AVON PRODUCTS INC
Form 10-K
February 20, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2008

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.)**

1345 Avenue of the Americas, New York, N.Y. 10105-0196

(Address of principal executive offices)

(212) 282-5000

(Registrant s telephone number, including area code)

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

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

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

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

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

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. ¨

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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	x	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 x

The aggregate market value of voting and non-voting Common Stock (par value $.25) held by non-affiliates at June 30, 2008 (the last business day of our most recently completed second quarter) was $15.3 billion.

The number of shares of Common Stock (par value $.25) outstanding at January 31, 2009, was 426,348,493.

Documents Incorporated by Reference

Parts II and III Portions of the registrant s Proxy Statement relating to the 2009 Annual Meeting of Shareholders.

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CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR STATEMENT UNDER THE

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements in this report that are not historical facts or information are 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, planne expectation and similar expressions, or the negative of those expressions, may identify forward-looking statements. Such forward-looking statements are based on management s reasonable current assumptions and expectations. 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 implement the key initiatives of and realize the operating margins and projected benefits (in the amounts and time schedules we expect) from our global business strategy, including our multi-year restructuring initiatives, product mix and pricing strategies, enterprise resource planning, customer service initiatives, product line simplification program, sales and operation planning process, strategic sourcing initiative, outsourcing strategies, zero-overhead-growth philosophy, cash flow from operations and cash management, tax, foreign currency hedging and risk management strategies;

our ability to realize the anticipated benefits (including any projections concerning future revenue and operating margin increases) from our multi-year restructuring initiatives or other strategic initiatives on the time schedules or in the amounts that we expect, and our plans to invest these anticipated benefits ahead of future growth;

the possibility of business disruption in connection with our multi-year restructuring initiatives or other strategic initiatives;

our ability to realize sustainable growth from our investments in our brand and the direct-selling channel;

a general economic downturn, a recession globally or in one or more of our geographic regions, such as North America, or sudden disruption in business conditions, and the ability of our broad-based geographic portfolio to withstand such economic downturn, recession or conditions;

the inventory obsolescence and other costs associated with our product line simplification program;

our ability to effectively implement initiatives to reduce inventory levels in the time period and in the amounts we expect;

our ability to achieve growth objectives or maintain rates of growth, particularly in our largest markets and developing and emerging markets;

our ability to successfully identify new business opportunities and identify and analyze acquisition candidates, and our ability to negotiate and consummate acquisitions as well as to successfully integrate or manage any acquired business;

the effect of political, legal and regulatory risks, as well as foreign exchange or other restrictions, imposed on us, our operations or our Representatives by governmental entities;

our ability to successfully transition our business in China in connection with the resumption of direct selling in that market in 2006, our ability to operate using the direct-selling model permitted in that market and our ability to retain and increase the number of Active Representatives there over a sustained period of time;

the effect of economic factors, including inflation and fluctuations in interest rates and currency exchange rates, and the potential effect of such fluctuations on our business, results of operations and financial condition;

general economic and business conditions in our markets, including social, economic and political uncertainties in the international markets in our portfolio;

any consequences of the internal investigation of our China operations;

information technology systems outages, disruption in our supply chain or manufacturing and distribution operations, or 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 and large scale power outages;

the risk of product or ingredient shortages resulting from our concentration of sourcing in fewer suppliers;

the quality, safety and efficacy of our products;

the success of our research and development activities;

our ability to attract and retain key personnel and executives;

competitive uncertainties in our markets, including competition from companies in the cosmetics, fragrances, skin care and toiletries industry, some of which are larger than we are and have greater resources;

our ability to implement our Sales Leadership program globally, to generate Representative activity, to enhance the Representative experience and increase Representative productivity through investments in the direct-selling channel, and to compete with other direct-selling organizations to recruit, retain and service Representatives;

the impact of the seasonal nature of our business, adverse effect of rising energy, commodity and raw material prices, changes in market trends, purchasing habits of our consumers and changes in consumer preferences, particularly given the global nature of our business and the conduct of our business in primarily one channel;

our ability to protect our intellectual property rights;

the risk of an adverse outcome in our material pending and future litigations;

our ratings and our access to financing and ability to secure financing at attractive rates; and

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.

We undertake no obligation to update any such forward-looking statements.

PART I

Dollars in Millions

ITEM 1. BUSINESS

General

We commenced operations in 1886 and were incorporated in the State of New York on January 27, 1916. We are a global manufacturer and marketer of beauty and related products. 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 beauty-related products. Beginning in the fourth quarter of 2008, we changed our product categories from Beauty, Beauty Plus and Beyond Beauty to Beauty, Fashion and Home. Beauty consists of cosmetics, fragrances, skin care and toiletries (CFT). Fashion consists of fashion jewelry, watches, apparel, footwear and accessories. Home consists of gift and decorative products, housewares, entertainment and leisure, children s and nutritional products. Sales from Health and Wellness products and *mark.*, a global cosmetics brand that focuses on the market for young women, are included among these three categories based on product type.

