AVON PRODUCTS INC
Form 10-K
February 28, 2013

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

FORM 10-K

ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2012
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-4881

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

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

777 Third Avenue, New York, N.Y. 10017-1307
(Address of principal executive offices)
(212) 282-5000
(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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý 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 ý
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 ý 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 ý 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	ý	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 ý

The aggregate market value of voting and non-voting Common Stock (par value $.25) held by non-affiliates at June 30, 2012 (the last business day of our most recently completed second quarter) was $7.0 billion.

The number of shares of Common Stock (par value $.25) outstanding at January 31, 2013, was 432,280,018

Documents Incorporated by Reference

Part III - Portions of the registrant's Proxy Statement relating to the 2013 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 stabilization strategies, cost savings initiative, multi-year restructuring programs and other initiatives and related actions), liquidity, cash flow and uses of cash, our ability to service our debt obligations or obtain additional financing, costs and cost savings, competitive advantages, impairments, the impact of currency devaluations and other laws and regulations, government investigations, internal investigations and compliance reviews, results of litigation, contingencies, taxes and tax rates, potential acquisitions or divestitures, 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. Such factors 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 realize the projected benefits (in the amounts and time schedules we expect) from, our stabilization strategies, cost savings initiative, multi-year restructuring programs 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, 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;
- the possibility of business disruption in connection with our stabilization strategies, cost savings initiative, multi-year restructuring programs or other initiatives;
- our ability to improve our business in North America, including enhancing our Leadership model;
- 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 implement our Leadership program globally, to generate Representative activity, to increase the number of consumers served per Representative and their engagement online, to enhance the Representative and consumer experience and increase Representative productivity through field activation programs and technology tools and enablers, execution of Service Model Transformation and other investments in the direct-selling channel, and to compete with other direct-selling organizations to recruit, retain and service Representatives and to continue to innovate the direct-selling model;
- our ability to reverse declining margins and net income;
- general economic and business conditions in our markets, including social, economic and political uncertainties in the international markets in our portfolio;
- our ability to achieve profitable growth, particularly in our largest markets, such as Brazil and the United States ("U.S."), and developing and emerging markets, such as Mexico and Russia, and our ability to realize sustainable growth from our investments in our brand and the direct-selling channel;
- the effect of economic factors, including inflation and fluctuations in interest rates and currency exchange rates, as well as the designation of Venezuela as a highly inflationary economy, foreign exchange restrictions and the potential effect of such factors on our business, results of operations and financial condition;
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our indebtedness and debt service obligations, our ability to access and generate cash to repay debt and cover debt service obligations, our access to short- and long-term financing, our ability to refinance upcoming maturities of our current indebtedness or to secure such refinancing at attractive rates and terms, our ability to secure other financing or to secure such other financing at attractive rates and terms, and our credit ratings and the impact of any changes on our financing costs, rates, terms, debt service obligations and access to lending sources;

- our ability to comply with certain covenants in our debt instruments, including the impact of any significant restructuring charges or significant legal or regulatory settlements, or obtain necessary waivers from compliance with, or necessary amendments to, such covenants, and the impact any non-compliance may have on our ability to secure financing;
- any developments in or consequences of investigations and compliance reviews, and any litigation related thereto, including the ongoing investigations and compliance reviews of Foreign Corrupt Practices Act and related 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;
- a general economic downturn, a recession globally or in one or more of our geographic regions, or sudden disruption in business conditions, and the ability of our broad-based geographic portfolio to withstand an economic downturn, recession, cost inflation, commodity cost pressures, economic or political instability, competitive or other market pressures or conditions;
- the effect of political, legal, tax and regulatory risks imposed on us in the U.S. and abroad, our operations or our Representatives, including foreign exchange or other restrictions, adoption, interpretation and enforcement of foreign laws, including in non-U.S. jurisdictions such as Brazil, Russia, Venezuela and Argentina, 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 in China;
- the impact of changes in tax rates on the value of our deferred tax assets and declining earnings on our ability to realize foreign tax credits in the U.S.;
- our ability to attract and retain key personnel;
- competitive uncertainties in our markets, including competition from companies in the cosmetics, fragrances, skincare and toiletries industry, some of which are larger than we are and have greater resources;
- the impact of the typically seasonal nature of our business, adverse effect of rising 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;
- 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;
- the risk of product or ingredient shortages resulting from our concentration of sourcing in fewer suppliers;
- the impact of possible pension funding obligations, increased pension expense and any changes in pension regulations or interpretations thereof on our cash flow and results of operations;
- our ability to successfully identify new business opportunities and strategic alternatives and identify and analyze acquisition candidates, secure financing on favorable terms and negotiate and consummate acquisitions, as well as to successfully integrate or manage any acquired business;
- the challenges to our businesses, such as Silpada and China, including the effects of rising costs, macro-economic pressures, competition, any potential strategic decisions, including the review of strategic alternatives for Silpada, and the impact of declines in expected future cash flows and growth rates, and a change in the discount rate used to determine the fair value of expected future cash flows, which have impacted, and may continue to impact, the estimated fair value of the recorded goodwill and intangible assets;
- 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; and
- the risk of an adverse outcome in any material pending and future litigations or with respect to the legal status of Representatives.

Additional information identifying such factors is contained in Item 1A of our 2012 Form 10-K for the year ended December 31, 2012. We undertake no obligation to update any such forward-looking statements.

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PART I
ITEM 1. BUSINESS
(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, Fashion and Home. Beauty consists of color cosmetics, fragrances, skin care and personal care. Fashion consists of fashion jewelry, watches, apparel, footwear, accessories and children's products. Home consists of gift and decorative products, housewares, entertainment and leisure products, children's products and nutritional products.
Unlike most of our CPG competitors, which sell their products through third-party retail establishments (e.g., drug stores and department stores), our business is conducted worldwide primarily in one channel, direct selling. Our reportable segments are based on geographic operations and include commercial business units in Latin America; Europe, Middle East & Africa; North America; and Asia Pacific. We have centralized operations for Global Brand Marketing and Global Sales, and also have regional operations for marketing, sales, and supply chain. Financial information relating to our reportable segments is included in the "Segment Review" section 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 22 through 47 of this 2012 Annual Report on Form 10-K, which we refer to in this report as our "2012 Annual Report", and in Note 13, Segment Information, to the Consolidated Financial Statements on pages F-40 through F-42 of our 2012 Annual Report. We refer to each of the Notes to the Consolidated Financial Statements in this 2012 Annual Report as a "Note". Information about geographic areas is included in Note 13, Segment Information on pages F-40 through F-42 of our 2012 Annual Report.
We recently outlined initial steps toward achieving a cost-savings target of $400 before taxes by the end of 2015. In connection with this cost-savings target, on December 11, 2012, we announced initial steps of a cost savings initiative (the "$400M Cost Savings Initiative"), in an effort to stabilize the business and return Avon to sustainable growth. The $400M Cost Savings Initiative includes a global headcount reduction and related actions, as well as our exit from the South Korea and Vietnam markets. As part of the $400M Cost Savings Initiative, we identified certain actions in the fourth quarter of 2012, the majority of which are expected to take effect in 2013, that we believe will accelerate top line growth and reduce costs.
We have also been completing other various initiatives, including our 2005 and 2009 Restructuring Programs and other restructuring initiatives taken in the earlier part of 2012. Additional information regarding our initiatives is included in the "Overview" section within MD&A on pages 22 through 23, and in Note 15, Restructuring Initiatives on pages F-43 through F-46 of our 2012 Annual Report.
In July 2010, we purchased substantially all the assets and liabilities of Silpada Designs, Inc. ("Silpada"), a direct seller of jewelry products, primarily in North America. We are currently assessing our strategic alternatives for Silpada. Additionally, in December 2010 we sold the ownership interest in Avon Products Company Limited ("Avon Japan") to Devon Holdings K.K., an affiliate of TPG Capital.
Distribution
We presently have sales operations in 65 countries and territories, including the United States ("U.S."), and distribute our products in 43 other countries and territories. Unlike most of our 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 more than 6 million active independent Representatives. Representatives are independent contractors and not our employees. 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 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 usually generated every two weeks in the

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U.S. and every two to four weeks for most markets outside the U.S. 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 his or her 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 two-way communications with us. In addition, in the U.S., 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 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 U.S. and certain other markets, we also market our products through consumer websites (e.g. www.avon.com in the U.S.).

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 downlines. Personal contacts, including recommendations from current Representatives (including the Leadership program), and local market advertising constitute the primary means of obtaining new Representatives. The 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 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 (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 are 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 current 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 pricing flexibility and broad product lines to mitigate the effect of these regulations.

Competitive Conditions

We face competition from various products and product lines both domestically and internationally. 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. Worldwide, we compete against products sold to consumers by other direct-selling and direct-sales companies and through the Internet, and against products sold through the mass market 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 most other beauty companies, we compete within a distinct business model where 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 which operates within a broad-based consumer pool, 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, fragrances, skin care and personal care companies that manufacture and sell broad product lines through various types of retail establishments. In addition, we compete against many other companies that manufacture and sell more narrow beauty product lines sold through retail establishments and other channels.

We also have many competitors in the jewelry, accessories, apparel, housewares, and gift and decorative products industries globally, including retail establishments, principally department stores, gift shops and specialty retailers, mass merchandisers, and direct-sales companies specializing in these products.

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

Our international operations are conducted primarily through subsidiaries in 64 countries and territories outside of the U.S. In addition to these countries and territories, our products are distributed in 43 other countries and territories.

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

See the sections "Risk Factors - Our ability to conduct business, particularly in international markets, may be affected by political, legal, tax and regulatory risks" and "Risk Factors - We are subject to financial risks related to our international operations, including exposure to foreign currency fluctuations" in Item 1A on pages 8 through 18 of our 2012 Annual Report for further 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 and 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 and 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.

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We also continue to implement an enterprise resource planning ("ERP") system on a worldwide basis, which is expected to improve the efficiency of our supply chain and financial transaction processes. The implementation is expected to continue in phases over the next several years. We have completed implementation in certain significant markets.

See Item 2, Properties, on page 18 of our 2012 Annual Report for additional information regarding the location of our principal manufacturing facilities.

Product Categories

Each of our three product categories individually account for 10% or more of consolidated net sales in 2012. The following is the percentage of net sales by product category for the years ended December 31:

	2012		2011		2010	
Beauty	72	%	73	%	71	%
Fashion	18	%	18	%	19	%
Home	10	%	9	%	10	%

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 typically have a seasonal pattern characteristic of many companies selling beauty, gift and decorative products, apparel, and fashion jewelry. Holiday sales generally cause a sales peak in the fourth quarter of the year; however, the sales volume of holiday gift items is, by its nature, difficult to forecast. Fourth quarter revenue and operating data was as follows:

	2012		2011		2010	
Fourth quarter revenues as a % of total revenue	28	%	27	%	29	%
Fourth quarter operating profit as a % of total operating profit	3	%	2	%	33	%
Fourth quarter adjusted Non-GAAP operating profit as a % of total adjusted Non-GAAP operating profit[(1)]	40	%	25	%	34	%

(1) Refer to the "Non-GAAP Financial Measures" section within MD&A on pages 23 through 24 of our 2012 Annual Report for a description of certain items we present herein on an adjusted Non-GAAP basis.

The fourth quarter operating profit comparison was unfavorably impacted by higher costs to implement our restructuring initiatives in 2012 compared to 2011. The fourth quarter of 2012 included costs to implement our restructuring initiatives of $57.6, whereas the fourth quarter of 2011 included $8.7 of costs to implement our restructuring initiatives. The fourth quarter operating profit comparison between 2012 and 2011 was also impacted by non-cash impairment charges of $209.0, or 66% of full year operating profit, and $263.0, or 31% of full year operating profit, recognized in the fourth quarters of 2012 and 2011, respectively.

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 research and development 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 satellite R&D operations located in Argentina, Brazil, China, Mexico, Poland and South Africa.

In 2010, we invested in

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our R&D facility in Shanghai, China to increase our ability to develop products to better meet Asian consumers' needs. To date, Shanghai R&D has grown into a fully functional development center across product categories.

In 2012, our most significant product launches included: Anew Clinical Pro Line Eraser Treatment, Anew Genics Eye Treatment, Anew Ultimate 7S (Night Cream, Elixir, Day Cream), Solutions Cellu-Defy Intensive Anti-Cellulite Lotion, Advance Techniques 360 Nourish Moroccan Argan Oil Leave-In Treatment, Skin So Soft Soft Indulgences Collection, Moisture Therapy Calming Relief Balm, Shine Attract Lipstick, Super Drama Mascara, NailWear Pro+ Nail Enamel, MagiX Cashmere Advanced Liquid Foundation, Infinite Moment Fragrance, Viva by Fergie Fragrance, and City Rush (Unplugged) Fragrance.

