

AVON PRODUCTS INC  
Form 10-K  
February 22, 2017

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

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FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2016

OR

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

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AVON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

New York 13-0544597

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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  No

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  No

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

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

Indicate by check mark 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.

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

in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the

Act). Yes  No

The aggregate market value of voting and non-voting Common Stock (par value \$.25) held by non-affiliates at June 30, 2016 (the last business day of our most recently completed second quarter) was 1.7 billion.

The number of shares of Common Stock (par value \$.25) outstanding at January 31, 2017, was 437,991,751

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Documents Incorporated by Reference

Part III - Portions of the registrant's Proxy Statement relating to the 2017 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, stabilization strategies, cost savings initiatives, restructuring and other initiatives and related actions), costs and cost savings, competitive advantages, impairments, the impact of foreign currency, including devaluations, and other laws and regulations, government investigations, internal investigations and compliance reviews, 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 our Representatives. Such forward-looking statements are based on management's reasonable current assumptions, expectations, plans and forecasts regarding the Company's current or future results and future business and economic conditions more generally. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, levels of activity, performance or achievement of Avon to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ materially from management's expectations. Therefore, you should not rely on any of these forward-looking statements as predictors of future events. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to improve our financial and operational performance and execute fully our global business strategy, including our ability to implement the key initiatives of, and/or realize the projected benefits (in the amounts and time schedules we expect) from, our transformation plan, stabilization strategies, cost savings initiatives, restructuring and other initiatives, product mix and pricing strategies, enterprise resource planning, customer service initiatives, sales and operation planning process, outsourcing strategies, Internet platform and technology strategies including e-commerce, marketing and advertising strategies, information technology and related system enhancements and cash management, tax, foreign currency hedging and risk management strategies, and any plans to invest these projected benefits ahead of future growth;
- our ability to achieve the anticipated benefits of our strategic partnership with Cerberus Capital Management, L.P. ("Cerberus");
- 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;
- the possibility of business disruption in connection with our transformation plan, 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, such as Brazil, and developing and emerging markets, such as Mexico and Russia;
- our ability to improve working capital and effectively manage doubtful accounts and inventory and implement initiatives to reduce inventory levels, including the potential impact on cash flows and obsolescence;
- our ability to reverse declines in Active Representatives, to enhance our sales Leadership programs, to generate Representative activity, to increase the number of consumers served per Representative and their engagement online, to enhance branding and the Representative and consumer experience and increase Representative productivity through field activation and segmentation programs and technology tools and enablers, to invest in the direct-selling

channel, to offer a more social selling experience, and to compete with other direct-selling organizations to recruit, retain and service Representatives and to continue to innovate the direct-selling model;

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

developments in or consequences of any investigations and compliance reviews, and any litigation related thereto, including the investigations and compliance reviews of Foreign Corrupt Practices Act and related United States ("U.S.") and foreign law matters in China and additional countries, as well as any disruption or adverse consequences resulting from such investigations, reviews, related actions or litigation, including the retention of a compliance monitor as required

by the deferred prosecution agreement with the U.S. Department of Justice and a consent to settlement with the Securities and Exchange Commission ("SEC"), any changes in Company policy or procedure suggested by the compliance monitor or undertaken by the Company, the duration of the compliance monitor and whether and when the Company will be permitted to undertake self-reporting, the Company's compliance with the deferred prosecution agreement and whether and when the charges against the Company are dismissed with prejudice;

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 our 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;

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 a continued decline in our business results, which includes the impact of any adverse foreign exchange movements, significant restructuring charges and significant legal settlements or judgments, 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 (as defined herein) 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 2016 Form 10-K for the year ended December 31, 2016, 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 (which includes personal care), 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 26 through 57 of this 2016 Annual Report on Form 10-K, which we refer to in this report as our "2016 Annual Report," and in Note 13, Segment Information, to the Consolidated Financial Statements on pages F-41 through F-43 of our 2016 Annual Report. We refer to each of the Notes to the Consolidated Financial Statements in this 2016 Annual Report as a "Note." Information about geographic areas is included in Note 13, Segment Information on pages F-41 through F-43 of our 2016 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. Refer to Note 3, Discontinued Operations and Divestitures, on pages F-16 through F-18 of our 2016 Annual Report, for additional information regarding the investment by an affiliate of Cerberus and the separation of the North America business.

#### Distribution

During 2016, we had sales operations in 57 countries and territories, and distributed our products in 18 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.

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, 2016, we had approximately 6 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.

A Representative contacts their customers directly, selling primarily through our brochure, which highlights new products and special promotions 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. Generally, the Representative forwards an order for a campaign to us using the Internet, mail, telephone, or fax. This order is processed and the products are assembled 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.

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.

In some markets, 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 for us with consumers and help reinforce our beauty image. In certain markets, we provide opportunities to license 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 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 district sales managers, zone managers and independent leaders. 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. Development of the sales Leadership program throughout the world is one part of our long-term growth strategy. 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, promotional pieces, customer flyers, television advertising and print advertising may be used. In addition, we seek to motivate our 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. The meetings are designed to keep Representatives abreast of product line changes, explain sales techniques and provide recognition for sales performance.

A number of merchandising techniques are used, including the introduction of new products, the use of combination offers, the use of trial sizes and samples, and the promotion of products packaged as gift items. In general, for each sales campaign, a distinctive brochure is published, in which new products are introduced and selected items are offered as special promotions or are given particular prominence in the brochure. A key priority for our merchandising is to continue the use of pricing and promotional models and tools to enable a deeper, fact-based understanding of the role and impact of pricing within our product portfolio.

From time to time, various regulations or laws have been proposed or adopted that would, in general, restrict the frequency, duration or volume of sales resulting from new product introductions, special promotions or other special price offers. We expect our broad product lines and pricing flexibility to mitigate the effect of these regulations.

**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 compete on a regional, often 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. Providing a compelling earnings opportunity for our 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 our Representatives; the amount and type of field incentives we offer our 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 2016, our international operations, outside of the U.S., were conducted primarily through subsidiaries in 57 countries and territories. Outside of the U.S., our products were also distributed in 17 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 2016, approximately 38% of our consolidated revenue was derived from South Latin America, approximately 37% was derived from Europe, Middle East & Africa, approximately 15% was derived from North Latin America and approximately 10% was derived from Asia Pacific. Further, approximately 21% of our consolidated revenue during 2016 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 2016 Annual Report for more information.

#### Manufacturing

We manufacture and package the majority of our Beauty products. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased for our Beauty products from various suppliers. Most of our Fashion & Home products are purchased from various third-party suppliers. Additionally, we design the brochures that are used by the Representatives to sell our products. The loss of any one supplier would not have a material impact on our ability to source raw materials for our Beauty products or source products for our Fashion & Home categories or paper for the brochures.

Packages, consisting of containers and packaging components, are designed by our staff of artists and designers. The design and development of new Beauty products are affected by the cost and availability of materials such as glass, plastics and chemicals. We believe that we can continue to obtain sufficient raw materials and supplies to manufacture and produce our Beauty products for the foreseeable future.

See Item 2, Properties, on page 20 of our 2016 Annual Report for additional information regarding the location of our principal manufacturing facilities.

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### Product Categories

Both of our product categories individually account for 10% or more of consolidated net sales in 2016. The following is the percentage of net sales by product category for the years ended December 31:

	2016	2015	2014
Beauty	74 %	74 %	75 %
Fashion & Home	26 %	26 %	25 %

### 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 markets where we sell our products, 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. To increase our brand competitiveness, we have 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 United Kingdom.

In 2016, our most significant product launches included: Anew Ultimate Supreme Advanced Performance Crème, Anew Vitale Visible Perfection Blurring Treatment, Big & Multiplied Volume Mascara, Avon True Perfectly Matte Lipstick, Avon Life for Him and for Her Fragrances, Far Away Infinity Fragrance and Avon Nutra Effects body collection with Active Seed Complex.

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were \$52.1 in 2016, \$61.9 in 2015 and \$64.7 in 2014. 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, 2016, we employed approximately 26,400 employees. Of these, approximately 600 were employed in the U.S. and approximately 25,800 were employed in other countries.

### Transformation Plan

In January 2016, we announced a transformation plan (the "Transformation Plan"), which includes investing in growth, reducing costs in an effort to continue to improve our cost structure and improving our financial resilience. See "Results Of Operations - Consolidated" within MD&A on pages 35 through 47 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 this new privately-held company. These transactions closed in March 2016. In July 2015, we completed the sale of Liz Earle. Refer to Note 3, Discontinued Operations and Divestitures, on pages F-16 through F-18 of our 2016 Annual Report, for additional information regarding the sales of the North America business and Liz Earle.

### 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 2016, available without charge on our investor website ([www.avoninvestor.com](http://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., 601 Midland Avenue, Rye, N.Y. 10580, by sending an email to [investor.relations@avon.com](mailto:investor.relations@avon.com) or by calling (212) 282-5320. Information on our website does not constitute part of this report. Additionally, our filings with the SEC may be read and copied at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings, including reports, proxy and information statements, and other information regarding the Company are also available on the SEC's website at [www.sec.gov](http://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 2016 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 our transformation plan, 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 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 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, enhancing our sales Leadership program, the Representative experience and earnings potential and 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 as a result of a continued decline in our business results, which includes the impact of any adverse foreign exchange movements, significant

- restructuring charges and significant legal or regulatory settlements, obtain necessary waivers from compliance with, or necessary amendments to, such covenants, 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, 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 our transformation plan and any other restructuring and cost-savings initiatives, including achieving any anticipated savings and benefits of these initiatives.

In January 2016, we announced a transformation plan (the "Transformation Plan"), which includes cost reduction efforts to continue to improve our cost structure and to enable us to reinvest in growth. As a result of this plan, we have targeted pre-tax annualized cost savings of approximately \$350 million after three years, with an estimated \$200 million from supply chain reductions and an estimated \$150 million from other cost reductions, which are expected to be achieved through restructuring actions, as well as other cost-savings strategies that will not result in restructuring charges. We plan to reinvest a portion of these cost savings in growth initiatives, including media, social selling and information technology systems that will help us modernize our business. We initiated the Transformation Plan in order to enable us to achieve our long-term goals of double-digit operating margin and mid single-digit constant-dollar revenue growth.

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. If we are unable to realize these savings or benefits, our ability to continue to fund other initiatives and aspects of 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 reverse declining revenue, to improve margins and net income or to achieve profitable growth.

There can be no assurance that we will be able to reverse declining revenue, to improve margins and net income, or to achieve profitable growth in the future, particularly in our largest markets, such as Brazil and in developing and emerging markets, such as Mexico and Russia. Our revenue in 2016 was \$5,717.7 million, compared with \$6,160.5 million in 2015 and \$7,648.0 million in 2014. Reversing declining revenue, improving margins and net income and

achieving profitable growth will depend on our ability to improve financial and operational performance and execution of our global business strategy, and there can be no assurance that we will be able to achieve these goals. To reverse declining revenue, to improve margins and net income and to achieve profitable growth, we also need to successfully implement certain initiatives, including our Transformation Plan, and there can no assurance that we will be able

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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 reverse declining revenue, to improve 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, 2016, we had approximately 6 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. 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 such as Brazil, 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 United States ("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, such as Russia, 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. For example, in 2016, our revenues declined 7% compared with 2015 due to unfavorable foreign exchange, and grew 2% on a Constant \$ basis (as defined in "Non-GAAP Financial Measures" within MD&A on pages 28 through 30). 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 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. There can be no assurance that countries in which we operate, such as Argentina, will not become highly inflationary and that our revenue, operating profit and net income will not be adversely impacted as a result.

We are subject to a deferred prosecution agreement with the U.S. Department of Justice (the "DOJ") and a consent to settlement with the U.S. Securities and Exchange Commission (the "SEC") pursuant to which we engaged, at our own expense, an independent compliance monitor. With the approval of the DOJ and the SEC, the monitor can be replaced by the Company, if the Company agrees to undertake self-reporting obligations for the remainder of the monitoring period. The monitoring period is scheduled to expire in July 2018. We have been incurring costs in connection with these obligations, and compliance with these obligations could divert members of management's time from the operation of our business. Ongoing costs and burdens could be significant.

In December 2014, the U.S. District Court for the Southern District of New York (the "USDC") approved a deferred prosecution agreement between the Company and the DOJ (the "DPA") and in January 2015, the USDC approved a consent to settlement with the SEC (the "Consent") in connection with the previously disclosed Foreign Corrupt Practices Act (the "FCPA") investigations.

Under the DPA and the Consent, among other things, the Company agreed to have a compliance monitor (the "monitor"). During July 2015, the Company engaged a monitor, who had been approved by the DOJ and SEC. With the approval of the DOJ and the SEC, the monitor can be replaced by the Company, if the Company agrees to undertake self-reporting obligations for the remainder of the monitoring period. The monitoring period is scheduled to expire in July 2018. There can be no assurance as to whether or when the DOJ and the SEC will approve replacing the monitor with the Company's self-reporting.

Under the DPA, the Company also represented that it has implemented and agreed that it will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws throughout its operations.

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

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

If we commit a breach of the DPA, we may be subject to criminal prosecution. Such criminal prosecution could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Under the DPA, the DOJ will defer criminal prosecution of the Company for a term of three years in connection with the charged violations of the FCPA. If the DOJ determines that the Company has knowingly violated the DPA (including the monitoring provisions described in the preceding risk factor), the DOJ may commence prosecution or extend the term of the DPA for up to one year. If the Company remains in compliance with the DPA through its term, the charges against the Company will be dismissed with prejudice.

Failure to comply with the terms of the DPA could result in criminal prosecution by the DOJ, including for the charged violations of the books and records and internal controls provisions of the FCPA that were included in the information that was filed in connection with the DPA. Under such circumstance, the DOJ would be permitted to rely upon the admissions we made in the DPA and would benefit from our waiver of certain procedural and evidentiary defenses. Such a criminal prosecution could subject us to penalties that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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. Global economic events over the past few years, including high unemployment levels, the tightening of credit markets and failures of financial institutions and other entities, 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 fiscal 2016 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 in each of the last three 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 were downgraded in 2016 after previous downgrades in 2015 and 2014. Our long-term credit ratings are: Moody's ratings of Negative Outlook with Ba3 for corporate family debt, B1 for senior unsecured debt, and Ba1 for the Senior Secured Notes; S&P ratings of Positive Outlook with B for corporate family debt and senior unsecured debt and BB- for the Senior Secured Notes; and Fitch rating of Negative 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 6, Debt and Other Financing, on pages F-19 through F-22 of our 2016 Annual Report for details about the terms of our existing debt and other financing arrangements.

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 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 our 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 our Representatives as independent contractors or impose employment or social taxes on our 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 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 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.

Another example is privacy and data protection laws which are subject to frequently changing rules and regulations, and which may vary among the various jurisdictions where we operate. We collect, use and store personal data of our employees, Representatives, customers and other third parties in the ordinary course of business. We are required to comply with increasingly complex and changing data privacy regulations in the United States, the European Union ("EU") and other jurisdictions that regulate the collection, use and transfer of personal data, including particularly the transfer of personal data between or among countries. For instance, in 2015, the Court of Justice of the EU invalidated the Safe Harbor framework for the transfer of personal data from the EU to the U.S. In 2016, the EU and the U.S. reached an agreement on a new data transfer framework with more robust protections for personal data, called the EU-U.S. Privacy Shield. 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 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.

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.

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.

Within the direct-selling channel, we compete on a regional, and often 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 consumer packaged goods ("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 our 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. 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 our Representatives or end customers perceive competitors' products as having greater appeal, then our sales and results of operations will be adversely affected.

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 our Representatives. Failure to maintain proper inventory levels or increased product returns by our 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 financial officer in 2015 and 2017. Any failure by our management team to perform as expected may have a material adverse effect on our business, prospects, financial condition and results of operations. This risk may be exacerbated by the uncertainties associated with the implementation of our transformation plan and any other stabilization strategies and restructuring and cost-savings initiatives we undertake from time to time.

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 many of 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. For example, we currently outsource four areas of the Company's IT infrastructure. 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, break-ins, 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. A 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. For example, the Company uses a newswire service that has been subject to the

hacking of not-yet-issued press releases by hackers in order to trade on securities using the information contained in such press releases.

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 continue to monitor our IT systems and infrastructure on an ongoing basis for any current or potential threats. 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 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. 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 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.