Unlike most of our CPG competitors, which sell their products through third-party retail establishments (e.g., drug stores, department stores), our business is conducted worldwide primarily in one channel, direct selling. Our reportable segments are based on geographic operations in six regions: Latin America; North America; Central & Eastern Europe; Western Europe, Middle East & Africa; Asia Pacific; and China. We also centrally manage Brand Marketing, Supply Chain and Sales organizations. Financial information relating to our reportable segments is included in the Segment Review section within Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) on pages 20 through 39 of this 2008 Annual Report on Form 10-K, and in Note 12, Segment Information, on pages F-30 through F-33 of this 2008 Annual Report on Form 10-K. Information about geographic areas is included in Note 12, Segment Information, on pages F-30 through F-33 of this 2008 Annual Report on Form 10-K.

Strategic Initiatives

In November 2005, we launched a comprehensive, multi-year turnaround plan to restore sustainable growth. Our four-point turnaround plan includes:

Committing to brand competitiveness by focusing research and development resources on product innovation and by increasing our advertising;

- Winning with commercial edge by more effectively utilizing pricing and promotion, expanding our Sales Leadership program and improving the attractiveness of our Representative earnings opportunity as needed;

- Elevating organizational effectiveness by redesigning our structure to eliminate layers of management in order to take full advantage of our global scale and size; and

- Transforming the cost structure so that our costs are aligned to our revenue growth and remain so.

Over the past three years we have been implementing our turnaround plan through various strategic initiatives, including our multi-year restructuring plan, product line simplification program (PLS), strategic sourcing initiative (SSI) and investments in advertising and our Representatives. Additional information regarding our strategic initiatives is included in the Overview and Strategic Initiatives sections within MD&A on pages 20 through 23 and additional information regarding our inventory is included in the Provisions for Inventory Obsolescence and Liquidity and Capital Resources sections within MD&A on pages 25 and 36 through 39 of this 2008 Annual Report on Form 10-K.

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Distribution

We presently have sales operations in 66 countries and territories, including the U.S., and distribute our products in 44 more. Unlike most of our competitors, which sell their products through third party retail establishments (i.e. drug stores, department stores), Avon primarily sells its products to the ultimate consumer through the direct-selling channel. In Avon s case, sales of our products are made to the ultimate consumer principally through the direct selling by 5.8 million active independent Avon Representatives, approximately 457,000 of whom are in the U.S. Representatives are independent contractors, not employees of Avon. Representatives earn a profit by purchasing products directly from us at a discount from a published brochure price and selling them to their customers, the ultimate consumer of Avon s products. 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 the Avon 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 Avon 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 mail, the Internet, telephone, or fax. This order is processed and the products are assembled at a distribution center and delivered to the Representative usually through a combination of local and national delivery companies. Generally, the Representative then delivers the merchandise and collects payment from the customer for his or her own account. A Representative generally receives a refund of the full price the Representative paid for a product if the Representative chooses to return it.

We employ certain electronic order 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 Avon. In addition, in the U.S., Representatives can further build their own Avon 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, as well as up-to-the-minute news about Avon.

In the U.S. and selected other markets, we also market our products through consumer websites (*www.avon.com* in the U.S.). These sites provide a purchasing opportunity to consumers who choose not to purchase through a Representative.

In some markets, we use decentralized branches, satellite stores and independent retail operations to serve Representatives and other customers. Representatives come to a branch to place and pick up product orders for their customers. The branches also create visibility for Avon with consumers and help reinforce our beauty image. In certain markets, we provide opportunities to license Avon beauty centers and other retail-oriented opportunities to reach new customers in complementary ways to direct selling.

The recruiting or appointing and training of Representatives are the primary responsibilities of District Sales or Zone Managers and Sales Leadership Representatives. In most markets, District Sales or Zone Managers are employees of Avon and are paid a salary and an incentive based primarily on the achievement of a sales objective by Representatives in their district, while in other markets, those responsibilities are handled by independent contractors. Personal contacts, including recommendations from current Representatives (including the Sales Leadership program), and local market advertising constitute the primary means of obtaining new Representatives. The Sales Leadership program is a multi-level compensation program which gives Representatives, known as Sales Leadership Representatives, the opportunity to earn bonuses based on the net sales made by Representatives they have recruited and trained in addition to discounts earned on their own sales of Avon products. This program limits the number of levels on which commissions can be earned to three and continues to focus on individual product sales by Sales Leadership Representatives. The primary responsibilities of Sales Leadership Representatives are the prospecting, appointing, training and development of their down-line Representatives while maintaining a certain level of their own sales. Development of the Sales Leadership program throughout the world is one part of our long-term growth strategy. As described above, the Representative is the store through which we primarily sell our products and given the high rate of turnover among Representatives (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. As part of our multi-year turnaround plan, we have initiatives underway to standardize global processes for prospecting, appointing, training and developing Representatives, as well as training and developing our direct-selling executives.

