AVON PRODUCTS INC
Form 10-K
February 26, 2014

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

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

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

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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. ý
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, 2013 (the last business day of our most recently completed second quarter) was $9.1 billion.

The number of shares of Common Stock (par value $.25) outstanding at January 31, 2014, was 433,955,008

Documents Incorporated by Reference

Part III - Portions of the registrant’s Proxy Statement relating to the 2014 Annual Meeting of Shareholders.

Table of Contents

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 initiatives, multi-year restructuring programs and other initiatives and related actions), 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 alliances, acquisitions or divestitures, liquidity, cash flow, uses of cash and financing, hedging and risk management strategies, pension, postretirement and incentive compensation plans, supply chain and the legal status of our Representatives. Such forward-looking statements are based on management's reasonable current assumptions, expectations, plans and forecasts regarding the Company's current or future results and future business and economic conditions more generally. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, levels of activity, performance or achievement of Avon to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ materially from management's expectations. 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 initiatives, 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, marketing and advertising strategies, information technology and related system enhancements and cash management, tax, foreign currency hedging and risk management strategies, and any plans to invest these projected benefits ahead of future growth;
- the possibility of business disruption in connection with our stabilization strategies, cost savings initiatives, multi-year restructuring programs, or other initiatives;
- our ability to reverse declining revenue, margins and net income, particularly in North America, and to achieve profitable growth, particularly in our largest markets such as Brazil and developing and emerging markets such as Mexico and Russia;
- our ability to improve working capital and effectively manage doubtful accounts and inventory and implement initiatives to reduce inventory levels, including the potential impact on cash flows and obsolescence;
- our ability to reverse declines in Active Representatives, to implement our sales Leadership program globally, to generate Representative activity, to increase the number of consumers served per Representative and their engagement online, to enhance branding and the Representative and consumer experience and increase Representative productivity through field activation programs and technology tools and enablers, to invest 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;
- general economic and business conditions in our markets, including social, economic and political uncertainties in the international markets in our portfolio;
- 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 and the devaluation of its currency, foreign exchange restrictions, particularly currency restrictions in Venezuela and Argentina, and the potential effect of such factors on our business, results of operations and financial condition;
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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 ("FCPA") and related United States ("U.S.") and foreign law matters in China and additional countries, as well as any disruption or adverse consequences resulting from such investigations, reviews, related actions or litigation, including our ability to reach settlements with the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") with regard to the ongoing FCPA investigations or, if we are able to reach settlements, the timing or terms of such settlements, or if we are unable to reach settlements, the outcome of any subsequent litigation with the government which could have a material adverse effect;

- 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 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, including the amount of any domestic source loss and the type, jurisdiction and timing of any foreign source income, on our ability to realize foreign tax credits in the U.S.;
- 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 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;
- our ability to attract and retain key personnel;
- other sudden disruption in business operations beyond our control as a result of events such as acts of terrorism or war, natural disasters, pandemic situations, large-scale power outages and similar events;
- key information technology systems, process or site outages and disruptions;
- the risk of product or ingredient shortages resulting from our concentration of sourcing in fewer suppliers;
- the impact of any significant restructuring charges or significant legal or regulatory settlements on our ability to comply with certain covenants in our debt instruments;
- any changes to our credit ratings and the impact of such changes on our financing costs, rates, terms, debt service obligations, access to lending sources and working capital needs;
- the impact of our indebtedness, our access to cash and financing, and our ability to secure financing or financing at attractive rates;
- 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, strategic alliances and strategic alternatives and identify and analyze alliance and acquisition candidates, secure financing on favorable terms and negotiate and consummate alliances and acquisitions, as well as to successfully integrate or manage any acquired business;
- 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 2013 Form 10-K for the year ended December 31, 2013. We undertake no obligation to update any such forward-looking statements.

PART I

ITEM 1. BUSINESS

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

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

General

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

Our business is conducted 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. Financial information relating to our reportable segments is included in "Segment Review" within Management's Discussion and Analysis of Financial Condition and Results of Operations, which we refer to in this report as "MD&A", on pages 22 through 50 of this 2013 Annual Report on Form 10-K, which we refer to in this report as our "2013 Annual Report", and in Note 13, Segment Information, to the Consolidated Financial Statements on pages F-41 through F-43 of our 2013 Annual Report. We refer to each of the Notes to the Consolidated Financial Statements in this 2013 Annual Report as a "Note". Information about geographic areas is included in Note 13, Segment Information on pages F-41 through F-43 of our 2013 Annual Report.

In 2012, we 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, in 2012, we announced a cost savings initiative (the "$400M Cost Savings Initiative"), in an effort to stabilize the business and return Avon to sustainable growth, which is expected to be achieved through restructuring actions as well as other cost-savings strategies that will not result in restructuring charges. The $400M Cost Savings Initiative is designed to reduce our operating expenses as a percentage of total revenue to help us achieve a targeted low double-digit operating margin by 2016. The restructuring actions under the $400M Cost Savings Initiative primarily consist of global headcount reductions and related actions, as well as the restructuring or closure of certain smaller, under-performing markets, including our exit from the South Korea, Vietnam and Republic of Ireland markets. Additional information regarding our initiatives is included in "Overview" within MD&A on pages 22 through 23, and in Note 15, Restructuring Initiatives on pages F-43 through F-47 of our 2013 Annual Report.