Third-party suppliers provide, among other things, the raw materials used to manufacture 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. Raw materials used in these products consist chiefly of essential oils, chemicals, containers and packaging components. Almost all of the raw materials used by the Company in manufacturing our Beauty Products are purchased from various third-party suppliers, some of which are single-source suppliers. All of our Fashion & Home products are purchased from various suppliers. Additionally, our suppliers produce the brochures that are used by Representatives to sell Avon products. The loss of these suppliers, the inability of these suppliers to supply or our inability to procure a raw material or a finished product or a significant disruption or interruption in the supply chain could have a material adverse effect on the manufacturing and packaging of our Beauty products, the purchasing of our Fashion & Home products or the production of our 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.

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, 2016, we had approximately \$1.9 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 our 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 Operations, Inc. (“AIO,” a wholly-owned domestic subsidiary) and the subsidiary guarantors and by certain assets of the Company, in each case, subject to certain exceptions and permitted liens. Both the revolving credit facility and Senior Secured Notes contain customary covenants, including, among other things, limits on the ability of the Company, AIO 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. The 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 a continued decline in our business results, which includes the impact of any adverse foreign exchange movements, significant restructuring charges and significant legal or regulatory settlements, 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 obtaining necessary waivers from compliance with, or necessary amendments to, the covenants contained in our revolving credit facility and Senior Secured Notes, 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 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 Internal Revenue Code.

As of December 31, 2016, we had approximately \$874 million of foreign tax and other credits available to offset future income for U.S. federal tax liability 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 Internal Revenue Code of 1986, as amended (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. Also, while our U.S. defined benefit pension plan has been closed to employees hired on or after January 1, 2015, significant changes in the number and demographics of participants in our pension plans generally may result in changes to our funding obligations. A



change in the discount rate would 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 31 through 32 and Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 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. 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 our Representatives' or end customers' standards, our relationship with our Representatives or end customers could suffer, we could 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 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.

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 applicable 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 our 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 affirmative vote in the United Kingdom to withdraw from the European Union may adversely affect our business. On June 23, 2016, the United Kingdom ("UK") held a referendum in which voters approved an exit from the EU, commonly referred to as "Brexit." As a result of the referendum, it is expected that the British government will begin negotiating the terms of the UK's future relationship with the EU. The Brexit vote may result in regulatory uncertainty throughout the region and could adversely affect business activity, 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 timing and terms of the exit could also have a negative impact on the growth of the UK and/or EU economies and cause greater volatility in the pound sterling, euro and/or other currencies. Changes in

foreign currency exchange rates may reduce the reported value of our revenues.

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.

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 Capital Management L.P. ("Cerberus")) contributed \$170 million of cash into New Avon LLC ("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 as part of the Separation.

In connection with the Separation, we and New Avon entered into several agreements, including among others a Transition Services Agreement, an Intellectual Property License Agreement, a Research and Development Agreement and a Manufacturing and Supply Agreement. The Transition Services Agreement provides that we will perform certain services, including related to treasury and financial shared services, technology and global packaging, for the benefit of New Avon for initial service periods of up to 24 months. The Intellectual Property License Agreements 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 Research and Development Agreement provides that we will perform certain beauty product development services for New Avon for an initial term through December 31, 2017. The Manufacturing and Supply Agreement provides that we and New Avon will manufacture and supply certain products to each other for an initial term through December 31, 2018. 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 marketing products under certain trademarks 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 in respect of 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. 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 (the "Series D Preferred Stock"). Any such shares of 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 act as the Chairman so long as the 50% Ownership Requirement (as defined below) is 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 research and development facility located in Suffern, NY.

We own property in Rye, NY that is used for an executive and administrative office, as well as for Global IT. 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 office location at 777 Third Avenue, New York, NY 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;
- thirteen distribution centers and five 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 six 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, 25 are owned and the remaining 20 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.

#### ITEM 3. LEGAL PROCEEDINGS

Reference is made to Note 17, Contingencies, on pages F-50 through F-52 of our 2016 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, 2016, there were 12,876 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 2016 and 2015 are listed below. We suspended the dividend on our common stock effective in the first quarter of 2016.

Quarter	2016		2015		Dividends Declared and Paid	Dividends Declared and Paid
	High	Low	High	Low		
First	\$4.81	\$2.38	\$ —	—\$9.31	\$7.28	\$ .06
Second	5.01	3.53	—	9.15	6.26	.06
Third	5.92	3.73	—	6.64	3.22	.06
Fourth	6.89	5.04	—	4.50	2.50	.06

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN<sup>(1)</sup>

Among Avon Products, Inc., The S&P 500 Index and 2016 Peer Group <sup>(2)</sup>

The Stock Performance Graph above assumes a \$100 investment on December 31, 2011, 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.

	2011	2012	2013	2014	2015	2016
Avon	100.0	85.8	104.1	57.8	26.2	32.6
S&P 500	100.0	116.0	153.6	174.6	177.0	198.2
Old Peer Group <sup>(2)</sup>	100.0	108.7	136.3	155.4	149.9	155.8
New Peer Group <sup>(3)</sup>	100.0	107.9	137.1	153.6	148.7	154.3

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

(2) The Old Peer Group includes The Clorox Company, Colgate-Palmolive Company, Estée Lauder Companies, Inc., Kimberly Clark Corp., The Procter & Gamble Company and Revlon, Inc.

The New Peer Group includes The Clorox Company, Colgate–Palmolive Company, Estée Lauder Companies, Inc., (3) Kimberly Clark Corp., The Procter & Gamble Company, Revlon, Inc., Tupperware Brands Corp. and Herbalife Ltd.

The Stock Performance Graph above shall not be deemed to be "soliciting material" or to be "filed" with the United States Securities and Exchange Commission 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, 2016:

	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
10/1/16 – 10/31/16	36,680	(1) \$ 4.33	*	*
11/1/16 – 11/30/16	31,173	(1) 5.59	*	*
12/1/16 – 12/31/16	10,591	(1) 5.62	*	*
Total	78,444	\$ 5.00	*	*

\*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 2016 Annual Report.

	2016	2015	2014	2013	2012
<b>Statement of Operations Data</b>					
Total revenue	\$5,717.7	\$6,160.5	\$7,648.0	\$8,496.8	\$8,810.2
Operating profit <sup>(1)</sup>	321.9	165.0	434.3	539.8	448.2
(Loss) income from continuing operations, net of tax <sup>(1)</sup>	(93.4 )	(796.5 )	(344.5 )	67.5	39.8
Diluted (loss) earnings per share from continuing operations	\$(.25 )	\$(1.81 )	\$(.79 )	\$.14	\$.09
Cash dividends per share	\$—	\$.24	\$.24	\$.24	\$.75
<b>Balance Sheet Data</b>					
Total assets*	\$3,418.9	\$3,770.4	\$5,485.2	\$6,478.4	\$7,371.2
Debt maturing within one year	18.1	55.2	121.7	171.2	564.3
Long-term debt	1,875.8	2,150.5	2,417.1	2,474.2	2,561.0
Total debt	1,893.9	2,205.7	2,538.8	2,645.4	3,125.3
Total shareholders' (deficit) equity	(836.2 )	(1,056.4 )	305.3	1,127.5	1,233.3

\* 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) A number of items, shown below, impact the comparability of our operating profit and (loss) income from continuing operations, net of tax. See Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report, Note 13, Segment Information on pages F-41 through F-43 of our 2016 Annual Report, Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our

2016 Annual Report, "Results Of Operations - Consolidated" within MD&A on pages 35 through 47, "Venezuela Discussion" within MD&A on pages 41 through 42, Note 17, Contingencies on pages F-50 through F-52 of our 2016 Annual Report, Note 12, Employee Benefit

Plans on pages F-33 through F-41 of our 2016 Annual Report, Note 18, Goodwill on pages F-52 through F-53 of our 2016 Annual Report, Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report, Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report and Note 8, Income Taxes on pages F-23 through F-26 of our 2016 Annual Report for more information on these items.

	Impact on Operating Profit				
	2016	2015	2014	2013	2012
Costs to implement restructuring initiatives	\$(77.4)	\$(49.1)	\$(86.6)	\$(53.4)	\$(94.2)
Legal settlement <sup>(2)</sup>	27.2	—	—	—	—
Venezuelan special items <sup>(3)</sup>	—	(120.2)	(137.1)	(49.6)	—
FCPA accrual <sup>(4)</sup>	—	—	(46.0)	(89.0)	—
Pension settlement charge <sup>(5)</sup>	—	(7.3)	(9.5)	—	—
Other items <sup>(6)</sup>	—	(3.1)	—	—	—
Asset impairment and other charges <sup>(7)</sup>	—	(6.9)	—	(42.1)	(44.0)

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 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 cash tender offers in August 2016, the debt repurchases in October and December 2016, and the prepayment of the remaining principal amount of the 4.20% Notes (as defined in "Capital Resources" within MD&A on pages 55 through 57) and 5.75% Notes (as defined in "Capital Resources" within MD&A on pages 55 through 57) in November 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 non-cash income tax charge for valuation allowances for deferred tax assets outside of the U.S. of \$8.6.

See "Venezuela Discussion" within MD&A on pages 41 through 42, Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report, Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report, and Note 8, Income Taxes on pages F-23 through F-26 of our 2016 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 the 2.375% Notes (as defined in "Capital Resources" within MD&A on pages 55 through 57) 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;

an aggregate non-cash 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 non-cash income tax 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 Divestitures on pages F-16 through F-18 of our 2016 Annual Report, Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report, and Note 8, Income Taxes on pages F-23 through F-26 of our 2016 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:

a non-cash 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. See Note 8, Income Taxes on pages F-23 through F-26 of our 2016 Annual Report for more information.

In addition to the items impacting operating profit identified above, income from continuing operations, net of tax during 2013 was impacted by:

a loss on extinguishment of debt of \$73.0 before tax (\$46.2 after tax) caused by the make-whole premium and the write-off of debt issuance costs associated with the prepayment of our private notes, as well as the write-off of debt issuance costs associated with the early repayment of \$380 of the outstanding principal amount of a term loan agreement;

the loss on extinguishment of debt of \$13.0 before tax (\$8.2 after tax) caused by the make-whole premium and the write-off of debt issuance costs and discounts, partially offset by a deferred gain associated with the January 2013 interest-rate swap agreement termination, associated with the prepayment of notes due in 2014; and

valuation allowances for deferred tax assets of \$41.8 related to Venezuela and \$9.2 related to China.

In addition to the items impacting operating profit identified above, income from continuing operations, net of tax during 2012 was impacted by:

a benefit recorded to other expense, net of \$23.8 before tax (\$15.7 after tax) due to the release of a provision in the fourth quarter associated with the excess cost of acquiring U.S. dollars in Venezuela at the regulated market rate as compared with the official exchange rate. This provision was released as the Company capitalized the associated intercompany liabilities; and

an additional provision for income taxes of \$168.3. During the fourth quarter of 2012, we determined that the Company may repatriate offshore cash to meet certain U.S. funding needs. Accordingly, we are no longer asserting that the undistributed earnings of foreign subsidiaries are indefinitely reinvested, and therefore, we recorded this additional provision.

(2) 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 13, Segment Information on pages F-41 through F-43 of our 2016 Annual Report for more information.

(3) During 2015, 2014 and 2013, our operating profit and operating margin were negatively impacted by devaluations of the Venezuelan currency, combined with 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 United States ("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 selling, general and

administrative 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.

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.

In 2013, as a result of using the historical U.S. dollar cost basis of non-monetary assets, such as inventories, acquired prior to the devaluation, 2013 operating profit was negatively impacted by \$49.6, due to the difference between the historical U.S. dollar cost at the previous official exchange rate of 4.30 and the official exchange rate of 6.30. In addition to the negative impact to operating profit and net income, as a result of the devaluation of Venezuelan currency, during 2013, we recorded an after-tax loss of \$50.7 (\$34.1 in other expense, net, and \$16.6 in income taxes), primarily reflecting the write-down of net monetary assets and deferred tax benefits.

See discussion of our Venezuelan operations in "Venezuela Discussion" within MD&A on pages 41 through 42 and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report for more information.

(4) 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 17, Contingencies on pages F-50 through F-52 of our 2016 Annual Report for more information.

(5) 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 and Discontinued Operations.

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 and Discontinued Operations.

See Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 Annual Report for a further discussion of the settlement charges.

(6) 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.

(7) 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. During 2013 and 2012, our

operating profit and operating margin were negatively impacted by non-cash impairment charges of \$42.1 and \$44.0 (both before and after tax), respectively, associated with goodwill and intangible assets of our China business. See Note 18, Goodwill on pages F-52 through F-53 of our 2016 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 2016 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 28 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 28 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 2016, we had sales operations in 57 countries and territories, and distributed products in 18 more. 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. 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 (which includes personal care), 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, 2016, we had approximately 6 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.

Total revenue in 2016 declined 7% compared to the prior-year period, primarily due to unfavorable foreign exchange, while Constant \$ revenue increased 2%. A number of items affected the year-over-year comparison of Constant \$ revenue, the most significant being the sale of Liz Earle, which was completed in July 2015, that negatively impacted Constant \$ revenue growth by approximately 1 point. The other items affecting the year-over-year comparison netted to an immaterial impact. In addition, our Constant \$ revenue benefited from growth in Argentina, South Africa, Russia, Mexico and Brazil. Argentina contributed approximately 1 point to Avon's consolidated Constant \$ revenue growth, as this market's results were impacted by the inflationary impact on pricing. The growth in Constant \$ revenue was driven by higher average order, partially offset by a 2% decrease in Active Representatives. Average order benefited from the net impact of price and mix which increased 6%, while units sold decreased 4%, primarily due to declines in units sold in Brazil and Mexico, and the impact of the deconsolidation of Venezuela. We have been improving our discipline of pricing with inflation, strategically pricing in certain markets and categories, and launching products at more advantageous price points, while considering the potential impact on unit sales. The decrease in Active Representatives was primarily due to the impact of the deconsolidation of Venezuela and a decline in Asia Pacific, which included the impact caused by a reduction in the number of sales campaigns in the Philippines. These declines in Active Representatives were partially offset by growth in Europe, Middle East & Africa, most significantly Russia, which was primarily due to sustained momentum in recruitment and retention. See "Segment Review" in this MD&A for additional information related to changes in revenue by segment.

Ending Representatives decreased by 2%. The decrease in Ending Representatives at December 31, 2016 as compared to the prior-year period was primarily due to the impact of the deconsolidation of Venezuela, which had a negative

impact of 2 points, and declines in Asia Pacific. These decreases were partially offset by growth in Europe, Middle East & Africa, most significantly South Africa and Russia, as well as growth in South Latin America, most significantly Brazil.

During 2016, foreign currency continued to have a significant impact on our financial results. As the U.S. dollar has strengthened relative to currencies of key Avon markets, our revenue and profits have been reduced when translated into U.S. dollars and our margins have been negatively impacted by country mix, as certain of our markets which have historically had higher operating margins experienced significant devaluation of their local currency. In addition, as our sales and costs are often denominated in different currencies, this has created a negative foreign currency transaction impact. Specifically, as

compared to the prior-year period, foreign currency has impacted our consolidated financial results in the form of foreign currency transaction losses (classified within cost of sales, and selling, general and administrative expenses), which had an unfavorable impact to operating profit and Adjusted operating profit of an estimated \$165, foreign currency translation, which had an unfavorable impact to operating profit of approximately \$60 and Adjusted operating profit of approximately \$65, and foreign exchange losses on our working capital (classified within other expense, net), which were lower by approximately \$35 before tax and \$40 before tax on an Adjusted basis.

Effective March 31, 2016, we deconsolidated our Venezuelan operations. Our operating results for the first quarter of 2016 include the results of our Venezuelan operations; however, we recorded a charge at March 31, 2016 to write-off the balance sheet accounts associated with our Venezuelan operations, and since March 31, 2016, the Venezuelan operating results are no longer included in the Company's consolidated financial statements. As a result of this change in accounting, we recorded a loss of approximately \$120 in the first quarter of 2016. 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 movements before Venezuela was accounted for as a highly inflationary economy. See "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report for further discussion of our Venezuelan operations.

#### Transformation Plan

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, a privately-held company that is majority-owned and managed by an affiliate of Cerberus. These transactions closed on March 1, 2016 and Avon retained approximately 20% ownership in New Avon. See Note 3, Discontinued Operations and Divestitures on page F-16 through F-18 of our 2016 Annual Report and Note 16, Series C Convertible Preferred Stock on page F-49 of our 2016 Annual Report for more information.

In January 2016, we announced the transformation plan (the "Transformation Plan"), which includes three pillars: investing in growth, reducing costs in an effort to continue to improve our cost structure and improving our financial resilience. We made good progress in 2016, the first year of our three-year Transformation Plan, exceeding cost targets and significantly strengthening the balance sheet. The Transformation Plan continues through 2018.