One of our key strategies to recruit and retain Representatives is to invest in the direct-selling channel to improve the reward and effort equation for our Representatives (Representative Value Proposition or RVP). We have

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allocated significant incremental investment to grow our Representative base, to increase the frequency with which the Representatives order and the size of the order and have undertaken extensive research to determine the pay back on specific advertising and field tools and actions and the optimal balance of these tools and actions in key markets. In addition to a research and marketing intelligence staff, we have employed both internal and external statisticians to develop proprietary fact-based regression analyses using Avon s vast product and sales history.

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 additional 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 and print advertising are used. In addition, we seek to motivate our Representatives through the use of special incentive programs that reward superior sales performance. Avon has made significant investments to understand the financial return of such field incentives. Periodic sales meetings with Representatives are conducted by the District Sales Managers or Zone Managers. The meetings are designed to keep Representatives abreast of product line changes, explain sales techniques and provide recognition for sales performance.

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

Investment in advertising is another key strategy. We significantly increased spending on advertising over the past three years, including advertising to recruit Representatives. We expect this to be an ongoing investment to strengthen our beauty image worldwide and drive sales positively.

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

Competitive Conditions

We face competition from various products and product lines both domestically and internationally. The beauty and beauty-related products industry is highly competitive and the number of competitors and degree of competition that we face in this industry varies widely from country to country. Worldwide, we compete against products sold to consumers by other direct-selling and direct-sales companies and through the Internet, and against products sold through the mass market and prestige retail channels.

Specifically, due to the nature of the direct-selling channel, Avon competes on a regional, often country-by-country basis, with its 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 and fragrances companies that manufacture and sell broad product lines through various types of retail establishments. In addition, we compete against many other companies that manufacture and sell more narrow CFT product lines sold through retail establishments and other channels.

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

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Our principal competition in the fashion jewelry industry consists of a few large companies and many small companies that sell fashion jewelry through retail establishments.

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 establishing and maintaining our competitive position.

International Operations

Our international operations are conducted primarily through subsidiaries in 65 countries and territories outside of the U.S. In addition to these countries and territories, our products are distributed in 44 other countries and territories through distributorships.

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

See the sections Risk Factors - Our ability to conduct business, particularly in international markets, may be affected by political, legal and regulatory risks and Risk Factors - We are subject to other risks related to our international operations, including exposure to foreign currency fluctuations in Item 1A on pages 11 and 13 of this 2008 Annual Report on Form 10-K.

Manufacturing

We manufacture and package almost all of our CFT products. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased for our CFT products from various suppliers. Almost all of our non-CFT products are purchased from various 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 CFT products or paper for the brochures or our non-CFT products. Packages, consisting of containers and packaging components, are designed by our staff of artists and designers.

The design and development of new CFT 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 CFT products.

As further described in the Overview and Strategic Initiatives sections within MD&A on pages 20 through 23, we have begun implementing SSI to reduce direct and indirect costs of materials, goods and services. Under this initiative, we are shifting our purchasing strategy from a local, commodity-oriented approach towards a globally-coordinated effort.

We are also implementing 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 occur in phases over the next several years. We completed implementation in certain significant markets, and will continue to roll-out the ERP system over the next several years.

See Item 2, Properties, for additional information regarding the location of our principal manufacturing facilities.

Product Categories

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

	2008	**2007**	**2006**
Beauty	72%	70%	69%
Fashion	18%	18%	18%
Home	10%	12%	13%

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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 have a marked seasonal pattern characteristic of many companies selling CFT, gift and decorative products, apparel, and fashion jewelry. Holiday sales cause a sales peak in the fourth quarter of the year; however, the sales volume of holiday gift items is, by its nature, difficult to forecast. Fourth quarter revenue was approximately 26% and 31% of total revenue in 2008 and 2007, respectively, and fourth quarter operating profit was approximately 28% and 26% of total operating profit in 2008 and 2007, respectively. The fourth quarter operating profit comparison between 2008 and 2007 was impacted by costs to implement our restructuring initiatives and costs related to our PLS program. The fourth quarter of 2008 includes cost to implement our restructuring initiatives of $7.4, whereas the fourth quarter of 2007 includes $100.9 of costs to implement our restructuring initiatives and $103.7 of costs related to our PLS program.

Research and Product Development Activities

New products are essential to growth in the highly competitive cosmetics industry. Our research and development department s efforts are significant 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 increased our focus on new technology and product innovation to deliver first-to-market products that deliver visible consumer benefits.

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

In 2008, our most significant product launches included *Anew Ultimate Contouring Eye System, Bond Girl* fragrance*, Pro-to-Go Lipstick*, *Anew Ultimate Age Repair Elixir, Supershock Mascara, Ultra Color Rich Plumping Lipstick, U by Ungaro* fragrances and *Anew Rejuvenate Eye.*

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were $70.0 in 2008, $71.8 in 2007, and $65.8 in 2006. This research included the activities of product research and development and package design and development. Most of these activities were related to the development of CFT 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 upon the capital expenditures, financial position or competitive position of Avon.