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were $75.2 in 2012, $77.7 in 2011 and $72.6 in 2010. 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

In general, compliance with environmental regulations impacting our global operations has not had, and is not anticipated to have, any material adverse effect on our financial position, capital expenditures or competitive position.

Employees

At December 31, 2012, we employed approximately 39,100 employees. Of these, approximately 4,800 were employed in the U.S. and approximately 34,300 were employed in other countries.

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 2012, available without charge on our investor website (www.avoninvestor.com) as soon as reasonably practicable after they are filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). We also make available on our website the charters of our Board Committees, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics. Copies of these SEC reports and other documents are also available, without charge, by sending a letter to Investor Relations, Avon Products, Inc., 777 Third Avenue, New York, N.Y. 10017-1307, by sending an email to investor.relations@avon.com or by calling (212) 282-5320. Information on our website does not constitute part of this report. 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 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 2012 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.

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 stabilization strategies, cost savings initiative, multi-year restructuring programs and other initiatives, including Service Model Transformation, and achieve anticipated savings and benefits from such programs and initiatives;
- reverse declines in our top line performance and market share, and strengthen our brand image;
- reduce costs, particularly SG&A costs, and reinvest certain of those savings effectively in consumer-oriented investments and other aspects of our business, while effectively managing our cost base;
- implement appropriate product mix and pricing strategies that are more aligned with the preferences of local markets and achieve anticipated benefits from these strategies;
- implement enterprise resource planning ("ERP") successfully, execute investments in information technology infrastructure and realize efficiencies across our supply chain, marketing processes, sales model and organizational structure;
- implement customer service initiatives;
- implement and continue to innovate our Internet platform and technology strategies;
- 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;
- service our current indebtedness, secure short- and long-term financing, or financing at attractive rates, maintain appropriate capital investment, capital structure and cash flow levels to fund, among other things, cash dividends, 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, implementing our Leadership program globally, enhancing the Representative experience and earnings potential and improving our brand image;
- increase the productivity of Representatives through successful implementation of field activation programs and technology tools and enablers, Service Model Transformation and other investments in the direct-selling channel;
- improve our business in North America through successfully implementing field transformation and a strong multi-level leadership structure;
- improve management of our businesses in developing markets, including improving local information technology resource 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 acquisitions, joint ventures and strategic alliances with other companies; and
- estimate and achieve any financial projections concerning, for example, future revenue, profit, cash flow, and operating margin increases.

There can be no assurance that any of these initiatives will be successfully and fully executed within the time periods that we expect.

We may experience financial and strategic difficulties and delays or unexpected costs in completing our various restructuring and cost-savings initiatives, including achieving any anticipated savings and benefits of these initiatives.
In an effort to improve operating performance, we identified certain actions in 2012 aimed at enhancing our operating model, reducing costs, and improving efficiencies. As a result of the analysis and the actions taken in connection with this restructuring, we have recorded total costs to implement of $73.9 million before taxes associated with approved initiatives. We also continue to implement our previously announced restructuring programs. For our restructuring program launched in 2005 (the "2005 Restructuring Program"), we have recorded total costs to implement restructuring initiatives of $527.1 million before taxes and expect our total costs when fully implemented to be approximately $525 million before taxes when considering historical and future costs along with expected gains from sales of properties. With regards to the restructuring program launched in 2009 (the "2009 Restructuring Program"), we have recorded total costs to implement restructuring initiatives of $255.0 million before taxes and expect total costs to implement to reach approximately $260 million before taxes. See Note 15, Restructuring Initiatives, on pages F-43 through F-46 of our 2012 Annual Report for details of the costs of the restructuring initiatives.
We also recently outlined initial steps toward achieving the Company's previously communicated annual cost-savings target of $400 million by the end of 2015. In connection with this cost-savings target, on December 11, 2012 we announced initial steps of a cost savings initiative (the "$400M Cost Savings Initiative"), in an effort to stabilize the business and return Avon to sustainable growth. The $400M Cost Savings Initiative includes a targeted global headcount reduction of approximately 1,500 positions and related actions. As part of the $400M Cost Savings Initiative, the Company announced that it will exit the South Korea and Vietnam markets. These actions are aimed at concentrating resources on high priority markets and activities and boosting efficiencies, and are expected to be largely completed before the end of 2013. For the initiatives approved to date, cost to implement these actions is expected to be in the range of $70-80 million before taxes, of which $50.7 million before taxes was recorded in the fourth quarter of 2012. At this time we are unable to quantify the total costs when the initiative is fully implemented. In connection with the initial steps of the $400M Cost Savings Initiative, we expect to realize annualized savings of approximately $70 million before taxes. See the "Overview" section within MD&A on pages 22 through 23 of our 2012 Annual Report for further information
We may not realize anticipated savings or benefits from one or more initiatives arising under our restructuring and cost-savings programs or other initiatives 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, may occur which could result in our not realizing all or any of the anticipated savings or benefits. If we are unable to realize these savings or benefits, our ability to continue to fund other initiatives may be adversely affected. In addition, our 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 our restructuring and cost-savings programs and other initiatives. Failure to realize anticipated savings or benefits from our restructuring and cost-savings programs and other 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 margins and net income and achieve profitable growth.
There can be no assurance that we will be able to reverse declining margins and net income and achieve profitable growth in the future, particularly in our largest markets, such as Brazil and the U.S., and developing and emerging markets, such as Mexico and Russia. Our gross margin in 2012 declined to 61.1%, compared to 63.3% in 2011 and 62.8% in 2010. Our operating margin in 2012 declined to 2.9%, compared to 7.6% in 2011 and 9.9% in 2010. In 2012. we had a net loss of $38.2 million, as compared to net income of $517.8 million and $609.3 million in 2011 and 2010, respectively. Reversing these trends will depend on our ability to improve financial and operational performance and execution of our global business strategy. There can be no assurance that we will be able to achieve these goals.
To reverse these trends in margins and net income and achieve profitable growth, we also need to successfully implement certain initiatives including our restructuring and cost-savings initiatives, and there can no assurance that we will be able to do so. Our achievement of profitable growth is also subject to the strengths and weaknesses of our individual markets, including our 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, competitive pressures or other market pressures in one or more particular regions.

Failure to reverse declining margins and net income and 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 worldwide primarily in one channel, direct selling.

Our business is conducted worldwide, primarily in the direct-selling channel. Sales are made to the ultimate consumer principally through more than 6 million active independent Representatives worldwide. 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 and create attractive Representative earning opportunities, successfully implement initiatives such as Service Model Transformation and the One Simple Sales Model in the U.S., improve our product offerings and improve our marketing and advertising, among other things, and 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 or buying beauty and related products in channels other than in direct selling, 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 our competitors establish greater 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 bans or severely restricts our business method 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 related to our international operations, including exposure to foreign currency fluctuations.

We operate globally, through operations in various locations around the world, and derive approximately 85% of our consolidated revenue from our operations outside of the U.S.

One risk associated with our international operations is that the functional currency for most of our international operations is the applicable local currency. For example, currencies for which we have significant exposures include the Argentine peso, Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese renminbi, Colombian peso, the Czech Republic koruna, the euro, Mexican peso, New Zealand dollar, Peruvian new sol, Philippine peso, Polish zloty, Russian ruble, South Africa rand, Turkish lira, and Ukrainian hryvnia. As a result, movements in exchange rates may have a significant impact on our business, assets, financial condition, liquidity, results of operations and cash flows. For example, in 2012, our revenues declined 5% compared to 2011 due to unfavorable foreign exchange, but were relatively unchanged on a Constant $ basis. 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 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 at the official exchange rate. If this should occur, or if the official exchange rate devalues, it may have a material adverse effect on our business, assets, financial condition, liquidity, results of operations or cash flows. For example, currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted the ability of our subsidiary in Venezuela (Avon Venezuela) to obtain foreign currency at the official rate to pay for imported products. We are currently unable to predict the likelihood of government approvals of these requests, or if approved, the estimated time for remittance. Unless official foreign exchange is made more readily available, Avon Venezuela's operations will continue to be negatively impacted as it will need to obtain more of its foreign currency needs from non-government sources where the exchange rate is less favorable than the official rate.

Inflation is another risk associated with our international operations. For example, Venezuela has been designated as a highly inflationary economy, and in February 2013 the Venezuelan government devalued its currency for the second time since January 1, 2010. Gains and losses resulting from the remeasurement of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. Given Venezuela's designation as a highly inflationary economy, the devaluation of the official rate and the potential for future devaluation, our revenue, operating profit, and net income will continue to be negatively impacted in 2013 and beyond. See the "Segment Review - Latin America" section within MD&A on pages 34 through 37 of our 2012 Annual Report for additional information regarding Venezuela. In addition, there can be no assurance that other countries in which we operate, such as Argentina, will not also become highly inflationary and that our revenue, operating profit, and net (loss) income will not be adversely impacted as a result.

Our indebtedness and debt service obligations could materially adversely affect our business, prospects, financial condition, liquidity, results of operations and cash flows.

As of December 31, 2012, we had approximately $3.2 billion of indebtedness outstanding and approximately $250 million of the $1 billion revolving credit facility could have been drawn down without violating any covenant. As of December 31, 2012, we had $375 million and $500 million of outstanding indebtedness that matures and will need to be refinanced or repaid in 2013 and March 2014, respectively. In addition, $137.5 million of the Company's term loan is due in June 2014. 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 term loan, 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 future financial obligations or our other liquidity needs. 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 debt service requirements or other cash requirements, in particular during periods in which credit markets are weak;
- a downgrade in our credit ratings;
- an allocation of a substantial portion of our cash flow from operations to service our debt, thus reducing the amount of our cash flow available for other purposes, including operating costs and capital expenditures that could improve our competitive position and operating results;
- a sale of debt or equity securities or sale of some of our core assets (subject to certain restrictions under our existing indebtedness, including our revolving credit facility and our term loan), possibly on unfavorable terms, to meet payment obligations;
- 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 that do not have as much debt as 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;
- limitations on our ability to invest in recruiting, retaining and servicing our Representatives; and
- compliance with certain covenants in our debt instruments, including the impact of any significant restructuring charges or significant legal or regulatory settlements, or our ability to obtain necessary waivers from compliance with, or necessary amendments to, such covenants, and the impact any non-compliance may have on our ability to secure financing.

If we incur additional indebtedness, the related risks that we now face (including those described above), could intensify.

To service our debt obligations, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. Any failure to meet our debt service obligations, or to refinance or repay our outstanding indebtedness as it matures, could materially adversely impact our business, prospects, financial condition, liquidity, results of operations and cash flows.

Our ability to satisfy our debt obligations and repay or refinance our maturing indebtedness will depend principally upon our future operating performance. As a result, prevailing economic conditions and financial, business, legislative, regulatory and other factors, many of which are beyond our control, will affect our ability to make payments on and to refinance our debt. If we do not generate sufficient cash flow from operations to satisfy our debt service obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, incurring additional debt, issuing equity or convertible securities, utilizing our revolving credit facility, reducing discretionary expenditures, selling certain assets or reducing our cash dividend to shareholders (or combinations thereof). Refer to the "Liquidity and Capital Resources" section within MD&A on pages 42 through 47 of our 2012 Annual Report for further information. Our ability to execute such alternative financing plans will depend on the capital markets and our financial condition at such time. In addition, our ability to execute such alternative financing plans may be subject to certain restrictions under our existing indebtedness, including our revolving credit facility and our term loan. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants compared to those associated with any debt that is being refinanced, which could further restrict our business operations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or our inability to refinance our debt obligations on commercially reasonable terms or at all, would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Our ability to make payments on and to refinance our indebtedness is dependent on our subsidiaries' ability to generate cash flow and their ability to make such cash available to us, by dividend, debt repayment or otherwise.

Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. In addition, certain of our subsidiaries are non-U.S. entities that may be prohibited by law or other regulations from distributing funds to us, and we may be subject to unfavorable foreign exchange rates or payment of repatriation taxes and withholdings. For example, in 2003 Venezuela enacted restrictions on foreign currency exchange, as more fully described under "We are subject to financial risks related to our international operations, including exposure to foreign currency fluctuations" and within the "Segment Review - Latin America" section within MD&A on pages 10 and 34 through 37 of our 2012 Annual Report. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness. A failure to make scheduled payments, or other material uncured breaches of our contractual obligations, could result in a variety of adverse consequences, including the acceleration of our indebtedness and the exercise of other remedies by our creditors that could materially adversely affect our business, prospects, financial condition, liquidity, results of operations and cash flows.

We are currently conducting an internal investigation and compliance reviews focused on compliance with the Foreign Corrupt Practices Act ("FCPA") and related United States ("U.S.") and foreign laws and we are in discussions with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") regarding resolving their investigations of these matters. Based on our most recent communications with the SEC and the DOJ, we believe it is probable that we will incur a loss related to the government investigations. We are unable to reasonably estimate the amount or range of such loss; however, such loss could be material.

