee Benefit Plans, Note 19, Contingencies, Note 8, Debt and Other Financing and Note 10, Income Taxes, for more information on these items.

NOTE 23. Subsequent Events

Global headcount reduction

In January 2019, we announced significant advancements in our Open Up Avon strategy, including a structural reset of inventory processes and an aggregate 18% reduction in global workforce. The structural reset resulted in an incremental one-off inventory obsolescence expense of $88 recognized at December 31, 2018 (refer to Note 17, Restructuring Initiatives, for additional information regarding the structural reset of inventory). The global workforce will be reduced in 2019 by approximately 10% to align with ongoing operating model changes and to create a leaner organization that is better aligned with Avon’s current and future business focus. This reduction is incremental to an 8% reduction of the global workforce that was completed in 2018. We expect to incur a restructuring charge of approximately $100 in 2019 relating to the global workforce reduction, which wasn't approved by the Board of Directors until January 2019.

Revolving credit facility

In February 2019, Avon International Capital p.l.c. ("AIC"), a wholly-owned foreign subsidiary of the Company, entered into a three-year €200.0 senior secured revolving credit facility (the “2019 facility”).

The 2019 facility may be used for working capital and general corporate purposes. The 2019 facility replaced the 2015 facility. All obligations of AIC under the 2019 facility are unconditionally guaranteed by the Company, AIO and each other material United States or English restricted subsidiary of the Company (collectively, the “Obligors”), in each case, subject to certain exceptions. The obligations of the Obligors are secured by first priority liens on and security interests in substantially all of the assets of the Obligors, in each case, subject to certain exceptions.

The 2019 facility will terminate in February 2022; provided, however, that it shall terminate on the 91st day prior to the maturity of the 4.60% Notes, if on such 91st day, the applicable notes are not redeemed, repaid, discharged, defeased or otherwise refinanced in full. The 2019 facility contains affirmative and negative covenants, which are customary for secured financings of this type, as well as financial covenants (interest coverage and total leverage ratios).

Divestitures

China Manufacturing

In February 2019, we completed the sale to TheFaceShop Co., Ltd., an affiliate of LG Household & Health Care Ltd., of all of the equity interests in Avon Manufacturing (Guangzhou), Ltd. for a total purchase price of $71.0 million. Net cash proceeds (pre-tax) will be $47.0 after the required repayment by the Company of certain outstanding intercompany loans of $23.3 and after deducting cash on hand in Avon Manufacturing (Guangzhou), Ltd. of $.7.

Rye Office

In February 2019, we signed an agreement to sell the Rye office. This transaction is expected to close by the end of the second quarter of 2019.

Malaysia Maximin

In February 2019, we signed an agreement to sell the legal entity Maximin Corporation Sdn Bhd, which owns the Malaysia office and warehouse. This transaction is expected to close by the end of the first quarter of 2019.

SCHEDULE II
AVON PRODUCTS, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2018, 2017 and 2016

| (In millions) Description | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Charged to Revenue | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Allowance for doubtful accounts receivable | $ 129.3 | $ 162.4 | $ — | $ (198.7) (1) | $ 93.0 |
| Refund liability | 9.3 | (3) — | 172.3 | (169.3) (2) | 12.3 |
| Allowance for inventory obsolescence | 61.3 | 113.5 (4) | — | 55.2 (5) | 230.0 |
| Deferred tax asset valuation allowance | 3,217.6 | 39.9 | — | — | 3,257.5 |
| 2017 | | | | | |
| Allowance for doubtful accounts receivable | $ 122.9 | $ 221.9 | $ — | $ (215.5) (1) | $ 129.3 |
| Allowance for sales returns | 8.2 | — | 197.9 | (196.8) (2) | 9.3 (3) |
| Allowance for inventory obsolescence | 58.4 | 36.7 | — | (33.8) (5) | 61.3 |
| Deferred tax asset valuation allowance | 3,296.0 | (78.4) (6) | — | — | 3,217.6 |
| 2016 | | | | | |
| Allowance for doubtful accounts receivable | $ 77.6 | $ 190.5 | $ — | $ (145.2) (1) | $ 122.9 |
| Allowance for sales returns | 9.1 | — | 186.9 | (187.8) (2) | 8.2 |
| Allowance for inventory obsolescence | 71.3 | 36.5 | — | (49.4) (5) | 58.4 |
| Deferred tax asset valuation allowance | 2,090.1 | 1,205.9 (7) | — | — | 3,296.0 |

(1) Accounts written off, net of recoveries and foreign currency translation adjustment.
(2) Returned product reused or destroyed and foreign currency translation adjustment.
(3) Due to the adoption of ASC 606, Revenue from Contracts with Customers, as of January 1, 2018, the allowance for sales returns was reclassified from a reduction of accounts receivable to a refund liability (within other accrued liabilities).
(4) Includes a one-off inventory obsolescence expense of $88 recognized at December 31, 2018 relating to the structural reset of inventory (refer to Note 17, Restructuring Initiatives, for additional information regarding the structural reset of inventory).
(5) Obsolete inventory destroyed and foreign currency translation adjustment.
(6) Decrease in valuation allowance primarily related to a partial release of the U.S. valuation allowance as a result of the enactment of the Tax Cuts and Jobs Act in the U.S. and the impact of a business model change related to the move of the Company's headquarters from the U.S. to the UK.
(7) Increase in valuation allowance primarily for deferred tax assets that are not more likely than not to be realized in the future.