Employees

At December 31, 2008, we employed approximately 42,000 employees. Of these, approximately 6,100 were employed in the U.S. and 35,900 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 2008, available without charge on our investor website (*www.avoninvestor.com*) as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (the SEC). We also make available on our website the charters of our Board Committees, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics. Copies of these SEC reports and other documents are also available, without charge, from Investor Relations, Avon Products, Inc., 1345 Avenue of the Americas, New York, NY 10105-0196 or by sending an email to investor.relations@avon.com or by calling (212) 282-5623. 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 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.

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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 this 2008 Annual Report on Form 10-K. 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 and results of operations may suffer.

Our success depends on our ability to execute fully our global business strategy.

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

- implement our multi-year restructuring programs and achieve anticipated savings from the initiatives under these programs;
- increase our beauty sales and market share, and strengthen our brand image;
- realize anticipated cost savings and reinvest such savings effectively in consumer-oriented investments and other aspects of our business;
- implement appropriate product mix and pricing strategies, including our PLS program and achieve anticipated benefits from these strategies;
- implement enterprise resource planning and SSI and realize efficiencies across our supply chain, marketing processes, sales model and organizational structure;
- implement customer service initiatives, the Sales and Operation Planning process and a zero overhead growth philosophy;
- implement our outsourcing strategies;
- implement initiatives to reduce inventory levels;
- maintain appropriate cash flow levels and implement cash management, tax, foreign currency hedging and risk management strategies;
- implement our Sales Leadership program globally, recruit Representatives, enhance the Representative experience and increase their productivity through investments in the direct selling channel;
- reach new consumers through a combination of new brands, new businesses, new channels and pursuit of strategic opportunities such as acquisitions, joint ventures and strategic alliances with other companies; and
- estimate and achieve any projections concerning future revenue and operating margin increases.

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

We may experience difficulties, delays or unexpected costs in completing our multi-year turnaround plan, including achieving the anticipated savings of our multi-year restructuring initiatives.

In November 2005, we announced a multi-year turnaround plan as part of a major drive to fuel revenue growth and expand profit margins, while increasing consumer investments. As part of the turnaround plan, restructuring initiatives include: enhancement of organizational effectiveness, implementation of a global manufacturing strategy through facilities realignment, additional supply chain efficiencies in the areas of procurement and distribution and streamlining of transactional and other services through outsourcing and moves to low-cost countries. As part of the turnaround plan, we also launched our PLS program and SSI initiative. In February 2009, we announced a new restructuring program under our multi-year turnaround plan.

We may not realize, in full or in part, the anticipated savings or benefits from one or more of these initiatives, and other events and circumstances, such as difficulties, 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 planned advertising, market intelligence, consumer research and product innovation 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 risk of business disruption in connection with our multi-year restructuring programs or other strategic initiatives, which could have a material adverse effect on our business, financial condition and operating results.

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There can be no assurance that we will be able to achieve our growth objectives or maintain rates of growth.

There can be no assurance that we will be able to achieve profitable growth in the future or maintain rates of growth. In developed markets, such as the U.S., we seek to achieve growth in line with that of the overall beauty market, while in developing and emerging markets we have higher growth targets. Our growth overall is also subject to the strengths and weakness of our individual markets, including our international markets, which are or may be impacted by global economic conditions. We cannot assure you that our broad-based geographic portfolio will be able to withstand an economic downturn or recession in one or more particular regions. Our ability to increase or maintain revenue and earnings depends on numerous factors, and there can be no assurance that our current or future business strategies will lead us to achieve our growth objectives or maintain our rates of growth.

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 5.8 million independent Representatives worldwide. There is a high rate of turnover among Representatives, which is a common characteristic of the direct-selling business. As a result, in order to maintain our business and grow our business in the future, we need to recruit, retain and service Representatives on a continuing basis. If consumers change their purchasing habits, such as by 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, this could reduce our sales and have a material adverse effect on our business, financial condition and results of operations. If our competitors establish greater market share in the direct-selling channel, our business, financial condition and operating results may be adversely affected. Furthermore, if any government bans or severely restricts our business method of direct selling, our business, financial condition and operating results may be adversely affected.

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

Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is exposed to risks associated with our international operations, including:

- the possibility that a foreign government might ban or severely restrict our business method of direct selling, or that local civil unrest, political instability or changes in diplomatic or trade relationships might disrupt our operations in an international market;
- 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.

For example, in 1998, the Chinese government banned direct selling but, subsequently in April 2005, the Chinese government granted approval for us to proceed with a limited test of direct selling in certain areas. The Chinese government later issued direct-selling regulations in late 2005, and we were granted a direct-selling license by China s Ministry of Commerce in late February 2006, which has allowed us to commence direct selling under such regulations. However, there can be no assurance that these and other regulations and approvals will not be rescinded, restricted or otherwise altered, which may have a material adverse effect on our direct selling business in China. There can be no assurance that we will be able to successfully transition our business in China in connection with the resumption of direct selling in that market and successfully operate using the direct-selling model currently in place or that may be subsequently permitted in that market, or that we will experience growth in that or other emerging markets. The introduction of new channels in our business, such as the direct selling channel in China, may also negatively impact existing sales. We may encounter similar political, legal and regulatory risks in other international markets in our portfolio.