In July 2013, we completed the sale of our Silpada business ("Silpada") for $85, plus an earn-out of up to $15 if Silpada achieves specific earnings targets over two years. Unless otherwise indicated, our MD&A and 2013 Annual Report relate solely to the discussion of our continuing operations. See Note 3, Discontinued Operations on pages F-15 through F-17 of our 2013 Annual Report for more information.

Distribution

We presently have sales operations in 62 countries and territories, including the United States ("U.S."), and distribute our products in 43 other countries and territories. Unlike most of our CPG competitors, which sell their products through third-party retail establishments (e.g., drug stores and department stores), we primarily sell our products to the ultimate consumer through the direct-selling channel. In our case, sales of our products are made to the ultimate consumer principally through direct selling by 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 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 her or his own account. A Representative generally receives a refund of the price the Representative paid for a product if the Representative chooses to return it.

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

In some markets, we use decentralized branches, satellite stores and independent retail operations (e.g., beauty boutiques) to serve Representatives and other customers. Representatives come to a branch to place and pick up product orders for their customers. The branches also create visibility for us with consumers and help reinforce our beauty image. In certain markets, we provide opportunities to license our beauty centers and other retail-oriented and direct-to-consumer opportunities to reach new customers in complementary ways to direct selling. In the 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 downline team of recruited, trained and managed Representatives. 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 can be used. In addition, we seek to motivate our Representatives through the use of special incentive programs that reward superior sales performance. Periodic sales meetings with Representatives are conducted by the district sales or zone managers. The meetings are designed to keep Representatives abreast of product line changes, explain sales techniques and provide recognition for sales performance.

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

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

4

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 in a number of distribution methods, including by other direct-selling companies, 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 (color), fragrance, skincare and personal care companies that manufacture and sell broad product lines through various types of retail establishments and other channels, including through the Internet. In addition, we compete against many other companies that manufacture and sell more narrow beauty product lines sold through retail establishments and other channels, including through the Internet.

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

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 61 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, the ability to procure products 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 17 of our 2013 Annual Report for more information.

Manufacturing

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

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

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 pages 17 through 18 of our 2013 Annual Report for additional information regarding the location of our principal manufacturing facilities.

Product Categories

Each of our product categories individually account for 10% or more of consolidated net sales in 2013. The following is the percentage of net sales by product category for the years ended December 31:

	2013		2012		2011	
Beauty	73	%	73	%	74	%
Fashion	17	%	17	%	17	%
Home	10	%	10	%	9	%

Trademarks and Patents

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

Seasonal Nature of Business

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

Research and Product Development Activities

New products are essential to growth in the highly competitive cosmetics industry. Our research and development ("R&D") department’s efforts are important to developing new products, including formulating effective beauty treatments relevant to women’s needs, and redesigning or reformulating existing products. To increase our brand competitiveness, we have sustained our focus on new technology and product innovation to deliver first-to-market products that provide visible consumer benefits.

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

In 2013, our most significant product launches included: Anew Clinical Skinvincible/E-Defense Deep Recovery Cream and Multi-Shield Lotion (SPF 50), Anew Clinical Absolute Even Multi-Tone Skin Corrector, Solutions Cellu-Break Double Action Anti-cellulite Lotion, Clearskin Liquid Extraction Strip, Mega Effects Mascara, Super Extend Infinitize Mascara, Ultra Color Lipstick, Totally Kissable Lipstick, True Color Eyeshadows, Advance Techniques Hair Strengthen and Protect Collection, Skin So Soft Endless Touch Body Moisturizing Collection (Aroma + Therapy in North America), Elite Gentleman (Avon Alpha in Latin America) Fragrance, Only Imagine Fragrance, Ultra Sexy Fragrance and Avon Instinct for Her & for Him Fragrances.

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were $67.2 in 2013, $73.3 in 2012 and $75.7 in 2011. 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, 2013, we employed approximately 36,700 employees. Of these, approximately 4,300 were employed in the U.S. and approximately 32,400 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 2013, available without charge on our investor website (www.avoninvestor.com) as soon