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

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

As previously reported in October 2008, we voluntarily contacted the SEC and the DOJ to advise both agencies of our internal investigation. We have cooperated and continue to cooperate with investigations of these matters by the SEC and the DOJ. We have, among other things, signed tolling agreements, responded to inquiries, translated and produced documents, assisted with interviews, and provided information on our internal investigation and compliance reviews, personnel actions taken and steps taken to enhance our ethics and compliance program. As previously reported in August 2012, we are in discussions with the SEC and the DOJ regarding resolving the government investigations. These discussions are ongoing. There can be no assurance that a settlement with the SEC and the DOJ will be reached or, if a settlement is reached, the timing of any such settlement or the terms of any such settlement. We expect any such settlement may include civil and/or criminal fines and penalties as well as non-monetary remedies, such as oversight requirements and additional remediation and compliance requirements. We may be required to incur significant future costs to comply with the non-monetary terms of any settlement with the SEC and the DOJ. Under certain circumstances, we may also be required to advance significant professional fees and expenses to certain current and former Company employees in connection with these matters. Until any settlement or other resolution of these matters, we expect to continue to incur costs, primarily professional fees and expenses, which may be significant, in connection with the government investigations.

At this point we are unable to predict the developments in, outcome of, and economic and other consequences of the government investigations or their impact on our earnings, cash flow, liquidity, financial condition and ongoing business. However, based on our most recent communications with the DOJ and the SEC, the Company believes that it is probable that the Company will incur a loss related to the government investigations. We are unable to reasonably estimate the amount or range of such loss; however, such loss could be material.

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

A downturn in the economies in which we sell our products, including any recession in one or more of our geographic regions, or the current global macro-economic pressures, could adversely affect our business and our access to liquidity and capital. Recent global economic events over the past few years, including job losses, 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, including our ability to issue commercial paper, raise additional capital and maintain credit lines and offshore cash balances. Avon's long-term credit ratings are Baa2 (Stable Outlook) with Moody's and BBB- (Negative Outlook) with S&P, which are on the low end of investment grade, and BB+ (Stable Outlook) with Fitch, which is below investment grade. In February 2013, Fitch lowered their long-term credit rating from BBB- (Negative Outlook) to BB+ (Stable Outlook) and Moody's lowered their long-term credit rating from Baa1 (Negative Outlook) to Baa2 (Stable Outlook). Additional rating agency reviews could result in a further change in outlook or downgrade, which would likely result in an increase in financing costs, including interest expense under certain of our debt instruments, less favorable covenants and financial terms of our financing arrangements, and reduced access to lending sources, including the commercial paper market. Refer to the "Capital Resources - Private Notes" section within MD&A on pages 46 through 47 of our 2012 Annual Report for additional information regarding the impact of credit ratings on our Private Notes.

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 face continued economic challenges in fiscal 2013 because customers may continue to have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, reduced access to credit and sharply falling home prices, among other things.

In addition, sudden disruptions in business conditions as a result of a terrorist attack similar to the events of September 11, 2001, including further attacks, retaliation and the threat of further attacks or retaliation, war, adverse weather conditions and climate changes or other natural disasters, for example, 2012 weather conditions impacting the Philippines, pandemic situations or large scale power outages can have a short- or, sometimes, long-term impact on consumer spending.

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

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

- the possibility that a foreign government might ban or severely restrict our business 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 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 international 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; and
- 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.

We are also subject to the adoption, interpretation and enforcement by governmental agencies in the U.S. (including on federal, state and local levels) and abroad of other laws, rules, regulations or policies, including any changes thereto, such as restrictions on trade, license and permit requirements, import and export license requirements, privacy and data protection laws, anti-corruption laws, environmental laws, records and information management, e-invoicing, tariffs and taxes, health care reform requirements such as the Patient Protection and Affordable Healthcare Act, and regulation of product claims or ingredients, which may require us to adjust our operations and systems in certain markets where we do business. For example, privacy and data protection laws are subject to frequently changing rules and regulations, which may vary among the various jurisdictions where we operate. If we are unable to adhere to or successfully implement processes in response to changing regulatory requirements, our business and/or reputation

may be adversely affected. We cannot predict with certainty the outcome or the impact that pending or future legislative and regulatory changes may have on our business in the future.
Our 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, since 2011, there have been many changes to the Company's senior management, including a new chief executive officer and chief financial officer. 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 stabilization strategies and restructuring and cost-savings initiatives.

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 both the domestic and international markets. Worldwide, we compete against products sold to consumers by other direct selling and direct sales companies and through the Internet, and against products sold through the mass market and prestige retail channels. We also face increasing 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 also a number of direct selling companies that sell product lines similar to ours, some of which also have worldwide operations and compete with us globally. Unlike most other beauty companies, we compete within a distinct business model where providing a compelling earnings opportunity for our Representatives is as critical as developing and marketing new and innovative products. Therefore, in contrast to a typical consumer packaged goods ("CPG") company which operates within a broad-based consumer pool, we must first compete for a limited pool of Representatives before we reach the ultimate consumer.

Direct sellers compete for representative or entrepreneurial talent by providing a more competitive earnings opportunity or "better deal" than that offered by the competition. 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 the largest and oldest beauty direct seller, 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 compete against large and well-known cosmetics and fragrances companies that manufacture and sell broad product lines through various types of retail establishments. In addition, we compete against many other companies that manufacture and sell in more narrow beauty product lines sold through retail establishments. 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 have many competitors in the highly competitive gift and decorative products and apparel industries globally, including retail establishments, principally department stores, gift shops and specialty retailers, and direct-mail companies specializing in these products. 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 retail establishments.

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 our Representative Value Proposition ("RVP"), 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. There can be no assurance that we will be able to anticipate and respond to trends 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.

A disruption of a key information technology system, process or site could adversely affect our operations.

We employ information technology systems to support our business, including systems to support financial reporting, web-based tools, an ERP system which we are implementing on a worldwide basis, and an internal communication and data transfer network. We also employ information technology systems to support Representatives in many of our markets, including electronic order collection and invoicing systems and on-line training, and utilize third-party service providers. We have Internet sites in many of our markets, including business-to-business websites to support Representatives. We have undertaken initiatives to increase our reliance on employing information technology systems to enable our Representatives, as well as initiatives, as part of our multi-year restructuring programs, to outsource certain services, including the provision of global human resources information technology systems to our employees and other information technology processes.

Any of these systems may be susceptible to outages or disruptions due to the complex landscape of localized applications and architectures as well as incidents due to legacy or unintegrated systems or both, fire, floods, power loss, telecommunications failures, terrorist attacks, cyber security breaches, break-ins, corruption and similar events. There may be other challenges and risks as we upgrade, modernize, and standardize our information technology systems, such as through Service Model Transformation, on a worldwide basis. In addition, in the third quarter of 2011, we experienced challenges in implementing an ERP system in Brazil which impacted service levels, which in turn negatively impacted average order and Active Representative and revenue growth during 2011. Despite our network/ cyber security measures, our systems may also be vulnerable to computer viruses, data or cyber security breaches, break-ins, corruption and similar disruptions from unauthorized tampering with these systems. The occurrence of these or other events could disrupt our information technology systems and adversely affect our operations, as well as cause damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and could also result in deterioration in our employees' and customers' confidence in us and other competitive disadvantages.

Third-party suppliers provide, among other things, the raw materials used to manufacture our Beauty products, and the loss of these suppliers 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, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased from various third-party suppliers for our Beauty products. All of our Fashion and Home products are purchased from various suppliers. Additionally, we produce the brochures that are used by Representatives to sell Avon products. The loss of multiple suppliers 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 and Home products or the production of our brochures. This risk may be exacerbated by our globally-coordinated purchasing strategy, which leverages volumes. In addition, 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.

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 accumulate plan assets that, over the long run, will 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, particularly equity securities, or in a change of the expected rate of return on plan assets. Also, significant changes in the number of participants in the pension plans may result in additional 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 return on plan assets can result in significant changes in the net periodic pension cost of the following fiscal years. Pension funding requirement changes under the Pension Protection Act of 2006 affect pension funding obligations and may impose limitations on a hybrid plan's interest crediting rate to the "market rate of return." This may result in a significant increase or decrease in the valuation of pension obligations affecting the reported funded status of our pension plans. Finally, if the Financial Accounting Standards Board adopts the International Financial Reporting Standards as part of generally accepted accounting principles in the United States ("GAAP"), there could be changes in the required funding obligations. Please see "Pension, Postretirement and Postemployment Expense" within the "Critical Accounting Estimates" section of MD&A on pages 25 through 26 and Note 12, Employee Benefit Plans, on pages F-32 through F-40 of our 2012 Annual Report, for additional information regarding the impact of these factors on our pension plan obligations.

Any acquisitions or divestitures may expose us to additional risks.

We review acquisition prospects that would complement our current product offerings, increase the size and geographic scope of our operations or otherwise offer growth and operating efficiency opportunities. The financing for any of these acquisitions could dilute the interests of our stockholders, result in an increase in our indebtedness or both. Acquisitions may entail numerous risks, including:

- difficulties in assimilating acquired operations or products, including the loss of key employees from 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; and
- risks of entering markets in which we have limited or no prior experience.

For example, the challenges to our acquired Silpada business, including the effect of rising silver prices, macro-economic pressures, competition, and the impact of declines in expected future cash flows and growth rates, and a change in the discount rate used to determine the fair value of expected future cash flows, have impacted the estimated fair value of our recorded goodwill and intangible assets. Further impairment of our goodwill and intangible assets could have a material adverse effect on our operating results. See Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for additional information regarding Silpada.

Our failure to successfully complete the integration of any acquired business 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 acquisition candidates or consummate acquisitions 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.

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 the 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, which may require significant resources and be challenging to achieve, or if we are unable to successfully 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 and safety of our products.

Our success depends, in part, on the quality and safety of our products, including the procedures we employ to detect the likelihood of hazard, manufacturing issues and unforeseen product misuse. If our products are found to be, or are 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, our reputation or the appeal of our brand could be diminished, and we could lose market share and/or 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 both in the U.S. and in other countries where such products are principally sold. Although most of our material intellectual property is registered in the U.S. and in certain foreign 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, such as China, may not protect our intellectual property rights to the same extent as the laws of the U.S. The costs required to protect our patents and trademarks may be substantial.

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 our 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. 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, and 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 internal investigations and compliance 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 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 internal investigations and compliance reviews. The consequences of such government reviews, inquiries, investigations, and actions or such internal investigations and compliance reviews may adversely impact our business, prospects, reputation, financial condition, liquidity, results of operations or cash flows.

Any determination that our operations or activities, or the activities of our Representatives, are not, or were not, in compliance with existing U.S. or foreign laws or regulations could result in the imposition of substantial fines, interruptions of business, loss of supplier, vendor or other third-party relationships, termination of necessary licenses and permits, and other legal or equitable sanctions. 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.

Additionally, any determination that our operations or activities, or 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, 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. Further, other countries in which we do business may initiate their own investigations and impose similar sanctions. Even if an inquiry or investigation does not result in these types of determinations, it potentially could create negative publicity.

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;
-

our ability to repay or refinance our indebtedness that matures in 2013 and 2014 and the terms of any such refinancing;

- developments in connection with the FCPA or other investigations and any litigation related thereto;
- 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 or proxy contests;

- changes in our dividend practice;
- 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.

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 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.

Our domestic manufacturing facility is located in Morton Grove, IL. Our domestic distribution centers are located in Atlanta, GA; Zanesville, OH; and Pasadena, CA. Our principal research and development facility is located in Suffern, NY. We also lease office space in two locations in New York City for our executive and administrative offices, and own property in Rye, NY for Global IT and Global Finance. In October 2012, we consolidated our New York City offices into one location at 777 Third Avenue. Our previous executive office location at 1345 Avenue of the Americas was vacated and is now being marketed for a potential sublease.

In 2010, Avon acquired Silpada Designs, Inc., a direct seller of sterling silver jewelry with operations in the United States ("U.S.") including an office and warehouse in Lenexa, Kansas.

Other principal properties outside the U.S. measuring 50,000 square feet or more include the following:

- two distribution centers for primary use in North America operations outside the U.S. (Canada and Puerto Rico);
- four manufacturing facilities, eleven distribution centers and two administrative offices in Latin America;
- two manufacturing facilities in Europe, primarily servicing Europe, Middle East & Africa;
- twelve distribution centers and seven administrative offices in Europe, Middle East & Africa; and
- five manufacturing facilities, eight distribution centers and one administrative office in Asia Pacific.

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.

In January 2007, we announced plans to realign certain North America distribution operations. We have closed our distribution facilities in Newark, DE and Glenview, IL. Both properties are listed for sale and the Glenview site is under contract for a potential sale.

In July 2009, we announced plans to realign manufacturing operations in North America and Europe. This initiative includes the closing of manufacturing facility in Springdale, OH in 2012 which is now listed for sale with a potential leaseback of the returns and call center, and the sale and short-term leaseback of the manufacturing facility in Germany in 2011 which is now closed.