We are also subject to changes in other foreign laws, rules, regulations or policies, such as restrictions on trade, import and export license requirements, privacy and data protection laws, and tariffs and taxes. In addition, we face legal and regulatory risks in the United States and, in particular, cannot predict with certainty the outcome of various contingencies or the impact that pending or future legislative and regulatory changes may have on our business in the future. The U.S. Federal Trade Commission has proposed business opportunity regulations which may have an effect upon the Company s method of operating in the U.S. It is not possible to gauge what any final regulation may provide, its effective date or its impact at this time.

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A general economic downturn, a recession globally or in one or more of our geographic regions or sudden disruption in business conditions may adversely affect our business, including consumer purchases of discretionary items, such as beauty and related products.

A downturn in the economies in which we sell our products, including any recession in one or more of our geographic regions, or the current global macro-economic pressures, could adversely affect our business. Recent global economic events, especially in North America, including job losses, the tightening of credit markets and failures of financial institutions and other entities, have resulted in challenges to our business and a heightened concern regarding further deterioration globally. If conditions continue or worsen, we could experience potential declines in revenues, profitability and cash flow due to reduced orders, payment delays, supply chain disruptions or other factors caused by economic challenges faced by customers, prospective customers and suppliers. Additionally, if these conditions continue or worsen, any one or all of them could potentially have a material adverse effect on our liquidity and capital resources, including our ability to issue commercial paper or raise additional capital, the ability of lenders to maintain our credit lines, and our ability to maintain offshore cash balances, or otherwise negatively impact our business, results of operations and financial condition.

Consumer spending is 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 tend to decline during recessionary periods, when disposable income is lower, and may impact sales of our products. We face a challenging fiscal 2009 because customers may have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, reduced access to credit and sharply falling home prices, among other things.

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

We face significant competition.

We face competition from competing products in each of our lines of business, in both the domestic and international markets. Worldwide, we compete against products sold to consumers by other direct-selling and direct-sales companies and through the Internet, and against products sold through the mass market and prestige retail channels.

Within the direct selling channel, we compete on a regional, and often country-by-country basis, with our direct-selling competitors. There are also a number of direct-selling companies that sell product lines similar to ours, some of which also have worldwide operations and compete with us globally. Unlike most other beauty companies, we compete within a distinct business model where providing a compelling earnings opportunity for our Representatives is as critical as developing and marketing new and innovative products. Therefore, in contrast to a typical consumer packaged goods (CPG) company which operates within a broad-based consumer pool, we must first compete for a limited pool of Representatives before we reach the ultimate consumer.

Direct sellers compete for representative or entrepreneurial talent by providing a more competitive earnings opportunity or better deal than that offered by the competition. Representatives are attracted to a direct seller by competitive earnings opportunities, often through what are commonly known as field incentives in the direct selling industry. Competitors devote substantial effort to finding out the effectiveness of such incentives so that they can invest in incentives that are the most cost effective or produce the better payback. As the largest and oldest beauty direct seller, Avon s business model and strategies are often highly sought after, particularly by smaller local 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 recruit and retain new Representatives and if we are unable to do so our business will be adversely affected.

Within the broader CPG industry, we compete against large and well-known cosmetics and fragrances companies that manufacture and sell broad product lines through various types of retail establishments. In addition, we compete against many other companies that manufacture and sell in more narrow CFT product lines sold through retail establishments. This industry is highly competitive, and some of our principal competitors in the CPG industry are larger than we are and have greater resources than we do. Competitive activities on their part could cause our sales to suffer. We have many competitors in the highly competitive gift and decorative products and apparel industries globally, including retail establishments, principally department stores, gift shops and specialty retailers, and direct-mail companies specializing in these products. Our principal competition in the highly competitive fashion jewelry industry consists of a few large companies and many small companies that sell fashion jewelry through retail establishments.

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The number of competitors and degree of competition that we face in this 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 deliver new products that represent technological breakthroughs, if we do not successfully manage the timing of new product introductions or the profitability of these efforts, or if for other reasons our Representatives or end customers perceive competitors products as having greater appeal, then our sales and financial results may suffer.

We are subject to other 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 80% of our consolidated revenue from our operations outside of the U.S.

One risk associated with our international operations is that the functional currency for most of our international operations is the applicable local currency. Because of this, movements in exchange rates may have a significant impact on our earnings, cash flow and financial position. For example, currencies for which we have significant exposures include the Argentine peso, Brazilian real, British pound, Canadian dollar, Chinese renminbi, Colombian peso, the Euro, Japanese yen, Mexican peso, Philippine peso, Polish zloty, Russian ruble, Turkish lira, Ukrainian hryvna and Venezuelan bolivar. Although we implement foreign currency hedging and risk management strategies to reduce our exposure to fluctuations in earnings and cash flows associated with changes in foreign exchange rates, there can be no assurance that foreign currency fluctuations will not have a material adverse effect on our business, results of operations and financial condition.