#### Invest in Growth

Over the three years that began in 2016, we expect to invest \$350 into the business with an estimated \$150 in media and social selling and \$200 related to the service model evolution and information technology, primarily capital expenditures, which will be aimed at improving the overall Representative experience. These investments will be funded initially from cash on hand, and the continued investment over the three years from the cost savings improvements, as well as benefits from pricing actions. The launch of an improved service model will depend on the existing stage of the technological development of the systems in the respective market supporting the Representatives. We expect to incrementally invest, over time, in media, shifting our media spend more to digital, with the focus of the spending in our top ten markets. With regards to social selling, we formed a team focused on social selling, and during 2017, we will be piloting in Argentina before a phased implementation to additional markets.

#### Improve our Cost Structure

With respect to cost reductions within our Transformation Plan, we have targeted pre-tax annualized cost savings of approximately \$350 after three years. We are targeting an estimated \$200 from supply chain reductions by: rationalizing our manufacturing capacity; optimizing the distribution network as the global manufacturing footprint evolves; reducing costs related to transportation, physical warehousing and distribution; and through sourcing opportunities, such as the harmonization of direct material purchases to generate greater scale and purchasing power. We are targeting an estimated \$150 from other cost reductions which are expected to be achieved primarily through reductions in headcount.

We have initiated this Transformation Plan in order to enable us to achieve our long-term goals of a targeted low double-digit operating margin and mid single-digit Constant \$ revenue growth. We believe that we are on track to deliver the targeted \$350 in savings related to the Transformation Plan over the three-year plan period. For 2016, we accelerated certain cost savings initiatives and came in ahead of the targeted savings of \$70 before taxes, as well as savings to cover the stranded costs of approximately \$20 before taxes that resulted from the separation of the Company's North America business. During 2016, we realized an estimated savings of \$120 before taxes associated with the Transformation Plan, including savings from restructuring actions as well as savings from other cost-savings strategies that did not result in restructuring charges. We expect to realize annualized savings of an estimated \$180 before taxes associated with these cost savings initiatives taken during 2016.



In connection with the actions and associated savings discussed above, we have incurred costs to implement ("CTI") restructuring initiatives of approximately \$106 before taxes associated with the Transformation Plan to-date. In connection with the restructuring actions approved to-date associated with the Transformation Plan, we expect to realize annualized savings of an estimated \$95 to \$105 before taxes. We have realized an estimated \$25 before taxes of savings associated with the restructuring actions in 2016 and are expected to achieve the significant majority of the annualized savings beginning in 2017. For the market closures, the expected annualized savings represented the operating profit (loss) no longer included within Avon's operating results as a result of no longer operating in the respective market. For actions that did not result in the closure of a market, the annualized savings represent the net reduction of expenses that will no longer be incurred by Avon. In addition, as part of the Transformation Plan, we will transition, over time, the location of our headquarters to the United Kingdom. For additional details, see Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report for more information.

**Improve our Financial Resilience**

With respect to improving our financial resilience within our Transformation Plan, we targeted to reduce debt by approximately \$250 during 2016. We exceeded this target, reducing debt by approximately \$260 during 2016 and extending our maturity profile with no long-term debt due until March 2019, thereby strengthening the balance sheet. The steps taken through December 31, 2016 include the issuance of the new \$500 Senior Secured Notes due August 2022, the repayment of approximately \$720 of our public notes, and a reduction in the debt of foreign subsidiaries of approximately \$40. For additional details, see Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report and "Liquidity and Capital Resources" on pages 52 through 57 in this MD&A for additional information.

**New Accounting Standards**

Information relating to new accounting standards is included in Note 2, New Accounting Standards on pages F-15 through F-16 of our 2016 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. Liz Earle was also excluded from this calculation as it did not distribute through the direct-selling channel.
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 United States ("GAAP"), we disclose operating results that have been adjusted to exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, including changes in: revenue, operating profit, Adjusted operating profit, operating margin

and Adjusted operating margin. We also refer to these adjusted financial measures as Constant \$ items, which are Non-GAAP financial measures. We believe these measures provide investors an additional perspective on trends and underlying business results. To exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, we calculate current-year results and prior-year results at constant exchange rates, which are updated on an annual basis as part of our budgeting process. When comparing 2015 results to 2014 results, we used constant exchange rates that were in effect from our 2015 budgeting process. Foreign currency impact is determined as the difference between actual growth rates and Constant \$ growth rates.

We also present gross margin, selling, general and administrative expenses as a percentage of revenue, operating profit, operating margin and effective tax rate on a Non-GAAP basis. We refer to these Non-GAAP financial measures as "Adjusted." We have provided a quantitative reconciliation of the difference between the Non-GAAP financial measures and the financial measures calculated and reported in accordance with GAAP. See "Reconciliation of Non-GAAP Financial Measures" within "Results of Operations - Consolidated" on page 36 of this MD&A for this quantitative reconciliation.

The Company uses the Non-GAAP financial measures to evaluate its operating performance. These Non-GAAP measures should not be considered in isolation, or as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company believes investors find the Non-GAAP information helpful in understanding the ongoing performance of operations separate from items that may have a disproportionate positive or negative impact on the Company's financial results in any particular period. The Company believes that it is meaningful for investors to be made aware of the impacts of: 1) CTI restructuring initiatives; 2) the net proceeds recognized as a result of settling claims relating to professional services ("Legal settlement"); 3) charges related to the deconsolidation of our Venezuelan operations as of March 31, 2016 and the devaluations of Venezuelan currency in February 2015 and March 2014, combined with being designated as a highly inflationary economy ("Venezuelan special items"); 4) the additional \$46 accrual in 2014 for the settlements related to the Foreign Corrupt Practices Act ("FCPA") investigations and, in the fourth quarter of 2014, the associated approximate \$19 net tax benefit ("FCPA accrual"); 5) the settlement charges associated with the U.S. pension plan ("Pension settlement charge"); 6) the goodwill impairment charge related to the Egypt business ("Asset impairment and other charges"); 7) various other items associated with the sale of Liz Earle, the separation of the North America business and debt-related charges ("Other items"); and, as it relates to our effective tax rate discussion, 8) income tax benefits realized in 2016 and 2015 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 non-cash income tax adjustments associated with our deferred tax assets recorded in 2016, 2015 and 2014 ("Special tax items").

The Legal settlement includes the impact on the Consolidated Statements of Operations in the third quarter of 2016 associated with the net proceeds of \$27.2 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.

The Venezuelan special items include the impact on the Consolidated Statements of Operations in 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 AOCI associated with foreign currency changes before Venezuela was accounted for as a highly inflationary economy. The Venezuelan special items include the impact on the Consolidated Statements of Operations in 2015 and 2014 caused by the devaluations of Venezuelan currency on monetary assets and liabilities, such as cash, receivables and payables; deferred tax assets and liabilities; and non-monetary assets, such as inventories. For non-monetary assets, the Venezuelan special items include the earnings impact caused by the difference between the historical U.S. dollar cost of the assets at the previous exchange rate and the revised exchange rate. In 2015 and 2014, the Venezuelan special items also include adjustments of approximately \$11 and approximately \$116, respectively, to reflect certain non-monetary assets at their net realizable value. In 2015, the Venezuelan special items also include an impairment charge of approximately \$90 to reflect the write-down of the long-lived assets to their estimated fair value.

The Pension settlement charge includes the impact on the Consolidated Statements of Operations in the third and fourth quarters of 2015 and the second, third and fourth quarters of 2014 associated with the payments made to former

employees who were vested and participated in the U.S. defined benefit pension plan. Such payments fully settled our pension plan obligation to those participants who elected to receive such payment.

The Asset impairment and other charges include the impact on the Consolidated Statements of Operations caused by the goodwill impairment charge related to the Egypt business in the fourth quarter of 2015.

The Other items include the impact during 2016 on the Consolidated Statements of Operations 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 (as defined in "Capital Resources") and our 5.75% Notes (as defined in "Capital Resources") in November 2016. The Other items also include the impact during 2015 on the Consolidated Statements of Operations due to the gain on the sale of Liz Earle. In addition, the Other items include the

impact on the Consolidated Statements of Operations in the fourth quarter of 2015 caused by transaction-related costs of \$3.1 associated with the planned separation of the North America business that were included in continuing operations. In addition, Other items in 2015 include the impact on the Consolidated Statements of Operations of the loss on extinguishment of debt 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 (as defined in "Capital Resources"). Other items, in 2015, also include the impact on other expense, net in the Consolidated Statements of Operations of \$2.5 associated with the write-off of issuance costs related to our previous \$1 billion revolving credit facility.

In addition, the effective tax rate discussion includes Special tax items, including the impact during the fourth quarter of 2016 on the provision for income taxes in the Consolidated Statements of Operations due to the non-cash income tax 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. The Special tax items also include the impact during the second quarter of 2016 on the provision for income taxes in the Consolidated Statements of Operations primarily due to the release of a valuation allowance associated with Russia of approximately \$7. The Special tax items also include the impact during the first quarter of 2016 and the fourth quarter of 2015 on the provision for income taxes in the Consolidated Statements of Operations due to income tax benefits of approximately \$29 and approximately \$19, respectively, recognized as the result of the implementation of foreign tax planning strategies. The Special tax items also include the impact during the first and second quarters of 2015 on the provision for income taxes in the Consolidated Statements of Operations due to a non-cash income tax charge of approximately \$31 and a benefit of approximately \$3, respectively, associated with valuation allowances to adjust our U.S. deferred tax assets to an amount that was "more likely than not" to be realized. The additional valuation allowance was due to the strengthening of the U.S. dollar against currencies of some of our key markets and its associated effect on our tax planning strategies, and the partial release of the valuation allowance was due to the weakening of the U.S. dollar against currencies of some of our key markets. The Special tax items also include the impact during the third quarter of 2015 on the provision for income taxes in the Consolidated Statements of Operations due to a non-cash income tax charge of approximately \$642 as a result of establishing a valuation allowance for the full amount of our U.S. deferred tax assets due to the impact of the continued strengthening of the U.S. dollar against currencies of some of our key markets and its associated effect on our tax planning strategies. Additionally, the Special tax items include the impact during the third quarter of 2015 on the provision for income taxes in the Consolidated Statements of Operations due to a non-cash income tax charge of approximately \$15 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. The non-U.S. valuation allowance included an adjustment associated with Russia, which was primarily the result of lower earnings, which were significantly impacted by foreign exchange losses on working capital balances. The Special tax items also include the impact during the fourth quarter of 2014 on the income taxes in the Consolidated Statements of Operations due to a non-cash income tax charge primarily associated with a valuation allowance to reduce our U.S. deferred tax assets to an amount that is "more likely than not" to be realized, and was primarily due to the strengthening of the U.S. dollar against currencies of some of our key markets and, to a lesser extent, the finalization of the FCPA settlements.

See Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report, Note 13, Segment Information on pages F-41 through F-43 of our 2016 Annual Report, "Results Of Operations - Consolidated" below, "Venezuela Discussion" below, Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report, Note 17, Contingencies on pages F-50 through F-52 of our 2016 Annual Report, Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 Annual Report, Note 18, Goodwill on pages F-52 through F-53 of our 2016 Annual Report, Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report, "Liquidity and Capital Resources" below, Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report, and Note 8, Income Taxes on pages F-23 through F-26 of our 2016 Annual Report 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-9 through F-15 of our 2016 Annual Report for a detailed discussion of the application of these and other

accounting policies.

Allowances for Doubtful Accounts Receivable

Representatives contact their customers, selling primarily through the use of brochures for each sales campaign, generally on credit if they 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

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historical data and current circumstances, including seasonality and changing trends. Over the past three years, annual bad debt expense was \$191 in 2016, \$144 in 2015 and \$171 in 2014, or approximately 3% of total revenue in 2016, and approximately 2% of total revenue 2015 and 2014. 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 our 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, but we generally allow an unlimited right of return. We record a provision for estimated sales returns based on historical experience with product returns. Over the past three years, annual sales returns were \$187 for 2016, \$191 for 2015 and \$241 for 2014, 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 estimated market 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 \$37 in 2016, \$45 in 2015 and \$78 in 2014.

#### Pension and Postretirement Expense

We maintain defined benefit pension plans, which cover substantially all employees in the U.S. and a portion of employees in international locations. However, our U.S. defined benefit pension plan is closed to employees hired on or after January 1, 2015. 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 many retired employees in the U.S. and certain foreign countries. See Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 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 2016, the weighted average assumed rate of return on all pension plan assets, including the U.S. and non-U.S. defined benefit pension plans was 6.65%, as compared with 6.87% for 2015. 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 rate 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 some of our non-U.S. 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 United Kingdom ("UK") defined benefit pension plan. The assumed rate of return for determining 2016 net costs for the UK defined benefit pension plan was 6.65%. In

addition, the current 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 6% 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 36% in 2016 and approximately 12% in 2015.



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, we transferred \$499.6 of pension liabilities under the U.S. defined benefit pension plan associated with current and former employees of the North America business and certain other former Avon employees, along with \$355.9 of assets held by the U.S. defined benefit pension plan, to a defined benefit pension plan sponsored by New Avon. We also transferred \$60.4 of other postretirement liabilities (namely, retiree medical and supplemental pension liabilities) in respect of such employees and former employees. See Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report. We continue to retain certain U.S. pension and other postretirement liabilities primarily associated with employees who are actively employed by Avon outside of the North America business. 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 2016 for the U.S. defined benefit pension plan was 7.00%, which was based on an asset allocation of approximately 70% in corporate and government bonds and mortgage-backed securities (which are expected to earn approximately 3% to 4% in the long-term) and approximately 30% in equity securities and high yield securities (which are expected to earn approximately 6% to 8% in the long-term). Historical rates of return on the assets of the U.S. defined benefit pension plan were approximately 8% for the most recent 10-year period and approximately 8% for the 20-year period. In the U.S. defined benefit pension plan, our asset allocation policy has historically favored U.S. equity securities, which have returned approximately 7% over the 10-year period and approximately 8% over the 20-year period. The rate of return on the plan assets in the U.S. was approximately 6% in 2016 and approximately 3% in 2015.

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 2.81% at December 31, 2016, and 3.92% at December 31, 2015. For the determination of the expected rate of return on assets and the discount rate, we take external actuarial and investment advice into consideration.

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, 2016, we had pretax actuarial losses and prior service credits totaling approximately \$49 for the U.S. defined benefit pension and postretirement plans and approximately \$176 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 accumulated other comprehensive loss ("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 2017, our assumption for the expected rate of return on assets is 5.50% for our U.S. defined benefit pension plan and 5.09% for our non-U.S. defined benefit pension plans (which includes 5.15% for our UK defined benefit pension plan). The decrease in the expected rate of return on assets for our U.S. defined benefit pension plan was largely due to the elimination of the derivative instruments from our portfolio, as a result of the transfer of a portion of the assets held by the U.S. defined benefit pension plan to a defined benefit pension plan sponsored by New Avon. The decrease in the expected rate of return on assets for the UK defined benefit pension plan was driven by a reduction in the exposure to equity markets obtained through derivative instruments, simultaneously increasing the extent to which the plan assets match the pension obligation, as the plan's funding level improved. 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 2016 pension expense and the pension benefit obligation at December 31, 2016:

	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	\$ (3.2 )	\$ 3.2	N/A	N/A
Discount rate	(1.4 )	1.4	\$ (53.8 )	\$ 58.6
Rate of compensation increase	.9	(.8 )	3.3	(3.1 )

#### 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, 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, 2016, we had net deferred tax assets of approximately \$140 (net of valuation allowances of approximately \$3,277).

With respect to our deferred tax assets, at December 31, 2016, we had recognized deferred tax assets relating to tax loss carryforwards of approximately \$2,033, primarily from foreign jurisdictions, for which a valuation allowance of approximately \$1,994 has been provided. Prior to December 31, 2016, we had recognized deferred tax assets of approximately \$874 relating to excess U.S. foreign tax and other U.S. general business credit carryforwards for which a full valuation allowance has 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, 2016, we would need to generate approximately \$2.5 billion of excess net foreign source income in order to realize the U.S. foreign tax and general business credits before they expire.