In January 2013, we announced plans to close the Atlanta distribution center in 2013 and the Pasadena distribution center in 2014. Both properties are being marketed for sale. North America distribution will be managed primarily thorough the Zanesville, OH facility.

Of all the properties listed above, 35 are owned and the remaining 32 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 16, Contingencies, on pages F-47 through F-49 of our 2012 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, 2012, there were approximately 15,387 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 2012 and 2011 are listed below. For information regarding future dividends on our common stock, see the "Liquidity and Capital Resources" section within MD&A on pages 42 through 47.

	2012			2011		
Quarter	High	Low	Dividends Declared and Paid	High	Low	Dividends Declared and Paid
First	$19.63	$17.41	$.23	$30.14	$26.16	$.23
Second	23.52	15.10	.23	30.91	27.22	.23
Third	16.65	14.45	.23	28.90	19.60	.23
Fourth	17.39	13.80	.06	23.85	16.09	.23

Stock Performance Graph

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN(1)

Among Avon Products, Inc., The S&P 500 Index and
2012 Industry Composite (2)

The Stock Performance Graph above assumes a $100 investment on December 31, 2007, in Avon’s common stock, the S&P 500 Index and the Industry Composite. 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.

	2007	2008	2009	2010	2011	2012
Avon	100.0	62.3	84.2	80.0	50.0	42.9
S&P 500	100.0	63.0	79.7	91.7	93.6	108.6
Industry Composite(2)	100.0	85.8	92.5	100.3	111.7	121.5

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

(2) The Industry Composite includes The Clorox Company, Colgate–Palmolive Company, Estée Lauder Companies, Inc., Kimberly Clark Corp., The Procter & Gamble Company and Revlon, Inc.

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 fourth quarter of 2012:

	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs[1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program[1]
10/1/12 – 10/31/12	2,065	[2]	$17.63	—	$ 1,819,184,000
11/1/12 – 11/30/12	9,065	[2]	16.03	—	1,819,184,000
12/1/12 – 12/31/12	2,449	[2]	15.98	—	—
Total	13,579		$16.27	—	

(1) There were no shares purchased during the fourth quarter as part of our $2.0 billion share repurchase program, publicly announced on October 11, 2007. The program commenced on December 17, 2007 and expired on December 17, 2012.

(2) 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.

ITEM 6. SELECTED FINANCIAL DATA

(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 2012 Annual Report.

	2012	2011	2010	2009	2008
Income Data					
Total revenue	$10,717.1	$11,291.6	$10,862.8	$10,205.2	$10,507.5
Operating profit[1]	314.8	854.6	1,073.1	1,005.6	1,324.5
(Loss) income from continuing operations, net of tax[1]	(38.2)	526.4	595.2	619.2	882.5
Diluted (loss) earnings per share from continuing operations	$(.10)	$1.20	$1.36	$1.43	$2.03
Cash dividends per share	$.75	$.92	$.88	$.84	$.80
Balance Sheet Data					
Total assets	$7,382.5	$7,735.0	$7,873.7	$6,823.4	$6,074.0
Debt maturing within one year	572.0	849.3	727.6	137.8	1,030.7
Long-term debt	2,623.9	2,459.1	2,408.6	2,307.2	1,456.0
Total debt	3,195.9	3,308.4	3,136.2	2,445.0	2,486.7
Total shareholders' equity	1,233.3	1,585.2	1,672.6	1,312.6	712.3

(1) A number of items, shown below, impact the comparability of our operating profit and (loss) income from continuing operations, net of tax. See the "Results Of Continuing Operations - Consolidated" section within MD&A on pages 29 through 33, the "Segment Review - Latin America" section within MD&A on pages 34 through 37, Note 17, Goodwill and Intangibles on pages F-49 through F-51, Note 15, Restructuring Initiatives on pages F-43 through F-46, and Note 7, Income Taxes on pages F-21 through F-24, of our 2012 Annual Report for further information on these items.

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	Operating Profit				
	2012	2011	2010	2009	2008
Costs to implement restructuring initiatives related to our cost savings initiative, multi-year restructuring programs, and other restructuring initiatives	$124.7	$40.0	$80.7	$171.0	$59.3
Inventory obsolescence benefit related to our product line simplification program	—	—	—	—	(13.0)
Venezuelan special items(2)	—	—	79.5	—	—
Impairment charges(3)	253.0	263.0	—	—	—

In addition to the items impacting operating profit identified above, (loss) 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 to the official exchange rate. This provision was released as the Company capitalized the associated intercompany liabilities. Also, during the fourth quarter of 2012, we determined that the Company may repatriate offshore cash to meet certain domestic funding needs. Accordingly, we are no longer asserting that the undistributed earnings of foreign subsidiaries are indefinitely reinvested, and therefore, we recorded an additional provision for income taxes of $168.3. See the "Results Of Continuing Operations - Consolidated" section within MD&A on pages 29 through 33 of our 2012 Annual Report, and Note 7, Income Taxes, on pages F-21 through F-24 of our 2012 Annual Report for further information.

(2) During 2010, our operating margin was negatively impacted by the devaluation of the Venezuelan currency coupled with a required change to account for operations in Venezuela on a highly inflationary basis. As a result of using the historic dollar cost basis of nonmonetary assets, such as inventory, acquired prior to the devaluation, during 2010 operating profit was negatively impacted by $79.5 for the difference between the historical cost at the previous official exchange rate of 2.15 and the new official exchange rate of 4.30. In addition to the negative impact to operating profit, during 2010 we also recorded net charges of $46.1 in other expense, net and $12.7 in income taxes, reflecting the write-down of monetary assets and liabilities and deferred tax benefits. See discussion of Venezuela within the "Segment Review - Latin America" section within MD&A on pages 34 through 37 of our 2012 Annual Report for further information.

(3) During 2012, our operating margin was negatively impacted by non-cash impairment charges associated with goodwill and intangible assets of our Silpada business, and goodwill of our China business. During 2011, our operating margin was negatively impacted by a non-cash impairment charge associated with goodwill and an intangible asset of our Silpada business. See Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for further information.

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

(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 2012 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.

Refer to the Non-GAAP Financial Measures section on pages 23 through 24 of this 2012 Annual Report for a description of how Constant dollar ("Constant $") growth rates (a Non-GAAP financial measure) are determined.

Overview

We are a global manufacturer and marketer of beauty and related products. Our business is conducted worldwide, primarily in the direct-selling channel. We presently have sales operations in 65 countries and territories, including the United States ("U.S."), and distribute products in 43 more. Our reportable segments are based on geographic operations and include commercial business units in Latin America; Europe, Middle East & Africa; North America; and Asia Pacific. Our product categories are Beauty, Fashion and Home. Beauty consists of color cosmetics, fragrances, skin care and personal care. Fashion consists of jewelry, watches, apparel, footwear, accessories and children's products. Home consists of 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 more than 6 million active independent Representatives, who are independent contractors and not our employees. The success of our business is highly dependent on recruiting, retaining and servicing our Representatives. During 2012, approximately 85% of our consolidated revenue was derived from operations outside the U.S.

Total revenue in 2012 declined 5% due to unfavorable foreign exchange. Constant $ revenue was relatively unchanged, as a 1% increase in average order was offset by a 1% decline in Active Representatives. Sales of products in the Beauty category decreased 5% primarily due to unfavorable foreign exchange, and increased 1% on a Constant $ basis. Sales of products in the Fashion category decreased 5%, or 2% on a Constant $ basis. Sales of products in the Home category decreased 4% primarily due to unfavorable foreign exchange, and increased 2% on a Constant $ basis. Our Constant $ revenue was impacted by improvements in Latin America, particularly in Brazil, Mexico, and Venezuela; however, these improvements were offset by net declines in other regions. In Europe, Middle East & Africa we saw a revenue decline in the United Kingdom that partially reflects a continued weak macroeconomic environment, competition, and executional challenges. In addition, North America experienced challenging financial results, partially as a result of the ongoing impact of field transformation and redistricting in the U.S. Asia Pacific's revenue decline was primarily due to continuing weak performance of our China operations.

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

We recently outlined initial steps toward achieving a cost-savings target of $400 before taxes by the end of 2015. In connection with this cost-savings target, on December 11, 2012, we announced initial steps of a cost savings initiative (the "$400M Cost Savings Initiative"), in an effort to stabilize the business and return Avon to sustainable growth. The $400M Cost Savings Initiative includes a global headcount reduction and related actions, as well as our exit from the South Korea and Vietnam markets. As part of the $400M Cost Savings Initiative, we identified certain actions in the fourth quarter of 2012, the majority of which are expected to take effect in 2013, that we believe will accelerate top line growth and reduce costs. As a result of these actions, we recorded total costs to implement these various restructuring initiatives of $50.7 before taxes associated with approved initiatives. For the initiatives approved to date, we expect our total costs to implement to be in the range of $70 to $80 before taxes. At this time we are unable to quantify the total costs when the initiative is fully implemented. In connection with the initial steps of the $400M Cost Savings Initiative, we expect to realize annualized savings of approximately $70 before taxes.

In an effort to improve operating performance, we identified certain actions in 2012, not associated with the $400M Cost Savings Initiative and 2005 and 2009 Restructuring Programs, that we believe will enhance our operating model, reduce costs, and improve efficiencies. As a result of the analysis and the actions taken, we recorded total costs to implement of $73.9 before taxes in 2012. In connection with these actions, effective in the second quarter of 2012, Central & Eastern Europe and Western Europe, Middle East & Africa are being managed as a single operating segment. Accordingly, Europe, Middle East & Africa amounts include the results of Central & Eastern Europe and Western Europe, Middle East & Africa for all periods presented. In connection with these actions, we expect to realize operating profit benefits of approximately $40 annually and cash flow benefits of approximately $35 after taxes annually beginning in 2013, which will likely be a mitigating factor against inflationary cost pressures.

Refer to Note 15, Restructuring Initiatives on pages F-43 through F-46 of our 2012 Annual Report for further information.

In conjunction with organizational changes, effective in the second quarter of 2012, the Dominican Republic was included in Latin America whereas in prior periods it had been included in North America. The impact was not material to either segment. Accordingly, the results of the Dominican Republic are included in Latin America and excluded from North America for all periods presented.

As part of an overall review of our capital structure, on November 1, 2012, we announced a decrease in our quarterly cash dividend to $.06 per share from $.23 per share, for the fourth-quarter dividend paid in December 2012. We have maintained the dividend of $.06 for the first quarter of 2013.

As a result of the 32% devaluation of the Venezuelan currency in February 2013, our 2013 operating margin will be negatively impacted. As a result, we expect the Company's operating profit to be negatively impacted primarily in the first half of 2013 by approximately $50 of costs associated with the historical cost in U.S. dollars of nonmonetary assets. In addition to the negative impact to operating margin, as a result of the devaluation of the Venezuelan currency, during the first quarter of 2013 we expect to record net charges of approximately $34 in "Other expense, net" and approximately $16 in "Income taxes", reflecting the write-down of monetary assets and liabilities and deferred tax benefits. Refer to further discussion of Venezuela in the "Segment Review - Latin America" section of this MD&A.

New Accounting Standards

Information relating to new accounting standards is included in Note 2, New Accounting Standards, to our consolidated financial statements contained in this 2012 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
Growth in Active Representatives	This metric is based on the number of orders in a campaign, totaled for all campaigns in the related period. This amount is divided by the number of billing days in the related period, to exclude the impact of year-to-year changes in billing days (for example, holiday schedules). To determine the growth in Active Representatives, this calculation is compared to the same calculation in the corresponding period of the prior year.
Change in Units	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.
Inventory Days	This metric is equal to the number of days of cost of sales, based on the average of the preceding 12 months, covered by the inventory balance at the end of the period.