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 or if the official exchange rate devalues, it may have a material adverse effect on our business, results of operations and financial condition. 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. 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, inflation in Venezuela has continued to increase over the past few years and it is possible that Venezuela will be designated as a highly inflationary economy during 2009. Gains and losses resulting from the translation of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. If Venezuela is designated as a highly inflationary economy and there is a devaluation of the official rate, revenue and operating profit will be negatively impacted.

Third-party suppliers provide, among other things, the raw materials used to manufacture our CFT 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 almost all of our CFT products. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased from various third-party suppliers for our CFT products. Almost all of our non-CFT 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 CFT products, the purchasing of our non-CFT products or the production of our brochures. This risk may be exacerbated by SSI, which will shift our purchasing strategy toward a globally- coordinated effort. 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.

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 CFT 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. 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, strikes and other labor disputes, disruptions in logistics or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, acts of terrorism and other external factors over which we have no control. The loss of, or damage to, any of our facilities or centers could have a material adverse effect on our business, results of operations and financial condition.

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

Our success depends, in part, on the quality and safety of our products. If our products are found 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, results of operations and financial condition.

Any future acquisitions may expose us to additional risks.

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

- difficulties in assimilating acquired operations or products, including the loss of key employees from acquired businesses and disruption to our direct selling channel;
- diversion of management s attention from our core business;
- adverse effects on existing business relationships with suppliers and customers; and
- risks of entering markets in which we have limited or no prior experience.

Our failure to successfully complete the integration of any acquired business could have a material adverse effect on our business, financial condition and operating results. In addition, there can be no assurance that we will be able to identify suitable acquisition candidates or consummate acquisitions on favorable terms.

Our information technology systems may be susceptible to disruptions.

We employ information technology systems to support our business, including systems to support financial reporting, an enterprise resource planning 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. We have Internet sites in many of our markets, including business-to-business sites to support Representatives. We have undertaken initiatives to increase our reliance on employing information technology systems to support our Representatives, as well as initiatives, as part of our multi-year restructuring program, to outsource certain services, including the provision of global human resources information technology systems to our employees and other information technology processes. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks, break-ins and similar events. Despite the implementation of network security measures, our systems may also be vulnerable to computer viruses, break-ins 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 operation.

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

Our success depends, in part, on our ability to retain our key personnel, including our executive officers and senior management team. The unexpected loss of 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, train and retain other highly qualified personnel. Competition for these employees can be intense. We may not be able to attract, assimilate or retain qualified personnel in the future, and our failure to do so could adversely affect our business. This risk may be exacerbated by the uncertainties associated with the implementation of our multi-year restructuring plan.

Our ability to anticipate and respond to market trends and changes in consumer preferences could affect our financial results.

Our continued success 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. While we devote considerable effort and resources to shape, analyze and respond to consumer preferences, consumer spending patterns and preferences cannot be predicted with certainty and can change rapidly. If we are unable to anticipate and respond to trends in the market for beauty and related products and changing consumer demands, our financial results will suffer. This risk may be exacerbated by our product line simplification (PLS) program, which will lead to significant changes to our product offerings.

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Furthermore, material shifts or decreases in market demand for our products, including as a result of changes in consumer spending patterns and preferences, 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, results of operations and financial condition.

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

The market for our products depends to a significant extent upon the value associated with our patents and trademarks. 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 relating to our customer service or advertisings, or alleging violation of the federal securities or ERISA laws and/or state law. In general, litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly affect financial results. We are currently vigorously contesting certain of these litigation claims. However, it is not possible to predict the final resolution of the litigation to which we currently are or may in the future become party to, and the impact of certain of these matters on our business, results of operations and financial condition could be material.

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

Our funding policy for pension plans is to accumulate plan assets that, over the long run, will approximate the present value of projected benefit obligations. Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change of the expected rate of return on plan assets. 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. Finally, recent pension funding requirements under the Pension Protection Act of 2006 may result in a significant increase or decrease in the valuation of pension obligations affecting the reported funded status of our pension plans.

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;
- 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;

- governmental policies and regulations;

- estimates of our future performance or that of our competitors or our industries;

- general economic, political, and market conditions; 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.

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An internal investigation of our China operations is being conducted.

We are voluntarily conducting an internal investigation of our China operations, focusing on compliance with the Foreign Corrupt Practices Act. The internal investigation, which is being conducted under the oversight of the Audit Committee, commenced in June 2008 after we received an allegation that certain travel, entertainment and other expenses may have been improperly incurred in connection with our China operations. We have voluntarily contacted the Securities and Exchange Commission and the United States Department of Justice to advise both agencies that an internal investigation is underway. Because the internal investigation is in its early stage, we cannot predict how the resulting consequences, if any, may impact our internal controls, business, results of operations or financial position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal properties worldwide consist of manufacturing facilities for the production of CFT 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. The domestic manufacturing facilities are located in Morton Grove, IL and Springdale, OH. The domestic distribution centers are located in Atlanta, GA; Glenview, IL; Newark, DE; and Pasadena, CA. The research and development facility is located in Suffern, NY. We also lease office space in two locations in New York City and own property in Rye, NY, for our executive and administrative offices.