During the fourth quarter of 2014, the Company's expected net foreign source income was reduced significantly, primarily due to the strengthening of the U.S. dollar against currencies for some of our key markets and, to a lesser extent, the finalization of the FCPA settlements. This strengthening of the U.S. dollar reduced the expected dividends and royalties that could be remitted to the U.S. by our foreign subsidiaries, particularly Russia, Brazil, Mexico and Colombia. The effectiveness of our tax planning strategies, including the repatriation of foreign earnings and the acceleration of royalties from our foreign subsidiaries, was also negatively impacted by the strengthening of the U.S. dollar. In addition, the finalization of the FCPA settlements, which included a \$68 fine related to Avon China in connection with the DOJ settlement and \$67 in disgorgement and prejudgment interest related to Avon Products, Inc. in connection with the SEC settlement, negatively impacted expected future repatriation of foreign earnings and reduced current U.S. taxable income, respectively. As a result of these developments, we determined that we may not

generate sufficient taxable income to realize all of our U.S. deferred tax assets. As such, we recorded a valuation allowance of \$441 to reduce our U.S. deferred tax assets to an amount that is "more likely than not" to be realized, of which \$367 was recorded to income taxes in the Consolidated Statements of Operations and the remainder was recorded to various components of other comprehensive (loss) income.

During 2015, the Company recorded an additional valuation allowance for the remaining U.S. deferred tax assets of approximately \$670. The increase in the valuation allowance resulted from reduced tax benefits expected to be obtained from tax planning strategies associated with an anticipated accelerated receipt in the U.S. of foreign source income. As the U.S.

dollar had further strengthened against currencies of some of our key markets during 2015, the benefits associated with the Company's tax planning strategies were no longer sufficient for the Company to continue to conclude that its tax planning strategies were prudent. In the absence of any alternative prudent tax planning strategies and other sources of future taxable income, it was determined that a full valuation allowance should be recorded. Although the Company continues to expect that it will generate taxable income and tax liability in the U.S., the Company is expected to offset its current and future tax liability with foreign tax credits, and as a result, the expected level of future taxable income and tax liability is not adequate to realize the benefit of previously recorded deferred tax assets. Although the Company may not be able to recognize a financial statement benefit associated with its deferred tax assets, the Company will continue to manage and plan for the utilization of its deferred tax assets to avoid the expiration of deferred tax assets that may have limited lives.

In addition, in the fourth quarter of 2015, we recognized a benefit of approximately \$19 associated with the implementation of the initial stages of foreign tax planning strategies. We completed the implementation of these tax planning strategies and recognized an additional benefit of approximately \$29 in the first quarter of 2016.

At December 31, 2016, 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 2016 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 approximately \$2, resulting in a deferred tax liability balance of approximately \$87 related to the incremental tax cost on approximately \$1.4 billion of undistributed foreign earnings at December 31, 2016. This deferred income tax liability amount is net of the estimated foreign tax credits that would be generated upon the repatriation of such earnings. The repatriation of foreign earnings may result in the utilization of a portion of our foreign tax credits in the year of repatriation; therefore, the utilization of foreign tax credits is dependent on the amount and timing of repatriations, as well as the jurisdictions involved.

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 the Consolidated Financial Statements.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. In 2017, 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 2017 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 the 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.

In February 2015, we reviewed Avon Venezuela's long-lived assets to determine whether the carrying amount of the assets was recoverable. Based on our expected cash flows associated with the asset group, we determined that the carrying amount of the assets, carried at their historical U.S. dollar cost basis, was not recoverable. As such, an impairment charge of approximately \$90 to selling, general and administrative expenses was recorded to reflect the write-down of the long-lived assets to their estimated fair value of approximately \$16, which was recorded in the first quarter of 2015. The fair value of Avon Venezuela's long-lived assets was determined using both market and cost valuation approaches. The valuation analysis performed required

several estimates, including market conditions and inflation rates. As discussed in Note 1, Description of the Business and Summary of Significant Accounting Policies, we concluded that, effective March 31, 2016, we deconsolidated our Venezuelan operations. Our Consolidated Balance Sheets no longer includes the assets and liabilities of our Venezuelan operations, and we no longer include the results of our Venezuelan operations in the Consolidated Financial Statements. See Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report for more information on Avon Venezuela.

#### 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 2016 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.

During the 2015 year-end close process, our analysis of the Egypt business indicated an impairment as the carrying value of the business exceeded the estimated fair value. This was primarily the result of reducing our long-term projections of the business. During 2015, Egypt performed generally in line with our revenue and earnings projections, which assumed growth as compared to 2014. However, as a result of currency restrictions for the payment of goods in Egypt, we lowered our long-term revenue and earnings projections for the business. Accordingly, a non-cash impairment charge of approximately \$7 was recorded to reduce the carrying amount of goodwill. There is no amount remaining associated with goodwill for our Egypt reporting unit as a result of this impairment charge. Key assumptions used in measuring the fair value of Egypt during this impairment assessment included projections of revenue and the resulting cash flows, as well as the discount rate (based on the estimated weighted-average cost of capital). To estimate the fair value of Egypt, we forecasted revenue and the resulting cash flows over five years using a DCF model which included a terminal value at the end of the projection period. We believed that a five-year period was a reasonable amount of time in order to return cash flows of Egypt to normalized, sustainable levels.

See Note 18, Goodwill on pages F-52 through F-53 of our 2016 Annual Report for more information regarding Egypt. Results Of Operations - Consolidated

	Years ended December 31			% / Point Change	
	2016	2015	2014	2016 vs. 2015	vs. 2014
Select Financial Information					
Total revenue	\$5,717.7	\$6,160.5	\$7,648.0	(7 )%	(19 )%
Cost of sales	2,257.0	2,445.4	3,006.9	(8 )%	(19 )%
Selling, general and administrative expenses	3,138.8	3,543.2	4,206.8	(11 )%	(16 )%
Impairment of goodwill	—	6.9	—	*	*
Operating profit	321.9	165.0	434.3	95 %	(62 )%
Interest expense	136.6	120.5	108.8	13 %	11 %
(Gain) loss on extinguishment of debt	(1.1 )	5.5	—	*	*
Interest income	(15.8 )	(12.5 )	(14.8 )	26 %	(16 )%
Other expense, net	171.0	73.7	139.5	*	(47 )%

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Gain on sale of business	—	(44.9	)	—	*	*
Loss from continuing operations, net of tax	(93.4	)	(796.5	)	(344.5	) 88 % *
Net loss attributable to Avon	\$(107.6	)	\$(1,148.9)	\$(388.6	)	91 % *
Diluted loss per share from continuing operations	\$(.25	)	\$(1.81	)	\$(.79	) 86 % *

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	Years ended December 31			% / Point Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Diluted loss per share attributable to Avon	\$(.29 )	\$(2.60 )	\$(.88 )	89 %	*
Advertising expenses <sup>(1)</sup>	\$108.9	\$128.0	\$166.4	(15 )%	(23 )%
<b>Reconciliation of Non-GAAP Financial Measures</b>					
Gross margin	60.5 %	60.3 %	60.7 %	.2	(.4 )
Venezuelan special items	—	.5	1.6	(.5 )	(1.1 )
Adjusted gross margin	60.5 %	60.8 %	62.3 %	(.3 )	(1.5 )
Selling, general and administrative expenses as a % of total revenue	54.9 %	57.5 %	55.0 %	(2.6)	2.5
CTI restructuring	(1.3 )	(.8 )	(1.1 )	(.5 )	.3
Legal settlement	.5	—	—	.5	—
Venezuelan special items	—	(1.5 )	(.2 )	1.5	(1.3 )
FCPA accrual	—	—	(.6 )	—	.6
Pension settlement charge	—	(.1 )	(.1 )	.1	—
Other items	—	(.1 )	—	.1	(.1 )
Adjusted selling, general and administrative expenses as a % of total revenue	54.0 %	55.1 %	52.9 %	(1.1)	2.2
Operating profit	\$321.9	\$165.0	\$434.3	95 %	(62 )%
CTI restructuring	77.4	49.1	86.6		
Legal settlement	(27.2 )	—	—		
Venezuelan special items	—	120.2	137.1		
FCPA accrual	—	—	46.0		
Pension settlement charge	—	7.3	9.5		
Other items	—	3.1	—		
Asset impairment and other charges	—	6.9	—		
Adjusted operating profit	\$372.1	\$351.6	\$713.5	6 %	(51 )%
Operating margin	5.6 %	2.7 %	5.7 %	2.9	(3.0 )
CTI restructuring	1.4	.8	1.1	.6	(.3 )
Legal settlement	(.5 )	—	—	(.5 )	—
Venezuelan special items	—	2.0	1.8	(2.0)	.2
FCPA accrual	—	—	.6	—	(.6 )
Pension settlement charge	—	.1	.1	(.1 )	—
Other items	—	.1	—	(.1 )	.1
Asset impairment and other charges	—	.1	—	(.1 )	.1
Adjusted operating margin	6.5 %	5.7 %	9.3 %	.8	(3.6 )
Change in Constant \$ Adjusted operating margin <sup>(2)</sup>				1.6	(1.9 )
<b>Performance Metrics</b>					
Change in Active Representatives				(2 )%	1 %
Change in units sold				(4 )%	(2 )%
Change in Ending Representatives				(2 )%	3 %

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

\* Calculation not meaningful

(1) Advertising expenses are included within selling, general and administrative expenses.

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

## 2016 Compared to 2015

## Revenue

Total revenue in 2016 declined 7% compared to the prior-year period, primarily due to unfavorable foreign exchange, while Constant \$ revenue increased 2%. A number of items affected the year-over-year comparison of Constant \$ revenue, the most significant being the sale of Liz Earle, which was completed in July 2015, that negatively impacted Constant \$ revenue growth by approximately 1 point. The other items affecting the year-over-year comparison netted to an immaterial impact. In addition, our Constant \$ revenue benefited from growth in Argentina, South Africa, Russia, Mexico and Brazil. Argentina contributed approximately 1 point to Avon's consolidated Constant \$ revenue growth, as this market's results were impacted by the inflationary impact on pricing. The growth in Constant \$ revenue was driven by higher average order, partially offset by a 2% decrease in Active Representatives. Average order benefited from the net impact of price and mix which increased 6%, while units sold decreased 4%, primarily due to declines in units sold in Brazil and Mexico, and the impact of the deconsolidation of Venezuela. We have been improving our discipline of pricing with inflation, strategically pricing in certain markets and categories, and launching products at more advantageous price points, while managing the potential impact on unit sales. The decrease in Active Representatives was primarily due to the impact of the deconsolidation of Venezuela and a decline in Asia Pacific, which included the impact caused by a reduction in the number of sales campaigns in the Philippines. These declines in Active Representatives were partially offset by growth in Europe, Middle East & Africa, most significantly Russia, which was primarily due to sustained momentum in recruitment and retention. See "Segment Review" in this MD&A for additional information related to changes in revenue by segment.

Ending Representatives decreased by 2%. The decrease in Ending Representatives at December 31, 2016 as compared to the prior-year period was primarily due to the impact of the deconsolidation of Venezuela, which had a negative impact of 2 points, and declines in Asia Pacific. These decreases were partially offset by growth in Europe, Middle East & Africa, most significantly South Africa and Russia, as well as growth in South Latin America, most significantly Brazil.

See "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report to the consolidated financial statements included herein for further discussion of our Venezuelan operations. See Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report, and Note 4, Related Party Transactions on pages F-18 through F-19 of our 2016 Annual Report for more information on New Avon.

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

	Years ended		% / Point Change	
	December 31		US\$	Constant \$
	2016	2015		
Beauty:				
Skincare	\$1,607.3	\$1,734.0	(7 )%	1 %
Fragrance	1,514.7	1,616.1	(6 )	4
Color	997.1	1,069.8	(7 )	2
Total Beauty	4,119.1	4,419.9	(7 )	2
Fashion & Home:				
Fashion	850.4	904.2	(6 )	2
Home	595.8	659.4	(10)	2
Total Fashion & Home	1,446.2	1,563.6	(8 )	2
Net sales from reportable segments	5,565.3	5,983.5	(7 )	2
Net sales from Other operating segments and business activities	13.5	93.0	(85)	(87 )
Net sales	\$5,578.8	\$6,076.5	(8 )	1

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 increased 290 basis points and 80 basis points, respectively, compared to 2015. The increases in operating margin and Adjusted operating margin includes the benefits associated with costs savings initiatives, including the Transformation Plan, primarily reductions in headcount, as well as other cost reductions. The increases in operating margin and Adjusted operating margin are discussed further below in "Gross Margin," "Selling, General and Administrative Expenses" and "Impairment of Goodwill."

### Gross Margin

Gross margin and Adjusted gross margin increased 20 basis points and decreased 30 basis points, respectively, compared to 2015. The gross margin comparison was impacted by approximately 50 basis points in the prior year by the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting, as approximately \$29 was recognized in the prior-year period associated with carrying certain non-monetary assets at the historical U.S. dollar cost following a devaluation. See "Venezuela Discussion" in this MD&A for a further discussion of our Venezuelan operations.

The remaining decrease in gross margin and the decrease of 30 basis points in Adjusted gross margin was primarily due to the following:

- a decrease of approximately 260 basis points due to the unfavorable impact of foreign currency transaction losses and foreign currency translation;
- a decrease of 30 basis points due to sales of products to New Avon since the separation of the Company's North America business into New Avon on March 1, 2016; and
- various other insignificant items that decreased gross margin.

These items were partially offset by the following:

- an increase of 190 basis points due to the favorable net impact of mix and pricing, primarily due to inflationary and strategic pricing in South Latin America, Europe, Middle East & Africa and North Latin America; and
- an increase of 90 basis points due to lower supply chain costs, primarily from lower material costs and cost savings initiatives in Europe, Middle East & Africa and South Latin America.

See Note 4, Related Party Transactions on pages F-18 through F-19 of our 2016 Annual Report for more information on New Avon.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2016 decreased approximately \$404 compared to 2015. This decrease is primarily due to the favorable impact of foreign currency translation, as the strengthening of the U.S. dollar against many of our foreign currencies resulted in lower reported selling, general and administrative expenses. The decrease in selling, general and administrative expenses is also due to approximate \$90 impairment charge recorded in the prior-year period to reflect the write-down of the long-lived assets to their estimated fair value associated with the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting, lower fixed expenses resulting primarily from our cost savings initiatives, lower expenses associated with employee incentive compensation plans, the approximate \$27 of net proceeds recognized as a result of a legal settlement in the third quarter of 2016 and lower advertising expense. Partially offsetting the decrease in selling, general and administrative expenses was higher bad debt expense, higher amount of CTI restructuring, higher foreign currency transaction costs and higher Representative, sales leader and field expense.

Selling, general and administrative expenses as a percentage of revenue and Adjusted selling, general, and administrative expenses as a percentage of revenue decreased 260 basis points and 110 basis points, respectively, compared to 2015. The selling, general and administrative expenses as a percentage of revenue comparison benefited from:

- approximately 150 basis points by the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting in the prior-year period, primarily as an approximate \$90 impairment charge was recognized in the prior-year period to reflect the write-down of the long-lived assets to their estimated fair value following a devaluation;
- approximately 50 basis points by the approximate \$27 of net proceeds recognized as a result of a legal settlement in the third quarter of 2016;
- approximately 10 basis points by the approximate \$7 aggregate settlement charges associated with the payments made to former employees who were vested and participated in the U.S. defined benefit pension plan recorded in the prior-year period, which did not occur in 2016; and
- approximately 10 basis points by the approximately \$3 of transaction-related costs associated with the separation of North America that were included in continuing operations recorded in the prior-year period.

These items were partially offset by:

•approximately 50 basis points for higher CTI restructuring.

See "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report for a further discussion of our Venezuelan operations, Note 13, Segment Information on pages F-41 through F-43 of our 2016 Annual Report for more information on the legal settlement,

Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 Annual Report for a further discussion of the pension settlement charges, and Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report for more information on CTI restructuring.

The remaining decrease in selling, general and administrative expenses as a percentage of revenue and the decrease of 110 basis points in Adjusted selling, general and administrative expenses as a percentage of revenue was primarily due to the following:

- a decrease of 210 basis points primarily due to lower fixed expenses, as well as the impact of the Constant \$ revenue growth with respect to our fixed expenses. Lower fixed expenses resulted primarily from our costs savings initiatives, mainly reductions in headcount, but were partially offset by the inflationary impact on our expenses;

- a decrease of 40 basis points due to lower expenses associated with employee incentive compensation plans; and

- a decrease of 30 basis points from lower advertising expense, primarily in Europe, Middle East & Africa.

These items were partially offset by the following:

- an increase of 80 basis points from higher bad debt expense, driven by Brazil primarily due to the macroeconomic environment, coupled with actions taken to recruit new Representatives;

- an increase of approximately 50 basis points due to the unfavorable impact of foreign currency translation and foreign currency transaction losses; and

- an increase of 20 basis points as a result of the Industrial Production Tax ("IPI") tax law on cosmetics in Brazil that went into effect in May 2015, which reduced revenue as we did not raise the prices paid by Representatives to the same extent as the IPI tax.