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 Non-GAAP operating profit, operating margin, and adjusted Non-GAAP operating margin. We refer to these adjusted financial measures as Constant $ items, which are Non-GAAP financial measures. We believe these measures provide investors an additional perspective on trends. 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 a constant exchange rate. Currency impact is determined as the difference between actual growth rates and constant currency growth rates. We also present gross margin, selling, general and administrative expenses as a percentage of revenue, net global expenses, operating profit, operating margin and effective tax rate on a Non-GAAP basis. The discussion of our segments presents

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operating profit and operating margin on a Non-GAAP basis. We have provided a quantitative reconciliation of the difference between the Non-GAAP financial measure and the financial measure calculated and reported in accordance with GAAP. The Company uses the Non-GAAP financial measures to evaluate its operating performance and believes that it is meaningful for investors to be made aware of, on a period-to-period basis, the impacts of 1) costs to implement ("CTI") restructuring initiatives, 2) the goodwill and intangible assets charges related to Silpada and the goodwill charge related to China (each an "Impairment charge," and collectively, "Impairment charges"), 3) costs and charges related to Venezuela being designated as a highly inflationary economy and the subsequent devaluation of its currency in January 2010, as well as the benefit related to the release of a provision associated with the excess cost of acquiring U.S. dollars in Venezuela ("Venezuelan special items"), and 4) the additional provision for income taxes as we are no longer asserting that the undistributed earnings of foreign subsidiaries are indefinitely reinvested ("Special tax items"). 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 Impairment charges include the impact on the Statement of Income caused by the goodwill and intangible assets impairment charges related to Silpada in 2012 and 2011 and the goodwill impairment charge related to China in 2012. The Venezuelan special items include the impact on the Statement of Income caused by the devaluation of the Venezuelan currency on monetary assets and liabilities, such as cash, receivables and payables; deferred tax assets and liabilities; and nonmonetary assets, such as inventory and prepaid expenses. For nonmonetary assets, the Venezuelan special items include the earnings impact caused by the difference between the historical cost of the assets at the previous official exchange rate of 2.15 and the revised official exchange rate of 4.30. The Venezuelan special items also include the impact on the Statement of Income caused by the release of a provision associated with the excess cost of acquiring U.S. dollars in Venezuela at the regulated market rate as compared to the official exchange rate. The Special tax items include the impact on the Statement of Income in 2012 caused by an additional provision for income taxes as we are no longer asserting that the undistributed earnings of foreign subsidiaries are indefinitely reinvested. During the fourth quarter of 2012, we determined that the Company may repatriate offshore cash to meet certain domestic funding needs.

See Note 15, Restructuring Initiatives on pages F-43 through F-46 of our 2012 Annual Report, Note 17, Goodwill and Intangible Assets on pages F-49 through F-51 of our 2012 Annual Report, the "Segment Review - Latin America" section below, and Note 7, Income Taxes on pages F-21 through F-24 of our 2012 Annual Report for more information on these items.

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.

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-10 through F-15 of our 2012 Annual Report for a detailed discussion of the application of these and other accounting policies.

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 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.

Allowances for Doubtful Accounts Receivable

Representatives contact their customers, selling primarily through the use of brochures for each sales campaign. Sales campaigns are generally for a two-week duration in the U.S. and a two- to four-week duration outside the U.S. 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 for the prior campaign is paid; however, there are circumstances where the Representative fails to make the required payment. We record an estimate of an allowance for doubtful accounts on receivable balances based on an analysis of historical data and current circumstances, including selling schedules, business operations, seasonality and changing trends. Over the past three years, annual bad debt expense was $251 in 2012, $247 in 2011, and $216 in 2010, or approximately 2% of total revenue in each year. Bad debt expense as a percent of revenue increased by approximately .1 point in 2012 as compared to 2011, primarily due to an increase in Europe, Middle East & Africa. 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 an impairment of their ability to make payments, additional allowances may be required.

Allowances for Sales Returns

Policies and practices for product returns vary by jurisdiction, but within many jurisdictions, 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 $390 for 2012, $447 for 2011, and $424 for 2010, or approximately 4% 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 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 determine 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 $122 for 2012, $128 for 2011, and $131 for 2010.

Pension, Postretirement and Postemployment Expense

We maintain defined benefit pension plans, which cover substantially all employees in the U.S. and a portion of employees in international locations. Additionally, we have unfunded supplemental pension benefit plans for some current and retired executives and provide retiree health care and life insurance benefits (through the end of 2012 only) subject to certain limitations to the majority of retired employees in the U.S. and certain foreign countries. See Note 12, Employee Benefit Plans, on pages F-32 through F-40 of our 2012 Annual Report for further information on our benefit plans.

Pension plan expense and the requirements for funding our major pension plans are determined based on a number of actuarial assumptions. These assumptions include the expected rate of return on pension plan assets, the interest crediting rate for hybrid plans and the discount rate applied to pension plan obligations.

For 2012, the weighted average assumed rate of return on all pension plan assets, including the U.S. and non-U.S. plans was 7.28%, compared to 7.54% for 2011. 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 evaluate the expected long-term rate of return annually and adjust as necessary.

The majority of our pension plan assets relate to the U.S. pension plan. The assumed rate of return for 2012 for the U.S. plan was 7.75%, which was based on an asset allocation of approximately 35% in corporate and government bonds and mortgage-backed securities (which are expected to earn approximately 2% to 4% in the long term) and approximately 65% in equity securities and high yield securities (which are expected to earn approximately 6% to 10% in the long term). Historical rates of return on the assets of the U.S. plan were approximately 9% for the most recent 10-year period and approximately 8% for the 20-year period. In the U.S. plan, our asset allocation policy has favored U.S. equity securities, which have returned approximately 8% 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 15% in 2012 and approximately 7% in 2011.

Regulations under the Pension Protection Act of 2006, which are finalized but not yet effective, will require that hybrid plans limit the maximum interest crediting rate to one among several choices of crediting rates which are considered "market rates of return". The rate chosen will affect total pension obligations. The discount rate used for determining future pension obligations for each individual plan is based on a review of long-term bonds that receive a high-quality rating from a recognized rating agency. The discount rates for our more significant plans, including our U.S. 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. plans determined on this basis was 4.11% at December 31, 2012, and 4.69% at December 31, 2011. For the determination of the expected rate of return on assets and the discount rate, we take into consideration external actuarial advice.

Our funding requirements may be impacted by regulations or interpretations thereof. Our calculations of pension, postretirement and postemployment 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, health care cost trend rates, benefits earned, mortality rates, the number of associate retirements, the number of associates electing to take lump-sum payments 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, 2012, we had pretax actuarial losses, prior service credits, and transition obligations totaling $491 for the U.S. pension and postretirement plans and $313 for the non-U.S. pension and postretirement plans that have not yet been charged to expense. These actuarial losses have been charged to accumulated other comprehensive loss 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, postretirement and postemployment obligations and future expense. For 2013, our assumption for the expected rate of return on assets is 7.75% for our U.S. plans and 6.85% for our non-U.S. plans. Our assumptions are 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 2012 pension expense and the pension benefit obligation at December 31, 2012:

	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	$(5.2)	$5.2	N/A	N/A
Discount rate	(11.2)	11.6	$(114.8)	$123.8
Rate of compensation increase	1.5	(1.4)	8.6	(8.3)

Taxes

At December 31, 2012, we recognized net deferred tax assets of $1,067, net of a valuation allowance of $627. We have gross deferred tax assets relating to tax loss carryforwards of $648 primarily from foreign jurisdictions, for which a valuation allowance of $610 has been provided. We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. While we have considered projected future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to the deferred tax asset would increase earnings in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would decrease earnings in the period such determination was made. We have recognized deferred tax assets of $356 relating to foreign tax credit carryforwards that will expire between 2018 and 2022. To the extent future taxable income is less favorable than currently projected, our ability to utilize these foreign tax credits may be affected and a valuation allowance may be required.

We recognize deferred income taxes with respect to the incremental U.S. taxes that would be incurred when undistributed earnings of a foreign subsidiary are subsequently repatriated, unless management has determined that those undistributed earnings are indefinitely reinvested for the foreseeable future. Prior to the fourth quarter of 2012, we had not recognized a deferred income tax liability related to the incremental U.S. taxes on approximately $2.5 billion of undistributed foreign earnings, as these earnings were deemed indefinitely reinvested. During the fourth quarter of 2012, as a result of the uncertainty of our financing arrangements and our domestic liquidity profile, we determined that we may repatriate offshore cash to meet certain domestic funding needs. Accordingly, we are no longer asserting that these undistributed earnings of foreign subsidiaries are indefinitely reinvested and have provided U.S. income taxes on such earnings. At December 31, 2012, we have a deferred income tax liability of $225 for the U.S. income taxes on the undistributed earnings of subsidiaries outside of the U.S. We have not recorded a U.S. income tax benefit on $159 of undistributed earnings of our subsidiary in Venezuela where local regulations restrict cash distributions. The actual tax cost of distributing these foreign earnings to the U.S. will depend on the amount and timing of the repatriation and the jurisdictions involved.

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 2013, 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 2013 provision for income taxes may reflect adjustments.

Share-based Compensation

Stock options issued to employees are recognized in the Consolidated Financial Statements based on their fair value using an option-pricing model at the date of grant. We use a Black-Scholes-Merton option-pricing model to calculate the fair value of options. This model requires various judgmental assumptions including volatility, forfeiture rates and expected option life. If any of the assumptions used in the model change significantly, share-based compensation may differ materially in the future from historical results.

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. 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.

Goodwill and Intangible Assets

We test goodwill and intangible assets with indefinite lives for impairment annually, and more frequently if circumstances warrant, using various fair value methods. We review finite-lived intangible assets, which are subject to amortization, for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

We completed our annual goodwill impairment assessment for 2012 during the year-end close process and determined that the estimated fair values were considered substantially in excess of the carrying values of each of our reporting units, with the exception of our Silpada and China reporting units.

Our analysis of the Silpada business indicated an impairment as the carrying value of the business exceeded the estimated fair value and the finite-lived intangible assets were not recoverable. This was primarily the result of the weaker than expected performance in the fourth quarter of 2012, largely due to lower Representative counts and activity rates, and as a result we lowered our revenue and earnings projections for Silpada. Accordingly, a non-cash impairment charge of $209 was recorded to reduce the carrying amounts of goodwill, an indefinite-lived intangible asset, and a finite-lived intangible asset. At December 31, 2012, as a result of the impairment charge recorded, the carrying values of Silpada’s goodwill, indefinite-lived intangible asset, and finite-lived intangible asset were $45, $40, and $40 respectively. The decline in the fair values of the Silpada assets was driven by the reduction in the forecasted growth rates and cash flows used to estimate their respective fair values.

Our annual analysis, completed during the year-end close process, of the China business indicated that the estimated fair value exceeded its carrying value by approximately 19%. The goodwill associated with China was $38 at December 31, 2012. During the third quarter of 2012, based on the continued decline in revenue performance in China, and a corresponding lowering of our long-term growth estimates in China, we completed an interim impairment assessment of the fair value of goodwill related to our operations in China. The results of our interim impairment test indicated the estimated fair value of our China reporting unit was less than its respective carrying amount. Accordingly, a non-cash impairment charge of $44 was recorded to reduce the carrying amount of goodwill to its estimated fair value. The changes to our long-term growth estimates were based on the state of our China business, which was predominantly retail at that time.

During the 2011 year-end close process, our analysis of the Silpada business indicated an impairment as the carrying value of the business exceeded the estimated fair value. Accordingly, a non-cash impairment charge of $263 was recorded in the fourth quarter of 2011 to reduce the carrying amounts of goodwill and an indefinite-lived intangible asset. Following weaker than expected performance in the fourth quarter of 2011, we lowered our revenue and earnings projections for Silpada largely due to the rise in silver prices, which nearly doubled since the acquisition, and the negative impact of pricing on revenues and margins. The decline in the fair values of the Silpada reporting unit and the underlying trademark was driven by the reduction in the forecasted growth rates and cash flows used to estimate their respective fair value.

The impairment analyses performed for goodwill and intangible assets require several estimates in computing the estimated fair value of a reporting unit, an indefinite-lived intangible asset, and a finite-lived intangible asset. We use a 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 a market place participant would use. The estimation of fair value utilizing a DCF approach includes numerous uncertainties which require our significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors. Key assumptions used in measuring the fair values of Silpada and China included the discount rate (based on the weighted-average cost of capital) and revenue growth, as well as silver prices and Representative growth and activity rates for Silpada. The fair value of Silpada's indefinite-lived trademark was determined using a risk-adjusted DCF model under the relief-from-royalty method. The royalty rate used was based on a consideration of market rates. The fair value of the Silpada finite-lived customer relationships was determined using a DCF model under the multi-period excess earnings method. A significant decline in expected future cash flows and growth rates or a change in the discount rate used to fair value expected future cash flows may result in future impairment charges.
See Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for further information on Silpada and China.