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 (other than in the U.S.);
- four manufacturing facilities, eleven distribution centers and two administrative offices in Latin America;
- four manufacturing facilities in Europe, primarily servicing Western Europe, Middle East & Africa and Central & Eastern Europe;
- six distribution centers and four administrative offices in Western Europe, Middle East & Africa;
- three distribution centers and two administrative offices in Central & Eastern Europe;
- three manufacturing facilities, four distribution centers, and two administrative offices in Asia Pacific; and
- two manufacturing facilities and six distribution centers in China.

Of all the properties listed above, 32 are owned and the remaining 33 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.

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. This initiative includes the building of a new distribution center in Zanesville, Ohio, that is expected to open in the first quarter of 2009. We will phase-out our current distribution branches in Newark, DE and Glenview, IL with the closures expected to be completed by mid-2009 and mid-2010, respectively.

In January 2008, we announced plans to realign certain Latin America distribution and manufacturing operations. We are building a new distribution center in Brazil that is expected to open in 2010. We will phase-out our current distribution center in Sao Paulo, Brazil during 2011. During 2008, we transferred production from our manufacturing facility in Guatemala to our facility in Mexico.

ITEM 3. LEGAL PROCEEDINGS

Reference is made to Note 15, Contingencies, on pages F-37 through F-39 of this 2008 Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2008.

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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

Avon s Common Stock is listed on the New York Stock Exchange and trades under the AVP ticker symbol. At December 31, 2008, there were approximately 17,773 record holders of Avon s 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 Avon s Common Stock, in dollars, for 2008 and 2007 are listed below. For information regarding future dividends on Avon s Common Stock, see the Liquidity and Capital Resources section within MD&A on pages 36 through 39.

	2008			2007		
Quarter	**High**	**Low**	**Dividends Declared and Paid**	**High**	**Low**	**Dividends Declared and Paid**
First	$ 40.50	$ 34.47	$ .20	$ 40.13	$ 32.55	$ 0.185
Second	41.05	35.44	.20	41.85	36.13	0.185
Third	45.25	35.08	.20	40.66	31.95	0.185
Fourth	41.23	18.38	.20	42.51	35.92	0.185

Stock Performance Graph

Assumes $100 invested on December 31, 2003, in Avon s Common Stock, the S&P 500 Index and the Industry Composite. The dollar amounts indicated in the graph above and in the chart below are as of December 31 or the last trading day in the year indicated.

	2003	2004	2005	2006	2007	2008
Avon	$ 100.00	$ 116.31	$ 87.49	$ 103.64	$ 126.46	$ 78.77
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Industry Composite[2]	100.00	112.61	117.09	134.36	155.01	133.16

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

(2) The Industry Composite includes Alberto-Culver, Clorox, Colgate Palmolive, Estée Lauder, Kimberly Clark, Procter & Gamble and Revlon.

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The Stock Performance Graph shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to the liabilities of Section 18 under the Securities Exchange Act of 1934. 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 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference to the Equity Compensation Plan Information section of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

Issuer Purchases of Equity Securities

The following table provides information with respect to our purchases of Avon Common Stock during the fourth quarter of 2008:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
10/1/08 10/31/08	8,603	$ 43.26		$ 1,821,526,000
11/1/08 11/30/08	12,487	24.59		1,821,526,000
12/1/08 12/31/08	7,976	18.20		1,821,526,000
Total	29,066			

(1) Consists of shares that were repurchased by us in connection with employee elections to use shares to pay withholding taxes upon the vesting of their restricted stock units.

(2) There were no shares purchased during the fourth quarter of 2008 as part of our $2.0 billion share repurchase program, publicly announced on October 11, 2007. The program commenced on December 17, 2007, and is scheduled to expire on December 17, 2012.

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ITEM 6. SELECTED FINANCIAL DATA

We derived the following selected financial data from our audited consolidated financial statements. The following data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related Notes.

	2008	2007 [2]	2006 [3]	2005	2004
Income Data					
Total revenue	$ 10,690.1	$ 9,938.7	$ 8,763.9	$ 8,149.6	$ 7,747.8
Operating profit [1]	1,339.3	872.7	761.4	1,149.0	1,229.0
Net income	875.3	530.7	477.6	847.6	846.1
Diluted earnings per share	$ 2.04	$ 1.21	$ 1.06	$ 1.81	$ 1.77
Cash dividends per share	$ 0.80	$ 0.74	$ 0.70	$ 0.66	$ 0.56
Balance Sheet Data					
Total assets	$ 6,074.0	$ 5,716.2	$ 5,238.2	$ 4,761.4	$ 4,148.1
Debt maturing within one year	1,031.4	929.5	615.6	882.5	51.7
Long-term debt	1,456.2	1,167.9	1,170.7	766.5	866.3
Total debt	2,487.6	2,097.4	1,786.3	1,649.0	918.0
Shareholders equity	674.9	711.6	790.4	794.2	950.2

(1) In 2008, 2007, 2006 and 2005, operating profit includes costs to implement restructuring initiatives related to our multi-year restructuring program announced during 2005 of $60.6, $158.3, $228.8, and $56.5, respectively.