See "Segment Review - South Latin America" in this MD&A for a further discussion of the IPI tax law in Brazil.

#### Impairment of Goodwill

During the fourth quarter of 2015, we recorded a non-cash impairment charge of approximately \$7 for goodwill associated with our Egypt business. See Note 18, Goodwill on pages F-52 through F-53 of our 2016 Annual Report for more information on Egypt.

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

#### Other Expense

Interest expense increased by approximately \$16 compared to the prior-year period, primarily due to the interest associated with the \$500 of Senior Secured Notes (as defined in "Capital Resources") issued in August 2016 and the increase in the interest rates on the 2013 Notes (as defined in "Capital Resources") as a result of the downgrades of our long-term credit ratings. These items were partially offset by the interest savings associated with the prepayment of the remaining principal amount of the 4.20% Notes (as defined in "Capital Resources") and 5.75% Notes (as defined in "Capital Resources") in November 2016, the prepayment of the \$250 principal amount of our 2.375% Notes (as defined in "Capital Resources") in the third quarter of 2015 and the August 2016 cash tender offers. Refer to Note 6, Debt on pages F-19 through F-22 of our 2016 Annual Report and "Liquidity and Capital Resources" in this MD&A 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 the 4.20% Notes (as defined in "Capital Resources") and 5.75% Notes (as defined in "Capital Resources") in November 2016 and a loss of approximately \$1 associated with the debt repurchases in October 2016.

Loss on extinguishment of debt in 2015 of approximately \$6 was associated with the prepayment of our 2.375% Notes (as defined in "Capital Resources"). Refer to Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report and "Liquidity and Capital Resources" in this MD&A for additional information.

Interest income increased by approximately \$3 compared to the prior-year period.

Other expense, net, increased by approximately \$97 compared to the prior-year period, primarily due to the year-on-year impact of the Venezuelan special items as we recorded a loss of approximately \$120 in the first quarter of 2016 as compared to a benefit of approximately \$4 in the first quarter of 2015. In addition, other expense, net was positively impacted by lower losses on foreign exchange, partially offset by our proportionate share of New Avon's loss of approximately \$12. Foreign exchange losses decreased by approximately \$40 compared to the prior-year

period, despite the unfavorable impact of approximately \$17 as a result of the devaluation of the Egyptian pound in the fourth quarter of 2016. See "Venezuela



Discussion" in this MD&A for a further discussion of our Venezuelan operations. See Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report for more information on New Avon.

Gain on sale of business in 2015 was the result of the sale of Liz Earle in July 2015. Refer to Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report, for additional information regarding the sale of Liz Earle.

#### Effective Tax Rate

The effective tax rates in 2016 and 2015 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 2016 and 2015 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. Our inability to recognize additional deferred tax assets in various jurisdictions related to our current-year operating results, along with these withholding taxes, resulted in unusually high effective tax rates in 2016 and 2015.

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.

The effective tax rate in 2015 was negatively impacted by additional valuation allowances for U.S. deferred tax assets of approximately \$670. The additional valuation allowances in 2015 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 effective tax rate in 2015 was negatively impacted by valuation allowances for deferred tax assets outside of the U.S. of approximately \$15, primarily in Russia, which was largely due to lower earnings, which were significantly impacted by foreign exchange losses on working capital balances. During 2015, we also recognized a benefit of approximately \$19 as a result of the implementation of the initial stages of foreign tax planning strategies. The valuation allowances for deferred tax assets in 2015 caused income taxes to be significantly in excess of income before taxes. In addition, the effective tax rate in 2015 was negatively impacted by the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting.

The Adjusted effective tax rates in 2016 and 2015 were negatively impacted by the country mix of earnings and the inability to recognize additional deferred tax assets in various jurisdictions related to our current-year operating results, including the impact caused by the withholding taxes associated with certain intercompany payments, including royalties, service charges and dividends.

See Note 8, Income Taxes on pages F-23 through F-26 of our 2016 Annual Report, for more information. In addition, see "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report for further discussion of our Venezuelan operations, Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report for more information on CTI restructuring, and Note 13, Segment Information on pages F-41 through F-43 of our 2016 Annual Report for more information on the legal settlement.

#### Impact of Foreign Currency

During 2016, foreign currency continued to have a significant impact on our financial results. Specifically, as compared to the prior-year period, foreign currency has impacted our consolidated financial results in the form of: foreign currency transaction losses (classified within cost of sales, and selling, general and administrative expenses), which had an unfavorable impact to operating profit and Adjusted operating profit of an estimated \$165, or approximately 270 points to operating margin and Adjusted operating margin;

foreign currency translation, which had an unfavorable impact to operating profit of approximately \$60 and Adjusted operating profit of approximately \$65, or approximately 40 points to operating margin and Adjusted operating margin; and

- foreign exchange losses on our working capital (classified within other expense, net), which were lower by approximately \$35 before tax and \$40 before tax on an Adjusted basis, despite the unfavorable impact of approximately \$17 as a result of the devaluation of the Egyptian pound in the fourth quarter of 2016.

### Discontinued Operations

Loss from discontinued operations, net of tax was approximately \$14 compared to approximately \$349 for 2015. During 2016, we recorded charges of approximately \$16 before tax (approximately \$5 after tax) in the aggregate associated with the separation of the North America business which closed on March 1, 2016. During 2015, we recorded a charge of approximately \$340 before tax (approximately \$340 after tax) associated with the estimated loss on the separation of the North America business. See Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 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, and we no longer include the results of our Venezuelan operations in the 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. 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. As a result of the change to the SIMADI rate, which caused the recognition of a devaluation of approximately 70% as compared to the exchange rate we had used previously, we recorded an after-tax benefit of approximately \$3 (a benefit of approximately \$4 in other expense, net, and a loss of approximately \$1 in income taxes) in the first quarter of 2015, primarily reflecting the write-down of net monetary assets. In addition, as a result of using the historical U.S. dollar cost basis of

non-monetary assets, such as inventories, these assets continued to be remeasured, following the change to the SIMADI rate, at the applicable rate at the time of their acquisition. The remeasurement of non-monetary assets at the historical U.S. dollar cost basis caused a disproportionate expense as these assets were consumed in operations, negatively impacting operating profit and net income by approximately \$19 during 2015. Also as a result of the change to the SIMADI rate, we determined that an adjustment of approximately \$11 to cost of sales was needed to reflect certain non-monetary assets, primarily inventories, at their net realizable value, which was recorded in the first quarter of 2015.

In addition, in February 2015, we reviewed Avon Venezuela's long-lived assets to determine whether the carrying amount of the assets was recoverable. Based on our expected cash flows associated with the asset group, we determined that the carrying

amount of the assets, carried at their historical U.S. dollar cost basis, was not recoverable. As such, an impairment charge of approximately \$90 to selling, general and administrative expenses was needed to reflect the write-down of the long-lived assets to their estimated fair value of approximately \$16, which was recorded in the first quarter of 2015.

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. As a result of the change to the SICAD II rate, which caused the recognition of a devaluation of approximately 88% as compared to the official exchange rate we used previously, we recorded an after-tax loss of approximately \$42 (approximately \$54 in other expense, net, and a benefit of approximately \$12 in income taxes) in the first quarter of 2014, primarily reflecting the write-down of net monetary assets. In addition, as a result of using the historical U.S. dollar cost basis of non-monetary assets, such as inventories, these assets continued to be remeasured, following the change to the 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 approximately \$21 during 2014. Also as a result, we determined that an adjustment of approximately \$116 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.

#### 2015 Compared to 2014

##### Revenue

Total revenue in 2015 declined 19% compared to the prior-year period, primarily due to unfavorable foreign exchange. Constant \$ revenue increased 2%. Constant \$ revenue was negatively impacted by approximately 2 points due to taxes in Brazil from the combined impact of the recognition of Value Added Tax ("VAT") credits in 2014 which did not recur in 2015 along with a new IPI tax law on cosmetics which went into effect in May 2015. Constant \$ revenue was also negatively impacted by approximately 1 point as a result of the sale of Liz Earle which was completed in July 2015. Our Constant \$ revenue benefited from growth in markets experiencing relatively high inflation (Venezuela and Argentina), which contributed approximately 2 points to our Constant \$ revenue growth. Our Constant \$ revenue also benefited from growth in Europe, Middle East & Africa, most significantly Eastern Europe (Russia and Ukraine), and to a lesser extent, South Africa and underlying growth in Brazil. Constant \$ revenue benefited from higher average order and a 1% increase in Active Representatives. The increase in Active Representatives was primarily due to growth in Europe, Middle East & Africa, most significantly Russia, which was primarily due to sustained momentum in recruitment and retention, partially offset by markets experiencing relatively high inflation (Venezuela and Argentina). The net impact of price and mix increased 4%, driven by increases in all segments. The net impact of price and mix was primarily positively impacted by markets experiencing relatively high inflation (Venezuela and Argentina), as these markets benefited from the inflationary impact on pricing. Units sold decreased 2%, primarily due to declines in units sold in Brazil and Venezuela, partially offset by an increase in units sold in Russia. See "Segment Review - South Latin America" in this MD&A for a further discussion of the tax benefits in Brazil.

Ending Representatives increased by 3%. The increase in Ending Representatives at December 31, 2015 as compared to the prior-year period was primarily due growth in Europe, Middle East & Africa, most significantly Russia and South Africa, as well as growth in South Latin America.

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

	Years ended		% / Point Change	
	December 31			
	2015	2014	US\$	Constant \$
Beauty:				
Skincare	\$1,734.0	\$2,137.3	(19)%	1 %
Fragrance	1,616.1	1,900.5	(15)	5
Color	1,069.8	1,339.0	(20)	—
Total Beauty	4,419.9	5,376.8	(18)	2
Fashion & Home:				
Fashion	904.2	1,016.2	(11)	6
Home	659.4	780.9	(16)	3
Total Fashion & Home	1,563.6	1,797.1	(13)	5
Net sales from reportable segments	5,983.5	7,173.9	(17)	3
Net sales from Other operating segments and business activities	93.0	298.6	(69)	23
Net sales	\$6,076.5	\$7,472.5	(19)	3

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 300 basis points and 360 basis points, respectively, compared to 2014. The decrease in Adjusted operating margin includes the benefits associated with the restructuring actions taken during 2015 and the \$400M Cost Savings Initiative, primarily reductions in headcount, as well as other cost reductions. The decrease in operating margin and Adjusted operating margin are discussed further below in "Gross Margin," "Selling, General and Administrative Expenses" and "Impairment of Goodwill."

#### Gross Margin

Gross margin and Adjusted gross margin decreased 40 basis points and 150 basis points, respectively, compared to 2014. The gross margin comparison was impacted by approximately 110 basis points by a lower negative impact of the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting, as approximately \$29 was recognized in the current-year period as compared to approximately \$121 in the prior-year period, primarily associated with adjustments to reflect certain non-monetary assets at their net realizable value. See "Venezuela Discussion" in this MD&A for a further discussion of our Venezuelan operations.

The remaining decrease in gross margin and the decrease of 150 basis points in Adjusted gross margin was primarily due to the following:

- a decrease of approximately 270 basis points due to the unfavorable impact of foreign currency transaction losses and foreign currency translation;
- a decrease of 40 basis points associated with the net impact of VAT credits in Brazil recognized in revenue in 2014 that did not recur in 2015; and
- a decrease of 20 basis points as a result of the IPI tax law on cosmetics in Brazil that went into effect in May 2015.

These items were partially offset by the following:

- an increase of 130 basis points due to the favorable net impact of mix and pricing, which includes the realization of price increases in markets experiencing relatively high inflation (Venezuela and Argentina), on inventory acquired in advance of such inflation; and
- an increase of approximately 60 basis points due to lower supply chain costs, primarily in Europe, Middle East & Africa which was largely due to lower overhead costs.

The negative impact of foreign currency transaction losses was partially mitigated by the benefits of pricing as we realized the impact of inflation in certain of our markets.

See "Segment Review - South Latin America" in this MD&A for a further discussion of the VAT credits and IPI tax law in Brazil.



### Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2015 decreased approximately \$664 compared to 2014. This decrease is primarily due to the favorable impact of foreign currency translation, as the strengthening of the U.S. dollar against many of our foreign currencies resulted in lower reported selling, general and administrative expenses. The decrease in selling, general and administrative expenses is also due to the additional \$46 accrual recorded in the first quarter of 2014 for the settlements related to the FCPA investigations and a lower amount of CTI restructuring. Partially offsetting the decrease in selling, general and administrative expenses was an approximate \$90 impairment charge recorded in 2015 to reflect the write-down of the long-lived assets to their estimated fair value associated with the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting, higher Representative, sales leader and field expense, higher foreign currency transaction costs and higher expenses associated with long-term employee incentive compensation plans as the prior-year period includes the benefit from the reversal of such accruals that did not recur in the current-year period.

Selling, general and administrative expenses and Adjusted selling, general, and administrative expenses as a percentage of revenue increased 250 basis points and 220 basis points, respectively, compared to 2014. The selling, general and administrative expenses as a percentage of revenue comparison was negatively impacted by: approximately 130 basis points by the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting. During 2015, an approximate \$90 impairment charge was recorded to reflect the write-down of the long-lived assets to their estimated fair value following a devaluation. In addition, approximately \$1 was recorded in 2015 as compared to \$16 recorded in 2014 associated with our Venezuelan operations for certain non-monetary assets carried at the historical U.S. dollar cost following the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting; and

approximately 10 basis points by the approximate \$3 of transaction-related costs recorded in 2015 associated with the separation of North America that were included in continuing operations.

These items were partially offset by:

approximately 60 basis points by the additional \$46 accrual recorded in 2014 for the settlements related to the FCPA investigations that did not recur in 2015; and

approximately 30 basis points for lower CTI restructuring.

In addition, during 2015 and 2014 we recorded approximately \$7 and \$10, respectively, of aggregate settlement charges associated with the payments made to former employees who were vested and participated in the U.S. defined benefit pension plan.

See "Venezuela Discussion" in this MD&A and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2016 Annual Report for a further discussion of our Venezuelan operations, Note 17, Contingencies on pages F-50 through F-52 of our 2016 Annual Report for more information on the FCPA investigations, Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 Annual Report for a further discussion of the pension settlement charges, and Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report for more information on CTI restructuring.

The remaining increase in selling, general and administrative expenses as a percentage of revenue and the increase of 220 basis points in Adjusted selling, general and administrative expenses as a percentage of revenue was primarily due to the following:

an increase of approximately 210 basis points due to the unfavorable impact of foreign currency translation and foreign currency transaction losses;

an increase of 60 basis points associated with the net impact of VAT credits in Brazil recognized in revenue in 2014 that did not recur in 2015;

an increase of 60 basis points as a result of the IPI tax law on cosmetics in Brazil, which reduced revenue as we did not raise the prices paid by Representatives to the same extent as the IPI tax; and

an increase of 40 basis points due to higher expenses associated with long-term employee incentive compensation plans as the prior-year period includes the benefit from the reversal of such accruals that did not recur in the current-year period.

These items were partially offset by the following:



a decrease of 160 basis points primarily due to the impact of Constant \$ revenue growth with respect to our fixed expenses. In addition, lower fixed expenses, primarily resulting from our cost savings initiatives, mainly reductions in headcount, were largely offset by the inflationary impact on our expenses.

See "Segment Review - South Latin America" in this MD&A for a further discussion of the VAT credits and IPI tax law in Brazil.

#### Impairment of Goodwill

During the fourth quarter of 2015, we recorded a non-cash impairment charge of approximately \$7 for goodwill associated with our Egypt business. See Note 18, Goodwill on pages F-52 through F-53 of our 2016 Annual Report for more information on Egypt.

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

#### Other Expense

Interest expense increased by approximately \$12 compared to the prior-year period, primarily due to the increase in the interest rates on the 2013 Notes (as defined in "Capital Resources") as a result of the downgrades of our long-term credit ratings.

Loss on extinguishment of debt in 2015 of approximately \$6 was associated with the prepayment of our 2.375% Notes (as defined in "Capital Resources"). Refer to Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report and "Liquidity and Capital Resources" in this MD&A for additional information.

Interest income decreased by approximately \$2 compared to the prior-year period.

Other expense, net, decreased by approximately \$66 compared to the prior-year period, primarily due to the year-on-year impact of the Venezuelan special items as we recorded a benefit of approximately \$4 in the first quarter of 2015 as compared to a loss of approximately \$54 in the first quarter of 2014. In addition, the decrease in other expense, net was partially due to lower losses on foreign exchange of approximately \$10 compared to the prior-year period. See "Venezuela Discussion" in this MD&A for a further discussion of our Venezuelan operations.