Results Of Continuing Operations - Consolidated

	2012	2011	2010	%/Point Change 2012 vs. 2011	%/Point Change 2011 vs. 2010
Total revenue	$10,717.1	$11,291.6	$10,862.8	(5)%	4%
Cost of sales	4,169.3	4,148.6	4,041.3	—%	3%
Selling, general and administrative expenses	5,980.0	6,025.4	5,748.4	(1)%	5%
Impairment of goodwill and intangible asset	253.0	263.0	—	(4)%	*
Operating profit	314.8	854.6	1,073.1	(63)%	(20)%
Interest expense	104.3	92.9	87.1	12%	7%
Interest income	(15.1)	(16.5)	(14.0)	(8)%	18%
Other expense, net	7.0	35.6	54.6	(80)%	(35)%
Net (loss) income attributable to Avon	(42.5)	513.6	606.3	(108)%	(15)%
Diluted (loss) earnings per share attributable to Avon	$(.10)	$1.18	$1.39	(108)%	(15)%
Advertising expenses[(1)]	$253.6	$311.2	$400.4	(19)%	(22)%
Gross margin	61.1%	63.3%	62.8%	(2.2)	.5
CTI restructuring	—	.1	.1	(.1)	—
Venezuelan special items	—	—	.6	—	(.6)
Adjusted Non-GAAP gross margin	61.1%	63.4%	63.5%	(2.3)	(.1)
Selling, general and administrative expenses as a % of total revenue	55.8%	53.4%	52.9%	2.4	.5
CTI restructuring	(1.1)	(.3)	(.7)	(.8)	.4
Venezuelan special items	—	—	(.1)	—	.1
Adjusted Non-GAAP selling, general and administrative expenses as a % of total revenue	54.7%	53.1%	52.2%	1.6	.9
Operating profit	$314.8	$854.6	$1,073.1	(63)%	(20)%
CTI restructuring	124.7	40.0	80.7		
Impairment charges	253.0	263.0	—		
Venezuelan special items	—	—	79.5		
Adjusted Non-GAAP operating profit	$692.5	$1,157.6	$1,233.3	(40)%	(6)%
Operating margin	2.9%	7.6%	9.9%	(4.7)	(2.3)
CTI restructuring	1.2	.4	.7	.8	(.3)
Impairment charges	2.4	2.3	—	.1	2.3
Venezuelan special items	—	—	.7	—	(.7)
Adjusted Non-GAAP operating margin	6.5%	10.3%	11.4%	(3.8)	(1.1)
Effective tax rate	117.5%	29.1%	37.0%	88.4	(7.9)
CTI restructuring	(.3)	.1	.3	(.4)	(.2)
Impairment charges	(5.5)	2.0	—	(7.5)	2.0
Venezuelan special items	.1	—	(5.6)	(.1)	5.6

Special tax items	(77.0)	—	—	(77.0)	—
Adjusted Non-GAAP effective tax rate	34.8 %	31.3 %	31.8 %	3.5	(.5)
Active Representatives				(1)%	(1)%
Units sold				— %	(2)%

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.

2012 Compared to 2011

Revenue

Total revenue in 2012 compared to 2011 decreased 5% due to unfavorable foreign exchange. Constant $ revenue was relatively unchanged, as a 1% increase in average order was offset by a 1% decline in Active Representatives. Growth in units sold and the net impact of price and mix were flat.

On a category basis, revenue growth rates were as follows:

	%/Point Change	
	US$	Constant $
Beauty	(5)%	1%
Beauty Category:		
Fragrance	(4)	2
Color	(6)	1
Skincare	(7)	(1)
Personal Care	(6)	—
Fashion	(5)	(2)
Home	(4)	2

As noted previously in our Overview section, our Constant $ revenue was impacted by improvements in Latin America, particularly in Brazil, Mexico, and Venezuela; however, these improvements were offset by net declines in other regions. In Europe, Middle East & Africa we saw a revenue decline in the United Kingdom that partially reflects a continued weak macroeconomic environment, competition, and executional challenges. In addition, North America experienced challenging financial results, partially as a result of the ongoing impact of field transformation and redistricting in the U.S. Asia Pacific's revenue decline was primarily due to continuing weak performance of our China operations.

For additional discussion of the changes in revenue by segment, see the "Segment Review" section of this MD&A.

Gross Margin

Gross margin decreased by 220 basis points compared to 2011, while adjusted Non-GAAP gross margin decreased 230 basis points, primarily due to the following:

- a decline of 100 basis points due to higher supply chain costs, primarily caused by increased product costs which were partially due to inflationary pressures;
- a decline of 80 basis points due to the unfavorable net impact of product mix and pricing, partly due to an increase in smart value offerings as well as other initiatives to flow excess inventory; and
- a decline of 50 basis points due to the negative impact of foreign exchange.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2012 decreased $45.4 compared to 2011. This decrease is primarily due to lower distribution costs and lower advertising, partially offset by the negative impact of foreign exchange and higher costs to implement ("CTI") restructuring initiatives.

Selling, general and administrative expenses as a percentage of revenue increased 240 basis points compared to 2011, while adjusted Non-GAAP selling, general, and administrative expenses as a percentage of revenue increased 160 basis points, primarily due to the following:

- an increase of 80 basis points due to higher overhead expenses, primarily associated with wage inflation in 2012, as well as higher expenses associated with employee incentive compensation plans;
- an increase of 50 basis points due to increased investments in RVP, primarily driven by investments in the One Simple Sales Model in the U.S., partially offset by lower investments in China;
- an increase of 50 basis points due to the negative impact of foreign exchange; and
- a decrease of 30 basis points due to lower advertising costs.

In the first quarter of 2012, we revised the definition of RVP to represent the expenses of activities directly associated with Representatives and independent leaders including the cost of incentives and sales aids (net of any fees charged). RVP no longer includes strategic investments such as the Service Model Transformation and Web enablement, and it no longer adjusts for the impact of volume.

Impairment of Goodwill and Intangible Asset

During 2012 we recorded non-cash impairment charges of $209.0 in the fourth quarter for goodwill and intangible assets associated with our Silpada business, as well as $44.0 in the third quarter for goodwill associated with our China business. Refer to Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for more details.

See the "Segment Review" section of this MD&A for additional information related to changes in operating margin by segment.

Other Expense

Interest expense increased in 2012 as compared to 2011 by 12%, primarily due to higher outstanding debt balances and higher average interest rates.

Interest income decreased in 2012 as compared to 2011 by 8%, primarily due to lower average interest rates partially offset by higher average cash balances.

Other expense, net decreased in 2012 as compared to 2011 by 80%, primarily due to a benefit of $23.8 in 2012 due to the release of a provision in the fourth quarter of 2012 associated with the excess cost of acquiring U.S. dollars in Venezuela at the regulated market rate as compared to the official exchange rate. This provision was released as the Company capitalized the associated intercompany liabilities. Refer to the "Segment Review - Latin America" section of this MD&A for a further discussion of our Venezuela operations.

Effective Tax Rate

The effective tax rate for 2012 was 117.5%, compared to 29.1% for 2011.

During the fourth quarter of 2012, as a result of the uncertainty of our financing arrangements and our domestic liquidity profile, we determined that the Company may repatriate offshore cash to meet certain domestic funding needs. Accordingly, we are no longer asserting that the undistributed earnings of foreign subsidiaries are indefinitely reinvested, and therefore, we recorded an additional provision for income taxes of $168.3, which impacted the tax rate by 77.0%. The tax rate was also unfavorably impacted by 7.1 points from the goodwill impairment charge related to our operations in China for which no tax benefit was recorded. This charge will not result in a tax deduction as there is no tax basis in this goodwill. These unfavorable impacts to the tax rate were partially offset by 1.6 points from the tax benefit on the non-cash impairment charge associated with our Silpada business.

The effective tax rate for 2011 included tax benefits from audit settlements and statute expirations, which favorably impacted the tax rate by 3.1 points. In addition, the 2011 tax rate was favorably impacted by 2.0 points from the tax benefit on the non-cash impairment charge associated with our Silpada business.

2011 Compared to 2010

Revenue

Total revenue in 2011 compared to 2010 increased 4%, with favorable foreign exchange contributing 3 points to the revenue increase. Constant $ revenues increased 1%, due to a 2% increase in average order, partly offset by a 1% decline in Active Representatives. Units sold decreased 2% and the net impact of price and mix increased 3%.

On a category basis, revenue growth rates were as follows:

	%/Point Change	
	US$	Constant $
Beauty	5%	2%
Beauty Category:		
Fragrance	7	5
Color	5	2
Skincare	3	—
Personal Care	4	1
Fashion	(1)	(3)
Home	1	(2)

We acquired Silpada at the end of July 2010. Inclusion of Silpada's results for twelve months during 2011 as compared to five months in 2010 benefited the Fashion Constant $ growth rate by 5 points, as the similar period's results were not included in our 2010 financial results ("unmatched period").

Our revenue performance, primarily in the latter part of 2011, was negatively impacted by weaker macroeconomic conditions. In Brazil, our largest market, lower than normal service levels were further impacted by the implementation of an ERP system during the second half of the year, which weakened results. Additionally, slowing Beauty category market growth pressured Brazil's results in the second half of 2011. During the latter part of 2011, we believe Russia's performance was also impacted by weak trends in the Beauty category market in that country.

For additional discussion of the changes in revenue by segment, see the "Segment Review" section of this MD&A.

Gross Margin

Gross margin and adjusted Non-GAAP gross margin increased by 50 basis points and decreased by 10 basis points compared to 2010, respectively, primarily due to the following:

- a decline of 160 basis points due to higher supply chain costs, primarily due to the negative impact of rising product costs;
- a benefit of 80 basis points due to the favorable net impact of product mix and pricing; and
- a benefit of 70 basis points due to the favorable impact of foreign exchange.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2011 increased $277.0 compared to 2010. This increase was primarily due to our continued investing in RVP, as well as higher distribution costs and bad debt expense. Selling, general and administrative expenses during 2011, benefited from lower expenses associated with employee incentive compensation plans.

Selling, general and administrative expenses as a percentage of revenue increased 50 basis points compared to 2010, while adjusted Non-GAAP selling, general, and administrative expenses as a percentage of revenue increased 90 basis points, primarily due to the following:

- an increase of 110 basis points from increased investments in RVP;
- an increase of 80 basis points due to higher distribution costs, as dual distribution costs attributable to the transition to the new facilities in Brazil and Colombia negatively impacted selling, general and administrative expenses during 2011 as compared to 2010;
- an increase of 30 basis points due to higher bad debt expense; and
- a decrease of 100 basis points due to lower advertising.

Impairment of Goodwill and Intangible Asset

During 2011 we recorded a non-cash impairment charge of $263.0 for goodwill and an indefinite-lived intangible asset associated with our Silpada business. Refer to Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for more details.

See the "Segment Review" section of this MD&A for additional information related to changes in operating margin by segment.

Other Expense

Interest expense increased in 2011 as compared to 2010 by 7%, primarily due to higher outstanding debt balances. At December 31, 2011 and 2010, we held interest-rate swap agreements that effectively converted approximately 74% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR.

Interest income increased in 2011 as compared to 2010 by 18%, primarily due to higher average cash balances and higher average interest rates.

Other expense, net decreased in 2011 as compared to 2010 by 35%, primarily due to a $46.1 negative impact in 2010 from the devaluation of the Venezuelan currency on monetary assets and liabilities in conjunction with highly inflationary accounting which occurred in 2010, partially offset by higher foreign exchange losses in 2011. Refer to the "Segment Review - Latin America" section of this MD&A for a further discussion of our Venezuela operations.

Effective Tax Rate

The effective tax rate for 2011 was 29.1%, compared to 37.0% for 2010.

The effective tax rate for 2011 included tax benefits from audit settlements and statute expirations, which favorably impacted the tax rate by 3.1 points. In addition, the 2011 tax rate was favorably impacted by 2.0 points from the tax benefit on the non-cash impairment charge associated with our Silpada business.

The effective tax rate for 2010 was unfavorably impacted by 5.6 points due to the devaluation of the Venezuelan currency in conjunction with highly inflationary accounting discussed further within the Latin America segment review, partially offset by 2.1 points associated with benefits from audit settlements and statute expirations.

Segment Review

Effective in the second quarter of 2012, the results of Central & Eastern Europe and Western Europe, Middle East & Africa were managed as a single operating segment. Accordingly, Europe, Middle East & Africa amounts include the results of Central & Eastern Europe and Western Europe, Middle East & Africa for all periods presented.

Effective in the second quarter of 2012, the Dominican Republic was included in Latin America whereas in prior periods it had been included in North America. The impact was not material to either segment. Accordingly, the Dominican Republic is included in Latin America and excluded from North America for all periods presented.

Below is an analysis of the key factors affecting revenue and operating profit by reportable segment for each of the years in the three-year period ended December 31, 2012.

Years ended December 31	2012		2011		2010	
	Total Revenue	Operating Profit (Loss)	Total Revenue	Operating Profit (Loss)	Total Revenue	Operating Profit
Latin America	$4,993.7	$443.9	$5,161.8	$634.0	$4,640.0	$613.3
Europe, Middle East & Africa	2,914.2	312.8	3,122.8	478.9	3,047.9	474.3
North America	1,906.8	(214.9)	2,064.6	(188.0)	2,193.5	147.3
Asia Pacific	902.4	5.1	942.4	81.4	981.4	82.6
Total from operations	10,717.1	546.9	11,291.6	1,006.3	10,862.8	1,317.5
Global and other expenses	—	(232.1)	—	(151.7)	—	(244.4)
Total	$10,717.1	$314.8	$11,291.6	$854.6	$10,862.8	$1,073.1

Global and Other Expenses

Global and other expenses include, among other things, costs related to our executive and administrative offices, information technology, research and development, marketing, and professional and related fees associated with the FCPA investigations and compliance reviews. We allocate certain planned global expenses to our business segments primarily based on planned revenue. The unallocated costs remain as Global and other expenses. We do not allocate to our segments costs of implementing restructuring initiatives related to our global functions or professional and related fees associated with the FCPA investigations and compliance reviews. Costs of implementing restructuring initiatives related to a specific segment are recorded within that segment.