6

as reasonably practicable after they are filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). We also make available on our website the charters of our Board Committees, our Corporate Governance Guidelines and our Code of Conduct. Copies of these SEC reports and other documents are also available, without charge, by sending a letter to Investor Relations, Avon Products, Inc., 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 2013 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 initiatives, multi-year restructuring programs and other initiatives, 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 selling, general and administrative ("SG&A") expenses, and reinvest certain of those savings effectively in consumer-oriented investments and other aspects of our business, while effectively managing our cost base;
- improve our business in North America, including through improving field health, improving our brochure and creating a sustainable 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;
- secure 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 and other investments in the direct-selling channel;
- improve management of our businesses in developing markets, including improving local information technology resources and management of local supply chains;
- increase the number of consumers served per Representative and their engagement online, as well as to reach new consumers through a combination of new brands, new businesses, new channels and pursuit of strategic opportunities such as acquisitions, joint ventures and alliances with other companies;
- comply with certain covenants in our debt instruments as a result of the impact of any significant restructuring charges or significant legal or regulatory settlements, obtain necessary waivers from compliance with, or necessary amendments to, such covenants, and address the impact any non-compliance with such covenants may have on our ability to secure financing; 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 2012, we announced a cost savings initiative (the "$400M Cost Savings Initiative") in an effort to stabilize the business and return Avon to sustainable growth, which is expected to be achieved through restructuring actions as well as other cost-savings strategies that will not result in restructuring charges. The $400M Cost Savings Initiative is designed to reduce our operating expenses as a percentage of total revenue to help us achieve a targeted low double-digit operating margin by 2016. The restructuring actions under the $400M Cost Savings Initiative primarily consist of global headcount reductions and related actions, as well as the restructuring or closure of certain smaller, under-performing markets, including our exit from the South Korea, Vietnam and Republic of Ireland markets.

As a result of the actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $119.1 million before taxes, of which $68.4 million before taxes was recorded in 2013. For the actions approved to-date, we expect our total costs to implement restructuring to be in the range of $140 million to $150 million before taxes. The additional charges not yet incurred associated with the actions approved to-date of approximately $20 million to $30 million before taxes are expected to be recorded primarily in 2014. At this time we are unable to quantify the total costs to implement these restructuring initiatives that will be incurred through the time the initiative is fully implemented. In connection with the restructuring actions approved to-date associated with the $400M Cost Savings Initiative, we expect to realize annualized savings of approximately $165 million to $170 million (both before taxes). See Note 15, Restructuring Initiatives on pages F-43 through F-47 of our 2013 Annual Report for details of the costs of the restructuring initiatives.

We may not realize anticipated savings or benefits from one or more initiatives arising under our $400M Cost Savings Initiative, restructuring programs or other cost-savings 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 $400M Cost Savings Initiative, restructuring programs or other cost-savings initiatives. Failure to realize anticipated savings or benefits from our $400M Cost Savings Initiative, restructuring programs or other cost-savings initiatives could have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

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

There can be no assurance that we will be able to reverse declining revenue, margins and net income, particularly in North America where we experienced continued deteriorating results in 2013, and to achieve profitable growth in the future, particularly in our largest markets, such as Brazil and in developing and emerging markets, such as Mexico and Russia. Our revenue in 2013 was $9,955.0 million, compared with $10,561.4 million in 2012 and $11,099.5 million in 2011. Although our gross margin in 2013 improved to 62.1% compared with 61.2% in 2012, this declined from 63.4% in 2011. Our operating margin in 2013 was 4.3%, compared with 5.0% in 2012 and 9.8% in 2011. In 2013, we had a loss from continuing operations, net of tax of $1.0 million, compared with income from continuing operations, net of tax of $93.3 million and $675.6 million in 2012 and 2011, 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 revenue, margins and net income and to 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 revenue, margins and net income and to achieve profitable growth could have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Our business is conducted 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, create attractive Representative earning opportunities and transform the value chain, restore field health and sales force effectiveness, successfully implement initiatives in the channel, advance the digital opportunity, improve our brochure and 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 we lose market share in the direct-selling channel, our business, prospects, financial condition, liquidity, results of operations and cash flows may be adversely affected. Furthermore, if any government 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 88% 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 their local currency. The primary currencies for which we have significant exposures include the Argentine peso, Brazilian real, British pound, Canadian dollar, Chilean peso, Colombian peso, the euro, Mexican peso, Peruvian new sol, Philippine peso, Polish zloty, Romanian leu, Russian ruble, South Africa rand, Turkish lira, Ukranian hryvna and Venezuelan bolívar. As a result, movements in exchange rates, particularly in emerging markets, may have a significant impact on our business, assets, financial condition, liquidity, results of operations and cash flows. For example, in 2013, our revenues declined 6% compared with 2012 partially due to unfavorable foreign exchange, and declined 1% 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, and the potential for a future devaluation, our revenue, operating profit and net (loss) income could be negatively impacted further. See "Segment Review - Latin America" within MD&A on pages 37 through 39 of our 2013 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.
We are engaged in ongoing settlement discussions with the DOJ and the staff of the SEC related to their investigations of FCPA and related matters. Based on these discussions, including the level of monetary payments being discussed, we recorded an aggregate accrual for these matters of $89 million during the year ended December 31, 2013, and we estimate the total aggregate amount of any potential settlements with the government could exceed this accrual by up to approximately $43 million. Although we are working to resolve these investigations through settlement, there can be no assurance that our efforts to reach settlements will be successful or, if they are, what the timing or terms of any such settlements would be.

We have substantially completed our internal investigation and compliance reviews regarding the Foreign Corrupt Practices Act ("FCPA") and related U.S. and foreign laws in China and additional countries. We have conducted 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 have 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. In connection with the internal investigation and compliance reviews, certain personnel actions, including termination of employment of certain senior members of management, have been taken, and additional personnel actions may be taken in the future. In connection with the internal investigation and compliance reviews, we continue to enhance our ethics and compliance program, including our policies and procedures, FCPA compliance-related training, FCPA third-party due diligence program and other compliance-related resources.