Gain on sale of business in 2015 was the result of the sale of Liz Earle in July 2015. Refer to Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report, for additional information regarding the sale of Liz Earle.

#### Effective Tax Rate

The effective tax rate in 2015 was negatively impacted by additional valuation allowances for U.S. deferred tax assets of approximately \$670. The additional valuation allowances in 2015 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 effective tax rate in 2015 was negatively impacted by valuation allowances for deferred tax assets outside of the U.S. of approximately \$15, primarily in Russia, which was largely due to lower earnings, which were significantly impacted by foreign exchange losses on working capital balances. During 2015, we also recognized a benefit of approximately \$19 as a result of the implementation of the initial stages of foreign tax planning strategies. The valuation allowances for deferred tax assets in 2015 caused income taxes to be significantly in excess of income before taxes.

The effective tax rate in 2014 was negatively impacted by a non-cash income tax charge of approximately \$396. This was largely due to a valuation allowance, recorded in the fourth quarter of 2014, against deferred tax assets of approximately \$375 which is primarily due to the strengthening of the U.S. dollar against currencies of some of our key markets. The approximate \$375 includes the valuation allowance recorded for U.S. deferred tax assets of approximately \$367, as well as approximately \$8 associated with other foreign subsidiaries.

In addition, the effective tax rates in 2015 and 2014 were negatively impacted by the devaluations of the Venezuelan currency in conjunction with highly inflationary accounting discussed further within "Venezuela Discussion" in this MD&A.

The Adjusted effective tax rate in 2015 was negatively impacted by the country mix of earnings and the inability to recognize additional deferred tax assets in various jurisdictions related to our current-year operating results. The Adjusted effective tax rate in 2014 was negatively impacted by an adjustment to the carrying value of our state deferred tax balances due to changes in the expected tax rate, valuation allowances for deferred taxes, including the impact of legislative changes, and out-of-period adjustments of approximately \$6 recorded in the fourth quarter of 2014.

See Note 8, Income Taxes on pages F-23 through F-26 of our 2016 Annual Report, for more information.



### Impact of Foreign Currency

During 2015, foreign currency had a significant impact on our financial results. Specifically, as compared to the prior-year period, foreign currency has impacted our consolidated financial results in the form of: foreign currency transaction losses (classified within cost of sales, and selling, general and administrative expenses), which had an unfavorable impact to operating profit and Adjusted operating profit of an estimated \$210, or approximately 280 points to operating margin and Adjusted operating margin; foreign currency translation, which had an unfavorable impact of approximately \$385 (of which approximately \$210 related to Venezuela, primarily from the impact from the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting) to operating profit and approximately \$265 (of which approximately \$90 related to Venezuela) to Adjusted operating profit, or approximately 420 points to operating margin and 200 points to Adjusted operating margin; and foreign exchange losses on our working capital (classified within other expense, net), which were lower by approximately \$68 before tax (of which approximately \$60 related to Venezuela, primarily from the impact from the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting) and \$10 before tax on an Adjusted basis.

See "Venezuela Discussion" in this MD&A for a further discussion of our Venezuelan operations.

### Discontinued Operations

Loss from discontinued operations, net of tax was approximately \$349 compared approximately \$40 for 2014. During 2015, we recorded a charge of approximately \$340 before tax (approximately \$340 after tax) associated with the estimated loss on the sale of the North America business. In addition, the North America operations achieved higher operating income in 2015 as compared with 2014 despite lower revenues as a result of significant cost savings, as well as lower costs to implement restructuring initiatives.

The estimated loss on sale was comprised of the following:

Pension and postretirement benefit plan liabilities	\$236
Cash to be contributed to the North America business at closing	(100 )
Gain on net liability reduction	136
Acceleration of pension and postretirement items in AOCI	(278 )
Total pension and postretirement related items	(142 )
Net assets to be contributed at closing (excluding pension items above)	(206 )
Costs to sell	(35 )
Implied value of ownership interest in North America business	43
Estimated loss on sale	\$(340)

See Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 Annual Report for further discussion.

### Other Comprehensive Income (Loss)

Other comprehensive income (loss), net of taxes was approximately \$333 in 2016 compared with approximately (\$151) in 2015, driven by the recognition of losses of \$259 from other comprehensive income (loss) into the Consolidated Statements of Operations as a result of the separation of the North America business, primarily related to unamortized losses associated with the employee benefit plans. Other comprehensive income (loss), net of taxes was also favorably impacted by foreign currency translation adjustments, which decreased by approximately \$240 as compared to 2015 primarily due to the favorable year-over-year comparison of movements of the Brazilian real, Colombian peso and Argentine peso, partially offset by the unfavorable year-over-year comparison of movements of the British pound.

In addition, other comprehensive income (loss) in 2016 as compared with 2015 was favorably impacted by the approximate \$82 impact of the deconsolidation of Venezuela. These favorable impacts to other comprehensive income (loss) were partially offset by the unfavorable impacts of lower amortization of net actuarial losses of approximately \$64, largely as a result of the separation of the North America business, and lower net actuarial gains, which were approximately \$3 in 2016 as compared with net actuarial gains of approximately \$41 in 2015. In 2016, net actuarial gains decreased as a result of lower discount rates for the non-U.S. and U.S. pension plans, partially offset by higher

asset returns in the U.S. and non-U.S. pension plans in 2016 as compared to 2015.

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Other comprehensive income (loss), net of taxes was approximately (\$151) in 2015 compared with approximately (\$348) in 2014, primarily due to net actuarial gains of approximately \$41 in 2015 as compared with net actuarial losses of approximately \$187 in 2014. In 2015, net actuarial gains benefited from higher discount rates for the non-U.S. and U.S. pension plans, partially offset by lower asset returns in the non-U.S. and U.S. pension plans in 2015 as compared to 2014. The other comprehensive income (loss) year-over-year comparison was also unfavorably impacted by foreign currency translation adjustments, which increased by approximately \$27 as compared to 2014 primarily due to unfavorable movements of the Brazilian real, partially offset by the year-over-year comparison of movements of the Polish zloty and Russian ruble.

See Note 3, Discontinued Operations and Divestitures on pages F-16 through F-18 of our 2016 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-9 through F-15 of our 2016 Annual Report for a further discussion of our Venezuelan operations, and see Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 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. Refer to Note 13, Segment Information on pages F-41 through F-43 of our 2016 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	2016		2015		2014	
	Total revenue	Segment profit	Total revenue	Segment profit	Total revenue	Segment profit
Europe, Middle East & Africa	\$2,138.2	\$ 329.9	\$2,229.2	\$ 311.2	\$2,614.1	\$432.3
South Latin America	2,145.9	200.5	2,309.6	238.9	3,028.9	466.0
North Latin America	829.9	114.4	901.0	107.2	1,003.6	128.3
Asia Pacific	556.0	59.9	626.0	68.6	700.9	59.0
Total from reportable segments	\$5,670.0	\$ 704.7	\$6,065.8	\$ 725.9	\$7,347.5	\$1,085.6

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, 2016. 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 – 2016 Compared to 2015

	2016	2015	% / Point Change	
			US\$	Constant \$
Total revenue	\$2,138.2	\$2,229.2	(4)%	4%
Segment profit	329.9	311.2	6%	14%

Segment margin	15.4	% 14.0	% 1.4	1.3
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Change in Active Representatives	3	%
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Change in units sold	(1)	)%
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Change in Ending Representatives	3	%
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Amounts in the table above may not necessarily sum due to rounding.

Total revenue decreased 4% compared to the prior-year period, due to the unfavorable impact from foreign exchange, most significantly the strengthening of the U.S. dollar relative to the British pound, Russian ruble and South African rand. On a Constant \$ basis, revenue grew 4%, primarily driven by South Africa and Russia. The segment's Constant \$

revenue growth was driven primarily by an increase in Active Representatives as well as higher average order. The increase in Ending Representatives was driven primarily by growth in Russia and South Africa. In Russia, revenue was relatively unchanged, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, Russia's revenue grew 9%, primarily due to an increase in Active Representatives, which benefited from sustained momentum

in recruiting and retention, and to a lesser extent, higher average order, which was driven by pricing benefits. Russia's Constant \$ revenue growth was driven by the strength of the performance in the first half of 2016 which tempered in the second half of 2016. During the fourth quarter of 2016, Russia's Constant \$ revenue declined primarily as a result of increased pricing that negatively impacted Representative engagement and activity.

In the United Kingdom, revenue declined 12%, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, the United Kingdom's revenue was relatively unchanged, as higher average order was offset by a decrease in Active Representatives. In South Africa, revenue grew 6%, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, South Africa's revenue grew 21%, primarily due to an increase in Active Representatives.

Segment margin increased 1.4 points, or 1.3 points on a Constant \$ basis, primarily as a result of:

- a net benefit of 1.0 point primarily due to the impact of the Constant \$ revenue growth with respect to our fixed expenses;

- a benefit of .7 points due to lower advertising expense, most significantly in Russia; and

- a decline of .3 points due to lower gross margin, caused primarily by an estimated 3 points from the unfavorable impact of foreign currency transaction losses, which was partially offset by benefits of 1.5 points from the favorable net impact of mix and pricing and 1.1 points due to lower supply chain costs. Mix and pricing was primarily driven by inflationary and strategic pricing in Russia and lower supply chain costs included benefits from lower material costs and cost savings initiatives.

Europe, Middle East & Africa – 2015 Compared to 2014

	2015	2014	% / Point Change	
			US\$	Constant \$
Total revenue	\$2,229.2	\$2,614.1	(15)%	8%
Segment profit	311.2	432.3	(28)%	(7)%
Segment margin	14.0	% 16.5	% (2.5)	(2.3)
Change in Active Representatives			7	%
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 15% compared to the prior-year period, due to the unfavorable impact from foreign exchange including the strengthening of the U.S. dollar relative to the Russian ruble. On a Constant \$ basis, revenue grew 8%, primarily driven by Eastern Europe. An increase in Active Representatives drove the segment's Constant \$ revenue growth. The increase in Ending Representatives was driven primarily by growth in Eastern Europe, largely due to Russia.

In Russia, revenue declined 23%, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, Russia's revenue grew 23%, primarily due to an increase in Active Representatives which benefited from sustained momentum in recruiting and retention, and higher average order. In the United Kingdom, revenue declined 12%, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, the United Kingdom's revenue declined 5%, primarily due to a decrease in Active Representatives. In Turkey, revenue declined 15%, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, Turkey's revenue grew 5%. In South Africa, revenue grew 1%, which was unfavorably impacted by foreign exchange. On a Constant \$ basis, South Africa's revenue grew 19%, primarily due to an increase in Active Representatives and higher average order.

Segment margin decreased 2.5 points, or 2.3 points on a Constant \$ basis, primarily as a result of:

- a decline of 2.4 points due to lower gross margin caused primarily by an estimated 4 points from the unfavorable impact of foreign currency transaction losses, partially offset by approximately 1.0 point from lower supply chain costs and 1.0 point from the favorable net impact of mix and pricing. Supply chain costs benefited primarily as a result of lower overhead costs which were attributable to increased productivity. The favorable net impact of mix and pricing was primarily driven by Eastern Europe;

- a decline of .5 points from higher Representative, sales leader and field expense; and



• various other insignificant items that partially offset the decrease in segment margin.

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## South Latin America – 2016 Compared to 2015

	2016	2015	% / Point Change	
			US\$	Constant \$
Total revenue	\$2,145.9	\$2,309.6	(7 )%	5 %
Segment profit	200.5	238.9	(16 )%	(4 )%
Segment margin	9.3	% 10.3	% (1.0)	(.8 )
Change in Active Representatives			(1 )%	
Change in units sold			(5 )%	
Change in Ending Representatives			1 %	

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

Total revenue decreased 7% compared to the prior-year period, due to the unfavorable impact from foreign exchange which was primarily driven by the strengthening of the U.S. dollar relative to the Argentine peso and the Brazilian real. On a Constant \$ basis, revenue increased 5%. The segment's Constant \$ revenue growth was negatively impacted by an estimated 1 point from additional VAT state taxes in Brazil that were implemented in late 2015. In addition, an IPI tax law on cosmetics in Brazil that went into effect in May 2015 caused an estimated 1 point negative impact on the segment's Constant \$ revenue growth. The segment's Constant \$ revenue benefited from higher average order, which was driven by pricing, and was partially offset by a decrease in Active Representatives. The segment's Constant \$ revenue and higher average order benefited from relatively high inflation in Argentina, as this market's results were impacted by the inflationary impact on pricing. Argentina contributed approximately 4 points to the segment's Constant \$ revenue growth. Revenue in Argentina decreased 20%, unfavorably impacted by foreign exchange. On a Constant \$ basis, Argentina's revenue grew 28% which was primarily due to higher average order, partially offset by a decrease in Active Representatives. The increase in Ending Representatives was primarily driven by growth in Brazil. Revenue in Brazil decreased 3%, unfavorably impacted by foreign exchange. Brazil's Constant \$ revenue increased 2%, despite the negative impact of an estimated 3 points due to the additional VAT state taxes discussed above. Constant \$ revenue in Brazil was also negatively impacted by an estimated 3 points from the impact of the IPI tax discussed above. The negative impact of the additional VAT state taxes and the IPI tax was partially offset by higher average order, which was driven by pricing. In addition, Brazil continued to be impacted by a difficult economic environment. On a Constant \$ basis, Brazil's sales from Beauty products increased 1%, despite the negative impact of the IPI tax and the additional VAT state taxes. On a Constant \$ basis, Brazil's sales from Fashion & Home products increased 1%.

Segment margin decreased 1.0 point, or .8 points on a Constant \$ basis, primarily as a result of:

- a decline of 2.0 points from higher bad debt expense, driven by Brazil primarily due to the macroeconomic environment, coupled with actions taken to recruit new Representatives, including the adjustment of credit terms;
- a decline of .6 points as a result of the IPI tax law on cosmetics in Brazil, which are a reduction of revenue and we have not raised the prices paid by Representatives to the same extent as the IPI tax;
- a decline of .4 points from higher advertising expense, primarily in Brazil in the second half of 2016;
- a benefit of .7 points primarily due to the impact of the Constant \$ revenue growth with respect to our fixed expenses;
- a benefit of .5 points due to higher gross margin caused by 2.6 points from the favorable net impact of mix and pricing, primarily due to inflationary and strategic pricing, and 1.2 points from lower supply chain costs, partially offset by an estimated 3.2 points from the unfavorable impact of foreign currency transaction losses. Supply chain costs benefited primarily as a result of lower material costs and cost savings initiatives;
- a benefit of .3 points primarily due to the net impact of the Constant \$ revenue growth with respect to our Representative, sales leader and field expense; and
- various other insignificant items that partially offset the decline in segment margin.

As a result of enhancements to our collection processes and tightening recruiting terms, we anticipate moderated growth of Ending Representatives in Brazil.



South Latin America – 2015 Compared to 2014

	2015	2014	% / Point Change	
			US\$	Constant \$
Total revenue	\$2,309.6	\$3,028.9	(24)%	(2)%
Segment profit	238.9	466.0	(49)%	(34)%
Segment margin	10.3	% 15.4	% (5.1)	(5.0)
Change in Active Representatives			(1)	)%
Change in units sold			(5)	)%
Change in Ending Representatives			1	%

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

Total revenue decreased 24% compared to the prior-year period, due to the unfavorable impact from foreign exchange which was primarily driven by the strengthening of the U.S. dollar relative to the Brazilian real. On a Constant \$ basis, revenue decreased 2%, negatively impacted by approximately 6 points due to taxes in Brazil from the combined impact of the recognition of VAT credits in 2014 along with the IPI tax discussed above in 2015. Specifically, during 2014, we recognized \$85 in Brazil for expected VAT recoveries which did not recur in 2015, and as such, there was an approximate 3 point negative impact on the segment's Constant \$ growth rate. In addition, the IPI tax law on cosmetics in Brazil in 2015 caused an estimated 3 point negative impact on the segment's Constant \$ revenue growth. Further, Argentina, which is a market experiencing relatively high inflation, contributed approximately 4 points to the segment's Constant \$ revenue growth. Average order in the segment benefited from the inflationary impact on pricing in Argentina, while Active Representatives was negatively impacted by this market. Average order was negatively impacted by the taxes in Brazil. The increase in Ending Representatives was primarily driven by growth in Brazil. Revenue in Brazil decreased 34%, unfavorably impacted by foreign exchange. Brazil's Constant \$ revenue decreased 8%, negatively impacted by approximately 10 points due to the combined impact of the VAT credits in 2014 and the IPI tax in 2015 discussed above. The negative impact of these tax items were partially offset by an increase in Active Representatives. On a Constant \$ basis, Brazil's sales from Beauty products decreased 5%, negatively impacted by the IPI tax. This negative impact on Beauty sales was partially offset by increased sales of fragrance, which benefited from our alliance with Coty, as well as from new product launches during the first quarter of 2015. The IPI tax also negatively impacted Brazil's Beauty units, as we increased prices to partially offset the new tax. On a Constant \$ basis, Brazil's sales from Fashion & Home products increased 1%. Brazil continues to be impacted by a difficult economic environment as well as high levels of competition.