	2012	2011	% Change	2011	2010	% Change
Total global expenses	$706.3	$651.1	8 %	$651.1	$713.6	(9)%
Allocated to segments	(474.2)	(499.4)	(5)%	(499.4)	(469.2)	6 %
Net global expenses	$232.1	$151.7	53 %	$151.7	$244.4	(38)%
CTI restructuring	44.6	7.2		7.2	13.6	
Adjusted Non-GAAP net global expenses	$187.5	$144.5	30 %	$144.5	$230.8	(37)%

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

2012 Compared to 2011

Total global expenses increased primarily due to higher costs to implement restructuring initiatives, higher expenses associated with employee incentive compensation plans, and higher expenses associated with global initiatives, and were partially offset by lower marketing costs. Amounts allocated to segments decreased primarily due to the decrease in budgeted marketing and global sales costs, which are costs that are allocated to segments. Professional and related fees associated with the FCPA investigations and compliance reviews described in Note 16, Contingencies on pages F-47 through F-49 of our 2012 Annual Report, amounted to approximately $92.4, as compared to approximately $93.3 in 2011. While these fees are difficult to predict, we expect ongoing fees may vary during the course of these investigations and reviews. These fees were not allocated to the segments. Please see Risk Factors on page 12 of our 2012 Annual Report, and Note 16, Contingencies on pages F-47 through F-49 of our 2012 Annual Report for more information regarding the FCPA investigations, compliance reviews, and other related matters, including our expectations with respect to future professional and related fees related to the FCPA investigations and compliance reviews.

2011 Compared to 2010

Total global expenses declined primarily due to lower expenses associated with management incentive programs, lower professional fees associated with acquisitions and divestitures, and lower costs to implement restructuring initiatives. Amounts allocated to segments increased in 2011 primarily due to an increase in costs associated with initiatives more specifically benefiting the segments as compared to global initiatives. Professional and related fees associated with the FCPA investigations and compliance reviews described in Note 16, Contingencies on pages F-47 through F-49 of our 2012 Annual Report, amounted to approximately $93.3 in 2011, as compared to approximately $95.3 in 2010. These fees were not allocated to the segments. Please see Risk Factors on page 12 of our 2012 Annual Report, and Note 16, Contingencies on pages F-47 through F-49 of our 2012 Annual Report, for more information regarding the FCPA investigations, compliance reviews, and other related matters, including our expectations with respect to future professional and related fees related to the FCPA investigations and compliance reviews.

Latin America – 2012 Compared to 2011

			%/Point Change	
	2012	2011	US$	Constant $
Total revenue	$4,993.7	$5,161.8	(3)%	5 %
Operating profit	443.9	634.0	(30)%	(20)%
CTI restructuring	19.6	3.1		
Adjusted Non-GAAP operating profit	$463.5	$637.1	(27)%	(17)%
Operating margin	8.9 %	12.3 %	(3.4)	(3.0)
CTI restructuring	.4	.1		
Adjusted Non-GAAP operating margin	9.3 %	12.3 %	(3.0)	(2.6)
Active Representatives				3 %
Units sold				2 %

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

Effective in the second quarter of 2012, the Dominican Republic was included in Latin America, whereas in prior periods it had been included in North America. The impact was not material to either segment. Accordingly, Latin

America amounts include the results of the Dominican Republic for all periods presented.

Total revenue declined 3% due to unfavorable foreign exchange. On a Constant $ basis, revenue grew 5% due to an increase in Active Representatives, as well as higher average order. Average order benefited from pricing, including inflationary impacts. Revenue in Brazil declined 12%, negatively impacted by foreign exchange, while revenue in Mexico grew 1%. Constant $ revenue benefited from growth of 3% in Brazil and 8% in Mexico. In Venezuela, revenue and Constant $ revenue grew 13%.

Constant $ revenue growth in Brazil was driven by an increase in Active Representatives. Revenue growth in Brazil was negatively impacted by decreased demand, which was partially due to increased competition, as well as uncompetitive pricing in Fashion and Home during the first half of 2012. Brazil's sales of Beauty products declined 11% and sales of non-Beauty products declined 15%, both negatively impacted by foreign exchange. On a Constant $ basis, Brazil's sales of Beauty products increased 4% and sales of non-Beauty were flat.

Constant $ revenue growth in Mexico was driven by an increase in Active Representatives, as well as higher average order. Revenue growth in Venezuela was primarily due to higher average order, benefiting from the inflationary impact on pricing; however, Venezuela revenue growth was restrained during the latter half of 2012 by slowing economic activity and the impact of lower inflation on pricing. Revenue and operating profit in Venezuela will be negatively impacted in future periods by the change in the official exchange rate discussed below. Additional information on our Venezuela operations is discussed in more detail below.

Operating margin was negatively impacted by .3 points as compared to the prior-year period from higher CTI restructuring. Adjusted Non-GAAP operating margin declined 3.0 points, or 2.6 points on a Constant $ basis, primarily as a result of:

- a decline of 2.5 points due to lower gross margin caused primarily by .9 points from higher supply chain costs not offset by pricing. Gross margin was also negatively impacted by .9 points from foreign exchange and .7 points from the unfavorable net impact of pricing and mix;
- a decline of .8 points from increased overhead, primarily due to wage inflation outpacing revenue growth;
- a benefit of .4 points from lower bad debt expense; and
- a benefit of .3 points from lower advertising costs.

Effective January 1, 2010, we began to account for Venezuela as a highly inflationary economy. Effective January 11, 2010, the Venezuelan government devalued its currency and moved to a two-tier exchange structure. The official exchange rate moved from 2.15 to 2.60 for essential goods and to 4.30 for nonessential goods and services. Effective December 30, 2010, the Venezuelan government eliminated the 2.60 rate which had been available for the import of essential goods. Substantially all of the imports of our subsidiary in Venezuela ("Avon Venezuela") were classified as nonessential.

As a result of the change in the official rate to 4.30 in conjunction with accounting for our operations in Venezuela under highly inflationary accounting guidelines, during the first quarter of 2010, we recorded net charges of $46.1 in "Other expense, net" and $12.7 in "Income taxes", for a total after-tax charge of $58.8, reflecting the write-down of monetary assets and liabilities and deferred tax benefits. Additionally, certain nonmonetary assets must continue to be carried at U.S. historic dollar cost subsequent to the devaluation. Therefore, the historic U.S. dollar costs impacted the income statement during 2010 at a disproportionate rate as they had not been devalued based on the new exchange rates. As a result of using the U.S. historic dollar cost basis of nonmonetary assets, such as inventory, acquired prior to the devaluation, operating profit during 2010 was negatively impacted by $79.5, for the difference between the historical cost at the previous official exchange rate of 2.15 and the current official exchange rate of 4.30. As there were no further devaluations during 2012 and 2011, there was an immaterial impact on operating profit in 2012 and 2011 from the 2010 Venezuelan currency devaluations.

Currency restrictions enacted by the Venezuelan government in 2003 have impacted the ability of Avon Venezuela to obtain foreign currency at the official rate to pay for imported products. Since 2003, Avon Venezuela had been obtaining its foreign currency needs beyond the amounts that could be obtained at official rates through non-government sources where the exchange rates were less favorable than the official rate ("parallel market"). In late May 2010, the Venezuelan government took control over the previously freely-traded parallel market. Trading in the parallel market was suspended for several weeks in May and June and reopened as a regulated ("SITME") market in early June 2010. The government has imposed volume restrictions on trading activity, limiting an entity's activity to a maximum of $0.35 per month. The current limit is below the monthly foreign exchange requirements of our Venezuelan operations and, unless these restrictions are modified, may have a negative impact on Avon Venezuela's future operations. There is no assurance that the Company will be able to recover the higher cost of obtaining foreign currency in the SITME market as compared to the official rate through operating activities, such as increased pricing or cost reductions in other areas. Refer to the "Results Of Continuing Operations - Consolidated" section of this MD&A for discussion of the release of a provision of approximately $24 in the fourth quarter of 2012 for the difference between the regulated SITME rate and the official exchange rate, associated with the capitalization of intercompany liabilities.

We account for Venezuela as a highly inflationary economy. At December 31, 2012 we had a net asset position of $371 associated with our operations in Venezuela, which included cash balances of approximately $173 of which approximately $171 was denominated in Bolívares remeasured at the December 31, 2012 official exchange rate and approximately $2 was denominated in U.S. dollars. Of the $371 net asset position, approximately $172 was associated with Bolívar-denominated monetary net assets and deferred income taxes. Additionally, during 2012 Avon Venezuela represented approximately 5% of Avon's consolidated revenue, 14% of Avon's consolidated operating profit, and 7% of Avon's consolidated adjusted Non-GAAP operating profit. During 2012 and 2011, costs associated with acquiring goods that required settlement in U.S. dollars included within Venezuela's operating profit were approximately $18 and $17, respectively.

At December 31, 2012, Avon Venezuela had pending requests submitted with an agency of the Venezuelan government for approximately $80 for remittance of dividends and royalties to its parent company in the U.S. These outstanding requests had been periodically submitted between 2005 and 2012.

Effective February 13, 2013, the Venezuelan government devalued its currency by approximately 32%. The official exchange rate moved from 4.30 to 6.30 and the regulated SITME market was eliminated. As a result of the change in the official rate to 6.30, based on a preliminary analysis, Avon anticipates it will record a one-time, after-tax loss of approximately $50 (approximately $34 in "Other expense, net" and approximately $16 in "Income taxes") in the first quarter of 2013, primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. Additionally, certain nonmonetary assets are carried at the U.S. historic dollar cost subsequent to the devaluation. Therefore, these costs will impact the income statement during 2013 at a disproportionate rate as they will not be devalued based on the new exchange rates, but will be expensed at the historic dollar value. As a result of using the U.S. historic dollar cost basis of nonmonetary assets, such as inventory, acquired prior to the devaluation, 2013 operating profit and net income will be negatively impacted by approximately $50, primarily during the first half of the year, for the difference between the historical cost at the previous official exchange rate of 4.30 and the new official exchange rate of 6.30. In addition, revenue and operating profit for Avon's Venezuela operations will be negatively impacted when translated into dollars at the new official exchange rate. This could be partially offset by the favorable impact of any operating performance improvements. Results for periods prior to 2013 will not be impacted by the change in the official rate in February of 2013.

Latin America – 2011 Compared to 2010

			%/Point Change	
	2011	2010	US$	Constant $
Total revenue	$5,161.8	$4,640.0	11%	8%
Operating profit	634.0	613.3	3%	(13)%
CTI restructuring	3.1	19.8		
Venezuelan special items	—	79.5		
Adjusted Non-GAAP operating profit	$637.1	$712.6	(11)%	(23)%
Operating margin	12.3%	13.2%	(.9)	(2.8)
CTI restructuring	.1	.4		
Venezuelan special items	—	1.7		
Adjusted Non-GAAP operating margin	12.3%	15.4%	(3.1)	(4.9)
Active Representatives				2%
Units sold				1%

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

Total revenue during 2011 increased 11% due to higher average order and growth in Active Representatives, as well as due to favorable foreign exchange. Average order benefited from the favorable impacts of pricing while Active Representatives growth benefited from continued investments in RVP. During 2011, revenue grew 6% in Brazil and 17% in Mexico, with benefits from favorable foreign exchange. Constant $ revenue during 2011 increased 8%, benefiting from continued growth in most markets, particularly from growth of 14% in Mexico. Constant $ revenue in Brazil was relatively flat. In Venezuela, revenue and Constant $ revenue during 2011 grew 28%.

Brazil's performance during 2011 continued to be pressured by lower than normal service levels. In addition, lower than normal service levels were further impacted by the implementation of an ERP system during the second half of the year, which in turn has negatively impacted average order, Active Representatives, and revenue growth. Additionally, slowing Beauty category market growth pressured Brazil's results in the second half of 2011. While the implementation of the ERP system and transformation of the related processes may negatively impact service levels in the short-term, we expect the ERP system to help improve our service reliability over the long-term.

Constant $ revenue growth in Mexico during 2011, was driven by an increase in Active Representatives and a higher average order. Revenue growth during 2011 in Venezuela was the result of a higher average order primarily due to increased prices, primarily as a result of inflation.