As previously reported in October 2008, we voluntarily contacted the United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") to advise both agencies of our internal investigation. We have cooperated and continue to cooperate with investigations of these matters by the SEC and the DOJ. We have, among other things, signed tolling agreements, responded to inquiries, translated and produced documents, assisted with interviews, and provided information on our internal investigation and compliance reviews, personnel actions taken and steps taken to enhance our ethics and compliance program. We also have made factual presentations which are now substantially complete.

As previously reported in our Quarterly Report on Form 10-Q for the period ending June 30, 2013, in June 2013 we made an offer of settlement to the DOJ and the SEC that, among other terms, would have included payment of monetary penalties of approximately $12 million. Although our offer was rejected by the DOJ and the staff of the SEC, we accrued the amount of our offer in the second quarter of 2013.

Our settlement negotiations with the DOJ and the staff of the SEC have continued. In the fourth quarter of 2013, based on the status of our current negotiations, including the levels of monetary payments being discussed, we recorded an additional accrual of $77 million, resulting in an aggregate accrual for these matters of $89 million at December 31, 2013. Based on the status of our current negotiations with the DOJ and the staff of the SEC, we estimate the total aggregate amount of any potential settlements with the government could exceed this accrual by up to approximately $43 million. While it is reasonably possible that the aggregate monetary payments in any settlements will exceed $89 million, there is no amount within the estimated potential settlement range that we consider to be a better estimate than any other amount; therefore, we have accrued the estimated minimum amount of probable loss in connection with the potential settlements of these matters or $89 million ($77 million during the fourth quarter of 2013 and $12 million during the second quarter of 2013).

Although we are working to resolve the government investigations through settlement, there can be no assurance that our efforts to reach settlements with the government will be successful or, if they are, what the timing or terms of any such settlements would be. We expect any such settlements will include civil and/or criminal fines and penalties, and may also include non-monetary remedies, such as oversight requirements and additional remediation and compliance requirements. We may be required to incur significant future costs to comply with the non-monetary terms of any settlements with the DOJ and/or the SEC. If we do not reach settlements with the DOJ and/or the SEC, we cannot predict the outcome of any subsequent litigation with the government but such litigation could have a material adverse effect.

Until these matters are resolved, either through settlement or litigation, we expect to continue to incur costs, primarily professional fees and expenses, which may be significant, in connection with the government investigations. Furthermore, under certain circumstances, we may also be required to advance and/or reimburse significant professional fees and expenses to certain current and former Company employees in connection with these matters.

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 current global macro-economic instability, could adversely affect our business, our access to liquidity and capital, and our credit ratings. Recent global economic events over the past few years, including unemployment levels, the tightening of credit markets and failures of financial institutions and other entities, have resulted in challenges to our business and a heightened concern regarding further deterioration globally. In addition, as mentioned above, our business is conducted primarily in the direct-selling channel. We could experience declines in revenues, profitability and cash flow due to reduced orders, payment delays, supply chain disruptions or other factors caused by such economic, operational or business challenges. Any or all of these factors could potentially have a material adverse effect on our liquidity and capital resources and credit ratings, including our ability to access short-term financing, raise additional capital and maintain credit lines and offshore cash balances. Avon's long-term credit ratings are Baa3 (Stable Outlook) with Moody's and BBB- (Negative Outlook) with S&P, which are on the low end of investment grade, and BB (Negative Outlook) with Fitch, which is below investment grade. Additional rating agency reviews could result in a further change in outlook or downgrade, which could limit our access to new financing, particularly short-term financing, on favorable terms; reduce our flexibility with respect to working capital needs; and adversely affect the market price of some or all of our outstanding debt securities. See Note 5, Debt and Other Financing on pages F-18 through F-21 of our 2013 Annual Report for details about the terms of our existing debt and other financing arrangements.

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 2014 because customers may continue to have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, reduced access to credit and weakness in housing, among other things.

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

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, competition, manufacturing, license and permit requirements, import and export license requirements, privacy and data protection laws, anti-corruption laws, environmental laws, records and information management, e-invoicing, tariffs and taxes, laws relating to the sourcing of "conflict minerals", health care reform requirements such as the Patient Protection and Affordable Healthcare Act, and regulation of our brochures, product claims or ingredients, which may require us to adjust our operations and systems in certain markets where we do business. For example, we are subject to government review of our brochures in Venezuela. Another example is privacy and data protection laws which are subject to frequently changing rules and regulations, and which may vary among the various jurisdictions where we operate. 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.

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 in a number of distribution methods, including by other direct-selling companies, 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 one of the largest and oldest beauty direct sellers globally, Avon's business model and strategies are often highly sought after, particularly by smaller and more nimble competitors who seek to capitalize on our investment and experience. As a result, we are subject to significant competition for the recruitment of Representatives from other direct-selling or network marketing organizations. It is therefore continually necessary to innovate and enhance our direct-selling and service model as well as to recruit and retain new Representatives. If we are unable to do so, our business will be adversely affected.