Segment margin decreased 5.1 points, or 5.0 points on a Constant \$ basis, primarily as a result of:

- a decline of 2.5 points associated with the net impact of VAT credits in Brazil recognized in revenue in 2014, discussed above;

- a decline of 1.8 points as a result of the IPI tax law on cosmetics in Brazil, which are a reduction of revenue and we have not raised the prices paid by Representatives to the same extent as the IPI tax; and

- a decline of 1.0 point due to lower gross margin caused primarily by 2.3 points from the unfavorable impact of foreign currency transaction losses, partially offset by 1.3 points from the favorable net impact of mix and pricing, which includes the realization of price increases in Argentina on inventory acquired in advance of inflation.

North Latin America – 2016 Compared to 2015

	2016	2015	% / Point Change	
			US\$	Constant \$
Total revenue	\$829.9	\$901.0	(8)%	3%
Segment profit	114.4	107.2	7%	22%
Segment margin	13.8	% 11.9	% 1.9	2.2
Change in Active Representatives			—	%

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Change in units sold	(6 )%
Change in Ending Representatives	(1 )%

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

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North Latin America consists largely of the Mexico business. Total revenue decreased 8% compared to the prior-year period, 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 increased 3%, which benefited from higher average order. Revenue in Mexico decreased 11%, unfavorably impacted by foreign exchange. On a Constant \$ basis, Mexico's revenue grew 5%, primarily due to higher average order driven primarily from pricing, partially offset by a decline in units sold.

Segment margin increased 1.9 points, or 2.2 points on a Constant \$ basis, primarily as a result of: a benefit of 1.1 points due to higher gross margin caused primarily by a benefit of 2.7 points from the favorable impact of mix and pricing, primarily due to inflationary and strategic pricing, partially offset by 1.5 points from the unfavorable impact of foreign currency transaction losses; and a benefit of .8 points primarily from lower fixed expenses, which includes .6 points as a result of an out-of-period adjustment which negatively impacted the prior-year period, as well as due to the impact of the Constant \$ revenue growth with respect to our fixed expenses.

North Latin America – 2015 Compared to 2014

	2015	2014	% / Point Change	
			US\$	Constant \$
Total revenue	\$901.0	\$1,003.6	(10)%	2 %
Segment profit	107.2	128.3	(16)%	(3 )%
Operating margin	11.9 %	12.8 %	(.9 )	(.6 )
Change in Active Representatives			1	%
Change in units sold			(1)	)%
Change in Ending Representatives			—	%

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

Total revenue decreased 10% compared to the prior-year period, 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 increased 2%. The segment's Constant \$ revenue growth benefited from an increase in Active Representatives and higher average order. Revenue in Mexico declined 15%, unfavorably impacted by foreign exchange, or increased 2% on a Constant \$ basis, primarily due to higher average order.

Segment margin decreased .9 points, or .6 points on a Constant \$ basis, primarily as a result of: a decline of 1.0 points from higher Representative, sales leader and field expense, primarily in Mexico; a decline of .3 points from higher fixed expenses, which includes .6 points as a result of an out-of-period adjustment, partially offset by the impact of the Constant \$ revenue growth with respect to our fixed expenses; a benefit of .4 points due to higher gross margin caused primarily by .4 points from lower supply chain costs and .4 points from the favorable net impact of mix and pricing, partially offset by immaterial items that unfavorably impacted gross margin. Lower supply chain costs were driven by lower material costs and productivity initiatives, partially offset by higher obsolescence; and various other insignificant items that partially offset the decline in segment margin.

## Asia Pacific – 2016 Compared to 2015

	2016	2015	% / Point Change	
			US\$	Constant \$
Total revenue	\$556.0	\$626.0	(11)%	(7)%
Segment profit	59.9	68.6	(13)%	(6)%
Segment margin	10.8	% 11.0	% (.2)	.1
Change in Active Representatives			(10)	%
Change in units sold			(6)	%
Change in Ending Representatives			(11)	%

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

Total revenue decreased 11% compared to the prior-year period, partially due to the unfavorable impact from foreign exchange. On a Constant \$ basis, revenue decreased 7%, due to declines in most markets. The segment's Constant \$ revenue decline was primarily due to a decrease in Active Representatives, partially offset by higher average order. Revenue in the Philippines decreased 3%, but grew 2% on a Constant \$ basis, primarily due to higher average order, partially offset by a decrease in Active Representatives. The segment's and the Philippines' Active Representatives decline was impacted by a reduction in the number of sales campaigns in the Philippines. The decrease in Ending Representatives was driven by declines in all markets and included a negative impact of 1 point due to the closure of Thailand.

Segment margin declined .2 points, or increased .1 point on a Constant \$ basis, primarily as a result of:

- a net benefit of .3 points primarily from lower fixed expenses, largely offset by the unfavorable impact of the declining revenue with respect to our fixed expenses;

- a decline of .8 points due to lower gross margin, caused primarily by 1.1 points from the unfavorable impact of mix and pricing and .3 points from the unfavorable impact of foreign currency transaction losses, partially offset by .7 points from lower supply chain costs; and

- various other insignificant items that benefited segment margin.

We continue to evaluate strategic alternatives for China.

## Asia Pacific – 2015 Compared to 2014

	2015	2014	% / Point Change	
			US\$	Constant \$
Total revenue	\$626.0	\$700.9	(11)%	(5)%
Segment profit	68.6	59.0	16%	25%
Operating margin	11.0	% 8.4	% 2.5	2.6
Change in Active Representatives			(2)	%
Change in units sold			(7)	%
Change in Ending Representatives			1	%

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

Total revenue decreased 11% compared to the prior-year period, primarily due to the unfavorable impact from foreign exchange. On a Constant \$ basis, revenue decreased 5%, as growth in the Philippines was more than offset by declines in other Asia Pacific markets, led by China which declined 29%, or 28% on a Constant \$ basis. The segment's Constant \$ revenue decline was due to lower average order, primarily driven by declines in China, and a decrease in Active Representatives. Revenue in the Philippines increased 3%, or 5% on a Constant \$ basis, primarily due to higher average order, as a result of strength in Fashion & Home, and an increase in Active Representatives. The increase in Ending Representatives was primarily driven by growth in the Philippines.

Segment margin increased 2.5 points, or 2.6 points on a Constant \$ basis, primarily as a result of:

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a net benefit of 1.8 points primarily from lower fixed expenses, which primarily resulted from our cost savings initiatives, mainly reductions in headcount. Partially offsetting the lower fixed expenses was the unfavorable impact of the declining revenue with respect to our fixed expenses; and  
a benefit of .9 points due to lower advertising spend.



### Liquidity and Capital Resources

Our principal sources of funding historically have been cash flows from operations, public offerings of notes, bank financings, borrowings under lines of credit, issuance of commercial paper, a private placement of notes and an issuance of shares of preferred stock. At December 31, 2016, we had cash and cash equivalents totaling approximately \$654. 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 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 in 2016, 2015 and 2014, which may impact our access to these transactions on favorable terms, if at all. For more information see "Risk Factors - Our credit ratings were downgraded in each of the last three 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 2016 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 17, Contingencies on pages F-50 through F-52 of our 2016 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 2016 Annual Report.

#### Balance Sheet Data

	2016	2015
Cash and cash equivalents	\$ 654.4	\$ 686.9
Total debt	1,893.9	2,205.7
Working capital	506.6	146.0

#### Cash Flows

	2016	2015	2014
Net cash from continuing operating activities	\$ 128.0	\$ 91.4	\$ 288.9
Net cash from continuing investing activities	(82.7 )	142.5	(100.5 )
Net cash from continuing financing activities	137.0	(430.5)	(208.7 )
Effect of exchange rate changes on cash and equivalents	(50.4 )	(80.7 )	(183.3 )

#### Net Cash from Continuing Operating Activities

Net cash provided by continuing operating activities during 2016 was approximately \$37 higher than during 2015. The approximate \$37 increase to net cash provided by continuing operating activities was primarily due to the approximate \$67 payment to the U.S. Securities and Exchange Commission in connection with the FCPA settlement in 2015, which did not recur in 2016, lower operating tax payments, primarily in Brazil, and higher cash-related earnings. The net cash provided by continuing operating activities in 2016 also benefited from approximately \$27 of proceeds, net of legal fees, related to settling claims relating to professional services in connection with a previously disclosed legal matter. These items were partially offset by the timing of payments, primarily for inventory, increased

levels of accounts receivable which was primarily attributable to macroeconomic conditions in Brazil, and the contribution to the U.S. pension plan in 2016 of \$20, which did not occur in 2015.

Net cash provided by continuing operating activities during 2015 was approximately \$198 lower than during 2014. The approximate \$198 decrease to net cash provided by continuing operating activities was primarily due to lower cash-related earnings, which were impacted by the unfavorable impact of foreign currency translation. Lower operating tax payments,

primarily in Brazil, and lower payments for employee incentive compensation in 2015 as compared to 2014, partially offset these items.

We maintain defined benefit pension plans and unfunded supplemental pension benefit plans (see Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2016 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 \$10 to \$15 to our U.S. defined benefit pension and postretirement plans and in the range of \$20 to \$25 to our non-U.S. defined benefit pension and postretirement plans during 2017.

#### Net Cash from Continuing Investing Activities

Net cash used by continuing investing activities during 2016 was approximately \$83, as compared to net cash provided by continuing investing activities of approximately \$143 during 2015. The approximate \$226 decrease to net cash (used) provided by continuing investing activities was primarily due to the net proceeds on the sale of Liz Earle in 2015 of approximately \$208.

Net cash provided by continuing investing activities during 2015 was approximately \$143, as compared to net cash used of \$101 during 2014. The approximate \$243 increase to net cash provided (used) by continuing investing activities was primarily due to the net proceeds on the sale of Liz Earle of approximately \$208, which was partially offset by lower capital expenditures.

Capital expenditures during 2016 were approximately \$93 compared with approximately \$92 during 2015 and approximately \$126 during 2014.

Capital expenditures in 2017 are currently expected to be in the range of \$150 to \$170 and are expected to be funded by cash from operations.

#### Net Cash from Continuing Financing Activities

Net cash provided by continuing financing activities during 2016 was approximately \$137, as compared to net cash used by continuing financing activities of approximately \$431 during 2015. The approximately \$568 increase to net cash provided (used) by continuing financing activities was primarily due to the net proceeds related to the \$500 principal amount of our Senior Secured Notes (as defined below in "Liquidity and Capital Resources") issued in the third quarter of 2016, the net proceeds of approximately \$426 from the sale of Series C Preferred Stock, the suspension of our dividend, and the prepayment of the \$250 principal amount of our 2.375% Notes (as defined below in "Liquidity and Capital Resources") in the third quarter of 2015, which were partially offset by the payments for the August 2016 cash tender offers of approximately \$301, the prepayment of the remaining principal amount of our 4.20% Notes (as defined below in "Liquidity and Capital Resources") and 5.75% Notes (as defined below in "Liquidity and Capital Resources") of approximately \$238 in the aggregate, and the payments for the October and December debt repurchases of approximately \$181 in the aggregate. See Note 16, Series C Convertible Preferred Shares on page F-49 of our 2016 Annual Report and Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report for more information.

Net cash used by continuing financing activities was approximately \$431 during 2015, as compared to approximately \$209 during 2014 primarily due to the prepayment of \$250 principal amount of our 2.375% Notes (as defined below in "Liquidity and Capital Resources") in the third quarter of 2015, partially offset by the repayment of the remaining \$53 outstanding principal amount of a term loan agreement in the second quarter of 2014. See Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report for more information.

We purchased approximately 1.4 million shares of our common stock for \$5.6 during 2016, as compared to .3 million shares of our common stock for \$3.1 during 2015 and .7 million shares for \$9.8 during 2014, 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 2016, as well as through private transactions with a broker in connection with stock based obligations under our Deferred Compensation Plan in 2014.

We did not declare a dividend for 2016 as we suspended the dividend effective in the first quarter of 2016. We maintained a quarterly dividend of \$.06 per share for 2015 and 2014.

## Debt and Contractual Financial Obligations and Commitments

At December 31, 2016, our debt and contractual financial obligations and commitments by due dates were as follows:

	2017	2018	2019	2020	2021	2022 and Beyond	Total
Short-term debt	\$13.7	\$—	\$—	\$—	\$—	\$—	\$13.7
Long-term debt	—	—	237.9	409.9	—	1,233.9	1,881.7
Capital lease obligations	4.4	2.5	.6	.1	—	—	7.6
Total debt	18.1	2.5	238.5	410.0	—	1,233.9	1,903.0
Debt-related interest <sup>(1)</sup>	137.9	137.9	125.1	101.0	95.4	95.4	692.7
Total debt-related	156.0	140.4	363.6	511.0	95.4	1,329.3	2,595.7
Operating leases <sup>(2)</sup>	56.1	43.5	39.2	29.5	23.8	55.7	247.8
Purchase obligations	177.8	117.4	71.5	57.5	30.5	27.2	481.9
Benefit obligations <sup>(3)</sup>	41.8	24.3	23.2	22.6	29.3	128.8	270.0
Total debt and contractual financial obligations and commitments <sup>(4)</sup>	\$431.7	\$325.6	\$497.5	\$620.6	\$179.0	\$1,541.0	\$3,595.4

(1) Amounts are based on our current long-term credit ratings. See Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report for more information.

(2) Amounts are net of expected sublease rental income. See Note 14, Leases and Commitments on page F-44 of our 2016 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 2017 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 2017.

(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, 2016, our reserves for uncertain income tax positions, including interest and penalties, totaled approximately \$51.

See Note 6, Debt and Other Financing, and Note 14, Leases and Commitments, on pages F-19 through F-22, and on page F-44, respectively, of our 2016 Annual Report for more information on our debt and contractual financial obligations and commitments. Additionally, as disclosed in Note 15, Restructuring Initiatives on pages F-44 through F-49 of our 2016 Annual Report, at December 31, 2016, we have liabilities of approximately \$51 associated with our Transformation Plan, approximately \$1 associated with various restructuring initiatives during 2016 and approximately \$3 associated with our \$400M Cost Savings Initiative. The majority of future cash payments associated with these restructuring liabilities are expected to be made during 2017.

## Off Balance Sheet Arrangements

At December 31, 2016, we had no material off-balance-sheet arrangements.

## Capital Resources

## Revolving Credit Facility

In June 2015, the Company and Avon International Operations, Inc., a wholly-owned domestic subsidiary of the Company (“AIO”), entered into a five-year \$400.0 senior secured revolving credit facility (the “2015 facility”). Borrowings under the 2015 facility bear interest, at our option, at a rate per annum equal to LIBOR plus 250 basis points or a floating base rate plus 150 basis points, in each case subject to adjustment based upon a leverage-based pricing grid. The 2015 facility may be used for general corporate purposes. As of December 31, 2016, there were no amounts outstanding under the 2015 facility. The 2015 facility replaced the Company's previous \$1 billion unsecured revolving credit facility (the “2013 facility”). In the second quarter of 2015, \$2.5 before tax was recorded for the write-off of issuance costs related to the 2013 facility.

All obligations of AIO under the 2015 facility are (i) unconditionally guaranteed by each material domestic restricted subsidiary of the Company (other than AIO, the borrower), in each case, subject to certain exceptions and (ii) fully

guaranteed on an unsecured basis by the Company. The obligations of AIO and the subsidiary guarantors are secured by first priority liens

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on and security interest in substantially all of the assets of AIO and the subsidiary guarantors, in each case, subject to certain exceptions.

The 2015 facility will terminate in June 2020; provided, however, that it shall terminate on the 91<sup>st</sup> day prior to the maturity of the 6.50% Notes (as defined below) and the 4.60% Notes (as defined below), if on such 91<sup>st</sup> day, the applicable notes are not redeemed, repaid, discharged, defeased or otherwise refinanced in full.