Operating margin during 2010, in Latin America was negatively impacted by 1.7 points by the devaluation of the Venezuelan currency in conjunction with higher inflationary accounting as discussed further above. Operating margin benefited .3 points as compared to the prior-year period from lower CTI restructuring. Adjusted Non-GAAP operating margin declined 3.1 points, or 4.9 points on a Constant $ basis, primarily as a result of:

- a decline of 3.4 points due to a sharp decline in Brazil’s operating margin. Brazil’s 2011 operating margin was partially unfavorably impacted by inventory related charges primarily due to supply chain challenges, which negatively impacted Latin America’s operating margin by .3 points. Higher distribution costs of .9 points primarily due to the transition to the new facility in Brazil also contributed to the decline in operating margin. Additionally, Brazil’s decline in operating margin was further caused by business disruptions and resulting investments in that market, as well as inflationary pressure on costs;
- a decline of .7 points from higher bad debt expense in countries other than Brazil; and
- a decline of .4 points from higher distribution costs in countries other than Brazil, primarily due to the transition to the new facility in Colombia.

Europe, Middle East & Africa – 2012 Compared to 2011

			%/Point Change	
	2012	2011	US$	Constant $
Total revenue	$2,914.2	$3,122.8	(7)%	(1)%
Operating profit	312.8	478.9	(35)%	(27)%
CTI restructuring	11.8	5.3		
Adjusted Non-GAAP operating profit	$324.6	$484.2	(33)%	(26)%
Operating margin	10.7%	15.3%	(4.6)	(4.1)
CTI restructuring	.4	.2		
Adjusted Non-GAAP operating margin	11.1%	15.5%	(4.4)	(3.9)
Active Representatives				—%
Units sold				—%

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

Effective in the second quarter of 2012, the results of Central & Eastern Europe and Western Europe, Middle East & Africa were managed as a single operating segment. Accordingly, Europe, Middle East & Africa amounts include the results of Central & Eastern Europe and Western Europe, Middle East & Africa for all periods presented.

Total revenue declined 7% primarily due to unfavorable foreign exchange. On a Constant $ basis, revenue declined 1%, impacted by approximately 1 point due to a nonrecurring item in the prior-year period. During 2011, the United Kingdom’s revenue benefited from the settlement of a long time dispute associated with an estimated Value Added Tax ("VAT") liability. The region’s Constant $ revenue was impacted by declines in the United Kingdom and Turkey, partially reflecting a continued weak macroeconomic environment, competition, and executional challenges. Growth in South Africa partially offset these declines.

In Russia, revenue declined 5%, impacted by unfavorable foreign exchange. Russia's revenue was flat on a Constant $ basis, as higher average order was offset by a decrease in Active Representatives. In the United Kingdom, revenue and Constant $ revenue declined 10%. Revenue in the United Kingdom was negatively impacted by a decrease in Active Representatives, as well as by approximately 4 points due to the benefit of the VAT settlement in the prior-year period that did not recur in 2012. In Turkey, revenue declined 10%, or 3% on a Constant $ basis, due to lower average order. In South Africa, revenue declined 2%, impacted by unfavorable foreign exchange. On a Constant $ basis, South

Africa’s revenue grew 11% primarily due to higher average order and growth in Active Representatives.

Operating margin was negatively impacted by .2 points as compared to the prior-year period from higher CTI restructuring. Adjusted Non-GAAP operating margin declined 4.4 points, or 3.9 points on a Constant $ basis, primarily as a result of:

- a nonrecurring benefit of .4 points associated with the VAT settlement in the United Kingdom that occurred in 2011;
- a decline of 2.0 points due to lower gross margin caused primarily by 1.4 points from higher supply chain costs due to foreign exchange, primarily due to the weakening of the Turkish Lira against the Euro, as well as increased product costs in Fashion and Home. The unfavorable net pricing and mix negatively impacted gross margin by .9 points, driven by smart value offerings; and
- a decline of .9 points from higher bad debt expense primarily due to a higher provision to increase reserves for bad debt in South Africa as a result of growth in new territories, of which .4 points was an out-of-period adjustment, and was also negatively impacted by a change in estimate of the collection of our receivables.

Europe, Middle East & Africa – 2011 Compared to 2010

			%/Point Change	
	2011	2010	US$	Constant $
Total revenue	$3,122.8	$3,047.9	2 %	— %
Operating profit	478.9	474.3	1 %	(2)%
CTI restructuring	5.3	6.3		
Adjusted Non-GAAP operating profit	$484.2	$480.6	1 %	(3)%
Operating margin	15.3 %	15.6 %	(.3)	(.4)
CTI restructuring	.2	.2		
Adjusted Non-GAAP operating margin	15.5 %	15.8 %	(.3)	(.4)
Active Representatives				— %
Units sold				(3)%

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

Total revenue increased 2% due to favorable foreign exchange. On a Constant $ basis, revenue was flat, as Active Representatives and average order were flat. The region’s revenue in 2011 was favorably impacted by approximately 1 point due to a benefit to the United Kingdom’s revenue resulting from the settlement of a long time dispute associated with the VAT liability. The region’s Constant $ revenue benefited by growth in Turkey and South Africa, which was offset by declines in Russia and the United Kingdom. The region experienced Constant $ growth through the first nine months of 2011 but saw declines in the fourth quarter, partly due to the negative impact of the continued difficult economic environment on Fashion and Home sales. The inclusion of Liz Earle Beauty Co. Limited ("Liz Earle") in our 2011 results for the unmatched period through March favorably impacted the region’s revenue growth by approximately 1 point.

During 2011, revenue in Russia declined 1%. On a Constant $ basis, revenue declined 4% in Russia due to declines in average order as well as Active Representatives. During the latter part of 2011, we believe Russia’s performance was also impacted by weak trends in the Beauty category market in that country. Revenue in South Africa increased 31%, partially benefiting from favorable foreign exchange. On a Constant $ basis, revenue in South Africa increased 29%, due to growth in Active Representatives which was partially attributable to growth in new territories. Revenue in Turkey declined 5%, due to unfavorable foreign exchange, while on a Constant $ basis Turkey grew 5%, due to growth in Active Representatives and higher average order. In the United Kingdom, revenue declined by 1% including benefits from favorable foreign exchange as well as the VAT settlement. On a Constant $ basis, revenue in the United Kingdom declined by 4%, primarily due to a decline in Active Representatives and lower average order, partially offset by the VAT settlement, which benefited the Constant $ growth rate by 4 points.

Operating margin and adjusted Non-GAAP operating margin declined .3 points, or .4 points on a Constant $ basis, primarily as a result of:

- a decline of .8 points from increased overhead expenses;

- a decline of approximately .6 points related to increased investments in RVP. RVP investment increased in 2011 in part to address the increased social benefit taxes levied against certain Representatives beginning in 2010 in Russia;
- a benefit of .5 points from lower advertising costs; and
- a benefit of .4 points associated with the VAT settlement in the United Kingdom that occurred in 2011.

North America – 2012 Compared to 2011

	2012	2011	%/Point Change US$	Constant $
Total revenue	$1,906.8	$2,064.6	(8)%	(8)%
Operating loss	(214.9)	(188.0)	(14)%	(14)%
CTI restructuring	30.5	24.7		
Impairment charges	209.0	263.0		
Adjusted Non-GAAP operating profit	$24.6	$99.7	(75)%	(75)%
Operating margin	(11.3)%	(9.1)%	(2.2)	(2.1)
CTI restructuring	1.6	1.2		
Impairment charges	11.0	12.7		
Adjusted Non-GAAP operating margin	1.3%	4.8%	(3.5)	(3.5)
Active Representatives				(12)%
Units sold				(6)%

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

Effective in the second quarter of 2012, the Dominican Republic was included in Latin America, whereas in prior periods it had been included in North America. The impact was not material to either segment. Accordingly, North America amounts exclude the results of the Dominican Republic for all periods presented.

Total revenue decreased 8% on both a reported and Constant $ basis, primarily due to a decrease in Active Representatives, partially offset by larger average order. The North America segment consists of the North America Avon business and includes the North America Silpada business. Revenue in the North America Avon business declined 6% on both a reported and Constant $ basis due to a decline in Active Representatives, partially offset by larger average order primarily due to Representative mix. Revenue in the North America Silpada business declined 19% on both a reported and Constant $ basis primarily due to lower average order, as well as a decrease in Active Representatives. Sales of Beauty products declined 8%, or 7% on a Constant $ basis. Sales of non-Beauty products declined 9%, on both a reported and Constant $ basis, due to the declines in both the North America Avon business and the North America Silpada business.

Operating margin benefited by 1.7 points as compared to the prior-year period due to lower non-cash goodwill and intangible asset impairment charges associated with our Silpada business. See Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for more details. Operating margin was negatively impacted by .4 points as compared to the prior-year period from higher CTI restructuring. Adjusted Non-GAAP operating margin declined 3.5 points on both a reported and Constant $ basis, primarily as a result of:

- a decline of 2.2 points from increased investments in RVP, primarily due to costs related to the One Simple Sales Model implementation in the U.S.;
- a decline of 1.3 points due to lower gross margin caused primarily by approximately .8 points from the unfavorable net impact of mix and pricing and approximately .7 points from higher supply chain costs primarily due to higher obsolescence costs. These were partially offset by a benefit of out-of-period adjustments associated with vendor liabilities of .3 points;
- a nonrecurring benefit of .5 points that occurred in 2011 due to a reduction in the estimated fair value of an earnout provision recorded in connection with the Silpada acquisition, as we revised our estimate of the earnout liability to zero;
- a decline of .4 points from higher brochure costs;
- a benefit of 1.1 points from lower overhead costs, primarily due to headcount reduction; and
- a benefit of .4 points from lower advertising costs.

We continue to expect challenging financial results within the North America Avon business, partially as a result of the ongoing impact of field transformation and redistricting in the U.S., as well as simplifying and enhancing the earnings opportunity for Representatives.

North America – 2011 Compared to 2010

	2011	2010	%/Point Change US$	%/Point Change Constant $
Total revenue	$2,064.6	$2,193.5	(6)%	(6)%
Operating (loss) profit	(188.0)	147.3	(228)%	(228)%
CTI restructuring	24.7	41.3		
Impairment charge	263.0	—		
Adjusted Non-GAAP operating profit	$99.7	$188.6	(47)%	(48)%
Operating margin	(9.1)%	6.7%	(15.8)	(16.0)
CTI restructuring	1.2	1.9		
Impairment charge	12.7	—		
Adjusted Non-GAAP operating margin	4.8%	8.6%	(3.8)	(3.8)
Active Representatives				(9)%
Units sold				(10)%

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

The North America segment consists of the North America Avon business and includes the North America Silpada business for the period since its acquisition at the end of July 2010. During 2011, Silpada's results have been included in the North America results for the entire year presented, whereas the results during 2010 include Silpada's results only since the end of July 2010. The inclusion of Silpada in our 2011 results for the unmatched period through July favorably impacted North America revenue growth by 4 points, operating profit growth by 6 points, adjusted Non-GAAP operating profit growth by 1 point, and adjusted Non-GAAP operating margin growth by .1 point.

The total revenue decline of 6% on both a reported and Constant $ basis for 2011 was primarily due to a decline in Active Representatives. Sales of Beauty products decreased 6% during 2011, partly due to weakness in the beauty market. Sales of non-Beauty products declined 7% during 2011. The inclusion of Silpada in our 2011 results during the unmatched period through July contributed 10 points to non-Beauty growth rates during 2011.

Operating margin was negatively impacted by 12.7 points by a non-cash goodwill and intangible asset impairment charge associated with our Silpada business. See Note 17, Goodwill and Intangible Assets, on pages F-49 through F-51 of our 2012 Annual Report for more details. Operating margin benefited .7 points as compared to the prior-year period from lower CTI restructuring. Adjusted Non-GAAP operating margin declined 3.8 points on both a reported and Constant $ basis, primarily as a result of:

- a decline of 2.5 points from increased investments in RVP;
- a decline of 2.2 points due to lower revenues while continuing to incur overhead expenses that do not vary directly with revenue;
- a decline of 1.0 point of lower gross margin primarily due to commodity cost pressures;
- a decline of .2 points due to a lower benefit from the reduction in the estimated fair value of an earnout provision recorded in connection with the Silpada acquisition. During 2011, operating margin benefited by .5 points due to a reduction in the estimated fair value of an earnout provision recorded in connection with the Silpada acquisition, as we revised our estimate of the earnout liability to zero. In comparison, operating margin during 2010 benefited by .7 points due to the change in the fair value of the earnout provision from $26 at the date of acquisition to $11 at December 31, 2010;
- a benefit of 1.0 point from lower advertising costs; and
- a benefit of .8 points from improved bad debt.

Asia Pacific – 2012 Compared to 2011

			%/Point Change	
	2012	2011	US$	Constant $
Total revenue	$902.4	$942.4	(4)%	(5)%
Operating profit	5.1	81.4	(94)%	(95)%
CTI restructuring	18.2	(.3)		
Impairment charge	44.0	—		
Adjusted Non-GAAP operating profit	$67.3	$81.1	(17)%	(19)%
Operating margin	.6%	8.6%	(8.0)	(8.2)
CTI restructuring	2.0	—		
Impairment charge	4.9	—		