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

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

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

Our ability to improve our financial performance depends on our ability to anticipate, gauge and react in a timely and effective manner to changes in consumer spending patterns and preferences for beauty and related products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products, and refine our approach as to how and where we market and sell our products. Consumer spending patterns and preferences cannot be predicted with certainty and can change rapidly. 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.

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.

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 global human resources information technology systems 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 beyond our control. There may be other challenges and risks as we upgrade, modernize, and standardize our information technology systems on a worldwide basis. For example, Service Model Transformation ("SMT") was a global program initiated in 2009 to improve the Company's order management system and enable changes to the way Representatives interact with the Company. SMT was piloted in Canada during 2013, and caused significant business disruption in that market. We decided to halt further roll-out of SMT in the fourth quarter of 2013. 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 and our efforts to protect the security of personal information about our employees and independent sales Representatives, 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', Representatives' 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 & 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 & Home products or the production of our brochures. This risk may be exacerbated by our globally-coordinated purchasing strategy, which leverages volumes. Regulatory action, such as restrictions on importation, may also disrupt or interrupt our supply chain. Furthermore, increases in the costs of raw materials or other commodities may adversely affect our profit margins if we are unable to pass along any higher costs in the form of price increases or otherwise achieve cost efficiencies in manufacturing and distribution. In addition, if our suppliers fail to use ethical business practices and comply with applicable laws and regulations, such as any child labor laws, our reputation could be harmed due to negative publicity.

A downgrade in our credit ratings may adversely affect our access to liquidity, and our working capital.

Nationally recognized credit rating organizations have issued credit ratings relating to our long-term debt. Our long-term credit ratings are Baa3 (Stable Outlook) with Moody's and BBB- (Negative Outlook) with S&P, which are on the low end of investment grade, and BB (Negative 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). In November 2013, Fitch lowered their long-term credit rating from BB+ (Stable Outlook) to BB (Negative Outlook) and Moody's placed Avon's long-term credit rating of Baa2 (Stable Outlook) on review for possible downgrade. In

February 2014, Moody's lowered their long-term credit rating from Baa2 (Stable Outlook) to Baa3 (Stable Outlook). Additional rating agency reviews could result in a further change in outlook or downgrade. A further change in outlook or downgrade of our credit ratings could limit our access to new financing, particularly short-term financing, on favorable terms; reduce our flexibility with respect to working capital needs; and adversely affect the market price of some or all of our outstanding debt securities. For example, we have approximately $159.4 million outstanding in short-term borrowings of our international subsidiaries. A further change in outlook or downgrade of our credit ratings may limit our access to such short-term financing in the future on favorable terms, if at all. See Note 5, Debt and Other Financing, on pages F-18 through F-21 of our 2013 Annual Report for details about the terms of our existing debt and other financing arrangements.

Our indebtedness could adversely affect us by reducing our flexibility to respond to changing business and economic conditions.

As of December 31, 2013, we had approximately $2.7 billion of indebtedness outstanding. We may also incur additional long-term indebtedness and working capital lines of credit to meet future financing needs, subject to certain restrictions under our indebtedness, including our revolving credit facility and our 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 other cash requirements, in particular during periods in which credit markets are weak;
- a downgrade in our credit ratings, as discussed above;
- a limitation on our flexibility to plan for, or react to, competitive challenges in our business and the beauty industry;
- the possibility that we are put at a competitive disadvantage relative to competitors 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 or ability to execute restructuring as necessary;
- limitations on our ability to invest in recruiting, retaining and servicing our Representatives; and
- compliance with certain covenants in our debt instruments as a result of the impact of any significant restructuring charges or significant legal or regulatory settlements; difficulty obtaining necessary waivers from compliance with, or necessary amendments to, such covenants; and difficulty addressing the impact any non-compliance with such covenants 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.

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, including equity and debt securities and derivative instruments, 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 and Postretirement Expense" within "Critical Accounting Estimates" within MD&A on pages 25 through 26 and Note 12, Employee Benefit Plans on pages F-33 through F-41 of our 2013 Annual Report, for additional information regarding the impact of these factors on our pension plan obligations.

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

We review strategic alliances and 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. Strategic alliances may entail risks such as reputational risk and inability to successfully implement such an alliance. In addition, the financing for

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.

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 alliance and acquisition candidates or consummate alliances and 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, particularly if we are unable to successfully increase our resiliency to potential operational disruptions or enhance our disaster recovery planning. The loss of, or damage to, any of our facilities or centers, or those of our third-party manufacturers, could have a material adverse effect on our business, prospects, financial condition, liquidity, results of operations and cash flows.
Our success depends, in part, on the quality, safety and efficacy of our products.
Our success depends, in part, on the quality, safety and efficacy of our products. If our products are found to be, or 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 products or advertising. In general, litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly affect financial results and the conduct of our business. We are currently vigorously contesting certain of these litigation claims. However, it is not possible to predict the final resolution of the litigation to which we currently are or may in the future become party, 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 government officials in such locations often exercise broad discretion in deciding how to interpret and apply applicable regulations. From time to time, we may receive formal and informal inquiries from various government regulatory authorities about our business and compliance with local laws and regulations. In addition, from time to time, we may conduct 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, where local law mandates, the activities of our Representatives, including our licenses or permits, importing or exporting, or product testing or approvals are not, or were not, in compliance with existing laws or regulations could result in the imposition of substantial fines, civil and criminal penalties, interruptions of business, 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 and give rise to third-party litigation or action.