The 2015 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). As of December 31, 2016, we were in compliance with our interest coverage and total leverage ratios under the 2015 facility. The amount of the facility available to be drawn down on is reduced by any standby letters of credit granted by AIO, which, as of December 31, 2016, was approximately \$46. As of December 31, 2016, based on then applicable interest rates, the entire amount of the remaining 2015 facility, which is approximately \$354, could have been drawn down without violating any covenant. A decline in our business results (including the impact of any adverse foreign exchange movements and significant restructuring charges) may further reduce our borrowing capacity under the 2015 facility or cause us to be non-compliant with our interest coverage and total leverage ratios. If we were to be non-compliant with our interest coverage or total leverage ratio, we would no longer have access to our 2015 facility and our credit ratings may be downgraded. As of December 31 2016, there were no amounts outstanding under the 2015 facility.

#### 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"). The net proceeds from these 2013 Notes were used to repay outstanding debt. Interest on the 2013 Notes is payable semi-annually on March 15 and September 15 of each year. On August 10, 2015, we prepaid our 2.375% Notes at a prepayment price equal to 100% of the principal amount of \$250.0, plus accrued interest of \$3.1 and a make-whole premium of \$5.0. In connection with the prepayment of our 2.375% Notes, we incurred a loss on extinguishment of debt of \$5.5 before tax in the third quarter of 2015 consisting of the \$5.0 make-whole premium for the 2.375% Notes and the write-off of \$.5 of debt issuance costs and discounts related to the initial issuance of the 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 due March 1, 2019 (the "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 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 Annual Report), 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 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 Annual Report), \$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 associated with treasury lock agreements designated as cash flow hedges of the anticipated interest payments on the 5.75% Notes (see Note 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 Annual Report), 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 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 Annual Report).

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 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 Annual Report) 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 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 Annual Report).

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. 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, with the exception of our 4.20% 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 and, at such time, the outstanding notes are rated below investment grade.

#### Senior Secured Notes

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

All obligations of AIO under the Senior Secured Notes are unconditionally guaranteed by each current and future wholly-owned domestic restricted subsidiary of the Company that is a guarantor under the 2015 facility and fully guaranteed on an unsecured basis by the Company. The obligations of AIO and the subsidiary guarantors are secured by first priority liens on and security interest in substantially all of the assets of AIO and the subsidiary guarantors, in each case, subject to certain exceptions.

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.

#### Long-Term Credit Ratings

Our long-term credit ratings are: Moody's ratings of Negative Outlook with Ba3 for corporate family debt, B1 for senior unsecured debt, and Ba1 for the Senior Secured Notes; S&P ratings of Positive Outlook with B for corporate family debt and senior unsecured debt and BB- for the Senior Secured Notes; and Fitch rating of Negative 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. For more information, see "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," "Risk Factors - Our credit ratings were downgraded in each of the last three 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," and "Risk Factors - Our indebtedness could adversely affect us by reducing our flexibility to respond to changing business and economic conditions" included in Item 1A on pages 7 through 20 of our 2016 Annual Report.

Please also see Note 6, Debt and Other Financing on pages F-19 through F-22 of our 2016 Annual Report for more information relating to our debt and the maturities thereof.

## 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 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, 2016, we do not have any interest-rate swap agreements.

Approximately 1% and approximately 2% of our debt portfolio at December 31, 2016 and 2015, 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, 2016, 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 discounted cash flow 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, 2016, 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 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 the 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, 2016, the impact of a hypothetical 10% appreciation or 10% depreciation of the U.S. dollar against our foreign exchange contracts would not represent a material potential change in fair value, earnings or cash flows. This potential change does not consider our underlying foreign currency exposures. The hypothetical impact was calculated on the open positions using forward rates at December 31, 2016, 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 \$.6 at December 31, 2016. 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 9, Financial Instruments and Risk Management on pages F-26 through F-28 of our 2016 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, 2016, 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, 2016, 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, 2016, was effective.

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PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this 2016 Annual Report on Form 10-K, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016. Their report is included on page F-2 of our 2016 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 1 - Election of Directors" and "Information Concerning the Board of Directors" sections of our proxy statement for the 2017 Annual Meeting of Shareholders ("2017 Proxy Statement").

**Executive Officers**

Information regarding executive officers is incorporated by reference to the "Executive Officers" section of our 2017 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 2017 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](http://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](mailto:investor.relations@avon.com) or by calling (212) 282-5320. 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 2017 Proxy Statement.

**Material Changes in Nominating Procedures**

This information is incorporated by reference to the "Information Concerning the Board of Directors" section of our 2017 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 2017 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 2017 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 2017 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

This information is incorporated by reference to the "Proposal 4 - Ratification of Appointment of Independent Registered Public Accounting Firm" section of our 2017 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

- |       |  |
|-------|--|
| 2.1   | Share Purchase Agreement, dated as of July 9, 2015, among Avon Products Holding Limited, Liz Earle Beauty Co. Limited and Alliance Boots Holdings Limited (incorporated by reference to Exhibit 2.1 to Avon's Current Report on Form 8-K filed on July 9, 2015).   |
| 2.2   | 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 on October 12, 2016 (incorporated by reference to Exhibit 3.1 to Avon's Current Report on Form 8-K filed on October 13, 2016).   |
| 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   | Fourth Supplemental Indenture, dated as of March 2, 2009, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee, with respect to the issuance of the 6.500% Notes due 2019 (incorporated by reference to Exhibit 4.2 to Avon's Current Report on Form 8-K filed on March 2, 2009).    |
| 4.3   | 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).   |
| 4.4   | 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). |
| 4.5   | 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).  |
| 4.6   | 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 Current Report on Form 8-K filed on August 16, 2016).                    |
| 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* |  |

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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, 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).
- 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).
- 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).

- 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).
- 10.30\* 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).
- 10.31\* 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).
- 10.32\* 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).
- 10.33\* 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).
- 10.34\* 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).
- 10.35\* 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).
- 10.36\* 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).
- 10.37\* 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).
- 10.38\* 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).
- 10.39\* 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).
- 10.40\* 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).
- 10.41\* 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).
- 10.42\* 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).
- 10.43\* 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).
- 10.44\* 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).
- 10.45\* 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).
- 10.46\*

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 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. Compensation Recoupment Policy (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 17, 2010).

- 10.51\* 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).
- 10.52\* 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).  
Avon Products, Inc. Amended and Restated Change in Control Policy, dated as of January 9, 2013
- 10.53\* (incorporated by reference to Exhibit 10.43 to Avon's Annual Report on Form 10-K/A for the year ended December 31, 2012).
- 10.54\* 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).
- 10.55\* 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).  
First Amendment, dated as of December 13, 2010, to the Avon Products, Inc. International Retirement Plan as
- 10.56\* 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).  
Employment Offer Letter Agreement, dated as of February 8, 2012, between Avon Products, Inc. and
- 10.57\* Fernando Acosta (incorporated by reference to Exhibit 10.52 to Avon's Annual Report on Form 10-K for the year ended December 31, 2011).  
Letter Agreement, dated as of April 4, 2012, between the Company and Sheri McCoy (incorporated by
- 10.58\* 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).
- 10.59\* International Assignment Letter Agreement, dated July 20, 2016, between Avon Products, Inc. and Sheri McCoy.
- 10.60\* 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).  
Letter Agreement, dated as of September 13, 2012, between Avon Products, Inc. and John P. Higson
- 10.61\* (incorporated by reference to Exhibit 10.8 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).  
Letter Agreement, dated as of February 7, 2012, and Extension Letter, dated as of July 1, 2014, between Avon
- 10.62\* Products, Inc. and David Legher (incorporated by reference to Exhibit 10.9 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).  
Letter Agreement, dated as of June 1, 2015, and Extension Letter, dated as of June 1, 2016, between Avon
- 10.63\* Products, Inc. and David Legher (incorporated by reference to Exhibit 10.7 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016).  
Employment Offer Letter Agreement including Forms of Restricted Stock Unit ("RSU") Award Agreement
- 10.64\* and Performance Contingent RSU Award Agreement, dated as of January 23, 2015, between Avon Products, Inc. and James Scully (incorporated by reference to Exhibit 10.7 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).  
Bonus Agreement, dated as of March 18, 2016, between Avon Products, Inc. and Robert Loughran
- 10.65\* (incorporated by reference to Exhibit 10.12 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).  
Employment Offer Letter Agreement, dated as of September 10, 2012, between Avon Products, Inc. and Jeff
- 10.66\* Benjamin (incorporated by reference to Exhibit 10.13 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).  
Employment Offer Letter and Contract of Employment Agreement dated November 28, 2016, between Avon
- 10.67\* Cosmetics Limited and James Wilson.

- 10.68 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).
- 10.69 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).
- 10.70 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).



- Investment Agreement, dated as of December 17, 2015, between Avon Products, Inc. and Cleveland Apple
- 10.71 Investor LLC (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on December 21, 2015).
- Investor Rights Agreement, dated as of March 1, 2016, between Avon Products, Inc. and Cleveland Apple
- 10.72 Investor L.P. (incorporated by reference to Exhibit 10.1 to Avon's Current Report on Form 8-K filed on March 7, 2016).
- Intellectual Property License Agreement, dated as of March 1, 2016, among Avon Products, Inc., Avon
- 10.73 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).
- Agreement, dated as of March 27, 2016, between Avon Products, Inc. and an investor group led by Barington
- 10.74 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).
- 21 Subsidiaries of the registrant.
- 23 Consent of PricewaterhouseCoopers LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- The following materials formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated
- 101 Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Shareholders' Equity, (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, 2016, 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 22nd day of February 2017.

Avon Products, Inc.

/s/ Robert Loughran  
 Robert Loughran  
 Group Vice President and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, 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/ Sherilyn S. McCoy Sherilyn S. McCoy	Chief Executive Officer – Principal Executive Officer	February 22, 2017
/s/ James Wilson James Wilson	Executive Vice President and Chief Financial Officer - Principal Financial Officer	February 22, 2017
/s/ Jose Armario Jose Armario	Director	February 22, 2017
/s/ W. Don Cornwell W. Don Cornwell	Director	February 22, 2017
/s/ Chan W. Galbato Chan W. Galbato	Director	February 22, 2017
/s/ Nancy Killefer Nancy Killefer	Director	February 22, 2017
/s/ Susan J. Kropf Susan J. Kropf	Director	February 22, 2017
/s/ Steven F. Mayer Steven F. Mayer	Director	February 22, 2017

/s/ Helen McCluskey	Director	February 22, 2017
Helen McCluskey		
/s/ Charles H. Noski	Director	February 22, 2017
Charles H. Noski		
/s/ Cathy D. Ross	Director	February 22, 2017
Cathy D. Ross		
/s/ Michael F. Sanford	Director	February 22, 2017
Michael F. Sanford		

AVON PRODUCTS, INC.  
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows and changes in shareholders' equity present fairly, in all material respects, the financial position of Avon Products, Inc. at December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for each of the three years in the period ended 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) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, 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, appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. 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.

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  
New York, New York  
February 22, 2017



## AVON PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

Years ended December 31	2016	2015	2014
Net sales	\$5,578.8	\$6,076.5	\$7,472.5
Other revenue	138.9	84.0	175.5
Total revenue	5,717.7	6,160.5	7,648.0
Costs, expenses and other:			
Cost of sales	2,257.0	2,445.4	3,006.9
Selling, general and administrative expenses	3,138.8	3,543.2	4,206.8
Impairment of goodwill	—	6.9	—
Operating profit	321.9	165.0	434.3
Interest expense	136.6	120.5	108.8
(Gain) loss on extinguishment of debt	(1.1	) 5.5	—
Interest income	(15.8	) (12.5	) (14.8
Other expense, net	171.0	73.7	139.5
Gain on sale of business	—	(44.9	) —
Total other expenses	290.7	142.3	233.5
Income from continuing operations, before taxes	31.2	22.7	200.8
Income taxes	(124.6	) (819.2	) (545.3
Loss from continuing operations, net of tax	(93.4	) (796.5	) (344.5
Loss from discontinued operations, net of tax	(14.0	) (349.1	) (40.4
Net loss	(107.4	) (1,145.6	) (384.9
Net income attributable to noncontrolling interests	(0.2	) (3.3	) (3.7
Net loss attributable to Avon	\$(107.6	) \$(1,148.9)	\$(388.6
Loss per share:			
Basic from continuing operations	\$(0.25	) \$(1.81	) \$(0.79
Basic from discontinued operations	(0.03	) (0.79	) (0.09
Basic attributable to Avon	(0.29	) (2.60	) (0.88
Diluted from continuing operations	\$(0.25	) \$(1.81	) \$(0.79
Diluted from discontinued operations	(0.03	) (0.79	) (0.09
Diluted attributable to Avon	(0.29	) (2.60	) (0.88
Weighted-average shares outstanding:			
Basic	437.0	435.2	434.5
Diluted	437.0	435.2	434.5

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	2016	2015	2014
Net loss	\$(107.4)	\$(1,145.6)	\$(384.9)
Other comprehensive income (loss):			
Foreign currency translation adjustments	38.6	(275.0 )	(248.3 )
Change in derivative losses on cash flow hedges, net of taxes of \$2.7, \$0.0 and \$0.0	1.3	1.9	1.9
Amortization of net actuarial loss and prior service cost, net of taxes of \$10.9, \$1.2 and \$2.5	287.3	81.8	85.8
Adjustments of net actuarial loss and prior service cost, net of taxes of \$7.1, \$3.9 and \$(12.0)	3.1	40.7	(187.2 )
Other comprehensive income related to equity method investment, net of taxes of \$0.0	2.2	—	—
Total other comprehensive income (loss), net of taxes	332.5	(150.6 )	(347.8 )
Comprehensive income (loss)	225.1	(1,296.2 )	(732.7 )
Less: comprehensive loss attributable to noncontrolling interests	(2.1 )	(1.6 )	(1.9 )
Comprehensive income (loss) attributable to Avon	\$227.2	\$(1,294.6)	\$(730.8)

The accompanying notes are an integral part of these statements.



AVON PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

December 31	2016	2015
Assets		
Current Assets		
Cash, including cash equivalents of \$79.4 and \$123.2	\$654.4	\$686.9
Accounts receivable (less allowances of \$131.1 and \$86.7)	458.9	443.0
Inventories	586.4	624.0
Prepaid expenses and other	291.3	296.1
Current assets of discontinued operations	1.3	291.1
Total current assets	1,992.3	2,341.1
Property, plant and equipment, at cost		
Land	29.5	32.2
Buildings and improvements	621.5	665.8
Equipment	773.1	797.7
	1,424.1	1,495.7
Less accumulated depreciation	(712.8 )	(728.8 )
Property, plant and equipment, net	711.3	766.9
Goodwill	93.6	92.3
Other assets	621.7	490.0
Noncurrent assets of discontinued operations	—	180.1
Total assets	\$3,418.9	\$3,870.4
Liabilities and Shareholders' (Deficit) Equity		
Current Liabilities		
Debt maturing within one year	\$18.1	\$55.2
Accounts payable	768.1	774.2
Accrued compensation	129.2	157.6
Other accrued liabilities	401.9	419.6
Sales and taxes other than income	147.0	174.9
Income taxes	10.7	23.9
Payable to discontinued operations	—	100.0
Current liabilities of discontinued operations	10.7	489.7
Total current liabilities	1,485.7	2,195.1
Long-term debt	1,875.8	2,150.5
Employee benefit plans	164.5	177.5
Long-term income taxes	78.6	65.1
Other liabilities	205.8	78.4
Noncurrent liabilities of discontinued operations	—	260.2
Total liabilities	3,810.4	4,926.8
Commitments and contingencies (Notes 14 and 17)		
Series C convertible preferred stock	444.7	—
Shareholders' Deficit		
Common stock, par value \$.25 - authorized 1,500 shares; issued 754.9 and 751.4 shares	188.8	187.9
Additional paid-in capital	2,273.9	2,254.0
Retained earnings	2,322.2	2,448.1
Accumulated other comprehensive loss	(1,033.2 )	(1,366.2 )
Treasury stock, at cost (317.3 and 315.9 shares)	(4,599.7 )	(4,594.1 )

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Total Avon shareholders' deficit	(848.0 )	(1,070.3 )
Noncontrolling interests	11.8	13.9
Total shareholders' deficit	(836.2 )	(1,056.4 )
Total liabilities, series C convertible preferred stock and shareholders' deficit	\$3,418.9	\$3,870.4

The accompanying notes are an integral part of these statements.

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AVON PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

Years ended December 31	2016	2015	2014
Cash Flows from Operating Activities			
Net loss	\$(107.4)	\$(1,145.6)	\$(384.9)
Loss from discontinued operations, net of tax	14.0	349.1	40.4
Loss from continuing operations, net of tax	(93.4 )	(796.5 )	(344.5 )
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	83.3		