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

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

- variations in operating results;
- developments in connection with 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, proxy contests or other shareholder activism;
- 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 Zanesville, OH and Pasadena, CA. Our principal research and development facility is located in Suffern, NY. We also lease an office space in New York City for our executive and administrative offices, and we 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 has been vacated and we are marketing for a potential sublease.

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
- four manufacturing facilities, six 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. The Newark facility is currently listed for sale and the Glenview site has been sold.

In July 2009, we announced plans to realign manufacturing operations in North America and Europe. This initiative included the sale of the manufacturing facility (and leaseback of the returns and call center) in Springdale, OH in 2013, and the sale and short-term leaseback of the manufacturing facility in Germany in 2011. These transactions are now closed.

In January 2013, we announced plans to close the Atlanta and Pasadena distribution centers. The Atlanta property was sold in 2013, and the closure of the Pasadena property has been delayed.

Of all the properties listed above, 33 are owned and the remaining 27 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 2013 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, 2013, there were approximately 14,743 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 2013 and 2012 are listed below. For information regarding future dividends on our common stock, see "Liquidity and Capital Resources" within MD&A on pages 45 through 50.

	2013			2012		
Quarter	High	Low	Dividends Declared and Paid	High	Low	Dividends Declared and Paid
First	$21.10	$15.03	$.06	$19.63	$17.41	$.23
Second	24.20	20.26	.06	23.52	15.10	.23
Third	23.32	19.75	.06	16.65	14.45	.23
Fourth	22.48	16.81	.06	17.39	13.80	.06

Stock Performance Graph

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN(1)

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

2013 Peer Group (2)

The Stock Performance Graph above assumes a $100 investment on December 31, 2008, in Avon’s common stock, the S&P 500 Index and the Peer Group. The dollar amounts indicated in the graph above and in the chart below are as of December 31 or the last trading day in the year indicated.

	2008	2009	2010	2011	2012	2013
Avon	100.0	135.2	128.5	80.3	68.9	83.6
S&P 500	100.0	126.5	145.5	148.6	172.4	228.2
Peer Group(2)	100.0	107.8	116.9	130.2	141.6	177.5

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

(2) The Peer Group includes The Clorox Company, Colgate–Palmolive Company, 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 quarterly period ended December 31, 2013:

	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
10/1/13 – 10/31/13	8,064	(1)	$21.04	*	*
11/1/13 – 11/30/13	2,095	(2)	20.08	*	*
12/1/13 – 12/31/13	34,119	(1)	17.34	*	*
Total	44,278		$18.14	*	*

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

(1) These 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.

(2) Includes 1,219 shares purchased in private transactions with a broker in connection with stock based obligations under our Deferred Compensation Plan and 876 shares that 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

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

We derived the following selected financial data from our audited Consolidated Financial Statements. The following data should be read in conjunction with our MD&A and our Consolidated Financial Statements and related Notes contained in our 2013 Annual Report.

	2013	2012	2011	2010	2009
Income Statement Data					
Total revenue	$9,955.0	$10,561.4	$11,099.5	$10,754.2	$10,205.2
Operating profit(1)	427.2	525.0	1,092.0	1,039.0	1,005.6
(Loss) income from continuing operations, net of tax(1)	(1.0)	93.3	675.6	566.0	619.2
Diluted (loss) earnings per share from continuing operations	$(.01)	$.20	$1.54	$1.29	$1.43
Cash dividends per share	$.24	$.75	$.92	$.88	$.84
Balance Sheet Data					
Total assets	$6,492.3	$7,382.5	$7,735.0	$7,873.7	$6,823.4
Debt maturing within one year	188.0	572.0	849.3	727.6	137.8
Long-term debt	2,532.7	2,623.8	2,459.1	2,408.6	2,307.2
Total debt	2,720.7	3,195.8	3,308.4	3,136.2	2,445.0
Total shareholders’ equity	1,127.5	1,233.3	1,585.2	1,672.6	1,312.6

(1) A number of items, shown below, impact the comparability of our operating profit and (loss) income from continuing operations, net of tax. See Note 15, Restructuring Initiatives on pages F-43 through F-47 of our 2013 Annual Report, "Results Of Continuing Operations - Consolidated" within MD&A on pages 30 through 35, "Segment Review - Latin America" within MD&A on pages 37 through 39, Note 16, Contingencies on pages F-47 through F-49 of our 2013 Annual Report, Note 17, Goodwill and Intangibles on pages F-49 through F-51 of our 2013 Annual Report, Note 1, Description of the Business and Summary of Significant Accounting Policies on

pages F-9 through F-15 of our 2013 Annual Report, Note 5, Debt and Other Financing on pages F-18 through F-21 of our 2013 Annual Report and Note 7, Income Taxes on pages F-22 through F-25 of our 2013 Annual Report for more information on these items.

	Impact on Operating Profit				
	2013	2012	2011	2010	2009
Costs to implement restructuring initiatives related to our cost savings initiative, multi-year restructuring programs, and other restructuring initiatives	$65.9	$124.7	$40.0	$80.7	$171.0
Venezuelan special items(2)	49.6	—	—	79.5	—
FCPA accrual(3)	89.0	—	—	—	—
Asset impairment and other charges(4)	159.3	44.0	—	—	—

In addition to the items impacting operating profit identified above, loss from continuing operations, net of tax during 2013 was impacted by a loss on extinguishment of debt of $73.0 before tax ($46.2 after tax) in the first quarter of 2013 caused by the make-whole premium and the write-off of debt issuance costs associated with the prepayment of our Private Notes (as defined in "Capital Resources" within MD&A on pages 48 through 50), as well as the write-off of debt issuance costs associated with the early repayment of $380 of the outstanding principal amount of the term loan agreement (as defined in "Capital Resources" within MD&A on pages 48 through 50). Loss from continuing operations, net of tax during 2013 was also impacted by a loss on extinguishment of debt of $13.0 before tax ($8.2 after tax) in the second quarter of 2013 caused by the make-whole premium and the write-off of debt issuance costs and discounts, partially offset by a deferred gain associated with the January 2013 interest-rate swap agreement termination, associated with the prepayment of the 2014 Notes (as defined in "Capital Resources" within MD&A on pages 48 through 50). In addition, loss from continuing operations, net of tax during 2013 was impacted by valuation allowances for deferred tax assets of $41.8 related to Venezuela and $9.2 related to China. See Note 5, Debt and Other Financing on pages F-18 through F-21 of our 2013 Annual Report, "Results Of Continuing Operations - Consolidated" within MD&A on pages 30 through 35, and Note 7, Income Taxes on pages F-22 through F-25 of our 2013 Annual Report for more information.

Income from continuing operations, net of tax during 2012 was impacted by a benefit recorded to other expense, net of $23.8 before tax ($15.7 after tax) due to the release of a provision in the fourth quarter associated with the excess cost of acquiring U.S. dollars in Venezuela at the regulated market rate as compared with the official exchange rate. This provision was released as the Company capitalized the associated intercompany liabilities. 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 "Results Of Continuing Operations - Consolidated" within MD&A on pages 30 through 35, and Note 7, Income Taxes on pages F-22 through F-25 of our 2013 Annual Report for more information.

(2) During 2013 and 2010, our operating margin was negatively impacted by the devaluation of the Venezuelan currency, and in 2010 this was coupled with a required change to account for operations in Venezuela on a highly inflationary basis. In 2013, as a result of using the U.S. historic dollar cost basis of non-monetary assets, such as inventory, acquired prior to the devaluation, 2013 operating profit was negatively impacted by $49.6, due to the difference between the historical cost at the previous official exchange rate of 4.30 and the official exchange rate of 6.30. In addition to the negative impact to operating profit, as a result of the devaluation of Venezuelan currency, during 2013, we recorded a one-time, after-tax loss of $50.7 ($34.1 in other expense, net and $16.6 in income taxes), primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. In 2010, as a result of using the historic dollar cost basis of non-monetary 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 in "Segment Review - Latin America" within MD&A on pages 37 through 39 for more information.

(3) During 2013, our operating margin was negatively impacted by the $89 accrual for the potential settlements related to the FCPA investigations. See Note 16, Contingencies on pages F-47 through F-49 of our 2013 Annual Report

for more information.

(4) During 2013 and 2012, our operating margin was negatively impacted by non-cash impairment charges associated with goodwill and intangible assets of our China business. In addition, during 2013, our operating margin was negatively impacted by the non-cash impairment charge associated with capitalized software related to our Service Model Transformation ("SMT") project in the fourth quarter of 2013. See Note 17, Goodwill and Intangible Assets on pages F-49 through F-51 of our 2013 Annual Report for more information on China and Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2013 Annual Report for more information on SMT.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")
(U.S. dollars in millions, except per share and share data)
You should read the following discussion of the results of operations and financial condition of Avon Products, Inc. and its majority and wholly owned subsidiaries in conjunction with the information contained in the Consolidated Financial Statements and related Notes contained in our 2013 Annual Report. When used in this discussion, the terms "Avon," "Company," "we," "our" or "us" mean, unless the context otherwise indicates, Avon Products, Inc. and its majority and wholly owned subsidiaries.
See "Non-GAAP Financial Measures" on pages 24 through 25 of this MD&A 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 62 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 and Fashion & Home. Beauty consists of color, fragrance, skincare and personal care. Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, gift and decorative products, housewares, entertainment and leisure products, children’s products and nutritional products. Sales are made to the ultimate consumer principally through direct selling by 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 2013, approximately 88% of our consolidated revenue was derived from operations outside the U.S.
In the first quarter of 2013, we renamed our "Growth in Active Representatives" performance metric to be referred to as "Change in Active Representatives." In addition, we revised the definition of this metric to exclude China. As previously disclosed, our business in China is predominantly retail, and as a result, we do not believe including China within the Change in Active Representatives calculation provides for a relevant indicator of underlying business trends. There were no changes to the underlying calculation other than the exclusion of China.
Total revenue in 2013 compared to 2012 declined 6% compared to the prior-year period, partially due to unfavorable foreign exchange. Constant $ revenue declined 1%, as a 2% decrease in Active Representatives was partially offset by a 1% increase in average order. Sales from the Beauty category decreased 7%, or 2% on a Constant $ basis. Sales from the Fashion category decreased 7%, or 4% on a Constant $ basis. Sales from the Home category increased 3%, or 9% on a Constant $ basis.
Our Constant $ revenue was impacted by net declines in North America and Asia Pacific; however, these declines were partially offset by improvements in Latin America and Europe, Middle East & Africa. Growth in Latin America was driven by Brazil, particularly in Fashion & Home, and Venezuela primarily due to inflationary pricing, which was partially offset by executional challenges in Mexico in the second half of 2013. In Europe, Middle East & Africa, growth was driven by South Africa, Russia and Turkey, which was partially offset by a revenue decline in the United Kingdom. North America experienced deteriorating financial results, primarily as a result of the decline in Active Representatives. Asia Pacific's revenue decline was primarily due to continuing weak performance of our China operations and operational challenges in the Philippines.
See “Segment Review” of this Management’s Discussion and Analysis of Financial Condition and Results of Operations, which we refer to in this report as "MD&A," for additional information related to changes in revenue by category and segment.
We are focused on driving profitable growth by improving access to our brands and products. In order to achieve this growth, we intend to strengthen and leverage our direct sales core, maximize our geographic portfolio and expand our brands and channels. Our revenue recovery is taking longer than expected, and it will take some time to reverse the trends that have caused the recent deceleration. This is partially attributed to not executing consistently on two important processes, commercial marketing (which includes pricing, merchandising and brochure execution) and field

management (which includes Representative recruitment, retention and activity), across some of our key markets in 2013. In addition, we expect pressure on operating margin in the first half of 2014, partially as a result of gross margin in Europe, Middle East & Africa, including the negative impact of foreign exchange.
In 2012, we announced a cost savings initiative (the "$400M Cost Savings Initiative"), in an effort to stabilize the business and return Avon to sustainable growth, which is expected to be achieved through restructuring actions as well as other cost-savings strategies that will not result in restructuring charges. The $400M Cost Savings Initiative is designed to reduce our operating

expenses as a percentage of total revenue to help us achieve a targeted low double-digit operating margin by 2016. The restructuring actions under the $400M Cost Savings Initiative primarily consist of global headcount reductions and related actions, as well as the restructuring or closure of certain smaller, under-performing markets, including our exit from the South Korea, Vietnam and Republic of Ireland markets.

As a result of the actions approved to-date, we have recorded total costs to implement these restructuring initiatives of $119.1 before taxes, of which $68.4 before taxes was recorded in 2013. For the actions approved to-date, we expect our total costs to implement restructuring to be in the range of $140 to $150 before taxes. The additional charges not yet incurred associated with the actions approved to-date of approximately $20 to $30 before taxes are expected to be recorded primarily in 2014. At this time we are unable to quantify the total costs to implement these restructuring initiatives that will be incurred through the time the initiative is fully implemented. In connection with the restructuring actions approved to-date associated with the $400M Cost Savings Initiative, we expect to realize annualized savings of approximately $165 to $170 (both before taxes). See Note 15, Restructuring Initiatives on pages F-43 through F-47 of our 2013 Annual Report for more information.

In December 2013, we decided to halt the further roll-out of our Service Model Transformation ("SMT") project beyond the pilot market of Canada, in light of the potential risk of further business disruption. As a result, a non-cash impairment charge for the capitalized software associated with SMT of $117.2 was recorded. This impairment charge was recorded as a component of our global expenses, within selling, general and administrative expenses in the Consolidated Statements of Income. See Note 1, Description of the Business and Summary of Significant Accounting Policies on pages F-9 through F-15 of our 2013 Annual Report for more information regarding SMT.

As a result of the 32% devaluation of Venezuelan currency in February 2013, our 2013 revenue and operating margin was negatively impacted. As a result of using the U.S. historic dollar cost basis of non-monetary assets, such as inventory, acquired prior to the devaluation, 2013 operating profit and net loss were negatively impacted by $50, due to the difference between the historical cost at the previous official exchange rate of 4.30 and the official exchange rate of 6.30. In addition to the negative impact to operating margin, as a result of the devaluation of Venezuelan currency, during the first quarter of 2013, we recorded a one-time, after-tax loss of $51 ($34 in other expense, net and $17 in income taxes), primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. See further discussion of Venezuela in "Segment Review - Latin America" in this MD&A.

In July 2013, we completed the sale of our Silpada business ("Silpada") for $85, plus an earn-out of up to $15 if Silpada achieves specific earnings targets over two years. Silpada has been classified within discontinued operations for all periods presented. Silpada was previously reported within our North America segment. In the second quarter of 2013, the Company recorded a pre-tax charge of $79 ($50 net of tax), reflecting the expected loss on sale. See Note 3, Discontinued Operations, on pages F-15 through F-17 of our 2013 Annual Report for more information.

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