In 2007 and 2006, operating profit includes charges totaling $187.8 and $81.4, including inventory obsolescence expense of $167.3 and $72.6, respectively, related to our product line simplification program (PLS). In 2008, operating profit includes benefits to obsolescence expense of approximately $13 from changes in our disposition plan under our PLS program.

Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004) *Share-Based Payment*. Operating profit includes charges related to share-based compensation of $54.8, $61.6, $62.9, $10.1 and $8.8 for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

(2) In 2007, we recorded a decrease of $18.3 to shareholders equity from the initial adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*.

(3) In 2006, we recorded a decreases of $232.8 and $254.7 to total assets and shareholders equity, respectively, from the initial adoption of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132R*.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of operations and financial condition of Avon Products, Inc. and its majority and wholly owned subsidiaries (Avon or the Company) should be read in conjunction with the information contained in the Consolidated Financial Statements and related Notes. 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.

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 66 countries and territories, including the United States, and distribute products in 44 more. Our reportable segments are based on geographic operations in six regions: Latin America; North America; Central & Eastern Europe; Western Europe, Middle East & Africa; Asia Pacific; and China. We centrally manage global Brand Marketing, Supply Chain and Sales organizations. Beginning in the fourth quarter of 2008, we changed our product categories from Beauty, Beauty Plus and Beyond Beauty to Beauty, Fashion and Home. Beauty consists of cosmetics, fragrances, skin care and toiletries (CFT). Fashion consists of fashion jewelry, watches, apparel, footwear and accessories. Home consists of gift and decorative products, housewares, entertainment and leisure, children s and nutritional products. Sales from Health and Wellness products and *mark.*, a global cosmetics brand that focuses on the market for young women, are included among these three categories based on product type. Sales are made to the ultimate consumer principally through the direct selling by 5.8 million active independent Representatives, who are independent contractors and not employees of Avon. The success of our business is highly dependent on recruiting, retaining and servicing our Representatives.

We view the geographic diversity of our businesses as a strategic advantage in part because it allows us to participate in higher growth Beauty markets internationally. In developed markets, such as the United States, we seek to achieve growth in line with that of the overall beauty market, while in developing and emerging markets we seek to achieve higher growth targets. During 2008, approximately 80% of our consolidated revenue was derived from operations outside the U.S. When we first penetrate a market, we typically experience high growth rates and, as we reach scale in these markets, growth rates generally decline.

At the end of 2005, we launched a comprehensive, multi-year turnaround plan to restore sustainable growth. In January 2008, we announced the final initiatives of our restructuring program that was launched in 2005 under our turnaround plan. In 2007, we completed the analysis of our optimal product portfolio and made decisions on exit strategies for non-optimal products under our Product Line Simplification program (PLS). In 2007, we also launched our Strategic Sourcing Initiative (SSI). We expect our restructuring initiatives to deliver annualized savings of approximately $430 once all initiatives are fully implemented by 2011-2012. We also expect to achieve annualized benefits in excess of $200 and $250 from PLS and SSI, respectively, in 2010. As discussed further below, in February 2009 we announced a new restructuring program under our multi-year turnaround plan.

During 2008, revenue increased 8%, and Active Representatives increased 7% (with increases in all segments), fueled by investments in advertising and the Representative Value Proposition (RVP). Sales from each of our product categories increased, with products in the Beauty category increasing 10%. During 2008, revenue grew in all segments except North America, which was adversely affected by the slowing macro-economic environment, deteriorating consumer confidence and higher year-over-year fuel prices. We benefited from strength in developing and emerging markets around the globe that more than offset the unfavorable impact of economic softness in North America. See the Segment Review section of Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information related to changes in revenue by segment.

During the fourth quarter of 2008, revenue declined as compared to 2007, due to the significant negative impact of foreign exchange and the depressed economy. We expect the global economic pressures and negative impact of foreign currency will continue or could worsen in the foreseeable future and 2009 will be a challenging year. Given the current macro-economic environment, we expect that revenue growth in 2009 will be somewhat lower than our long-term revenue growth, which is expected to average mid-single digits, excluding the impact of foreign exchange. We also expect that operating margin in 2009 will continue to be pressured by the unfavorable impacts of foreign exchange. Operating margin will also be negatively impacted by additional restructuring charges during 2009. We believe benefits from our SSI program, focusing on manufacturing productivity, changing sourcing of raw materials and finished goods to use exchange rates to our advantage, and some softening in commodity costs will help to partially offset the negative impact of foreign exchange. We will continue to look for ways to transform our cost structure and intend to reduce non-strategic spending during 2009. We will also continue our strategies of investing in advertising and our Representatives.

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We believe that our strong operating cash flow and global cash balances of over $1 billion, coupled with the continuing execution of our turnaround strategies and the competitive advantages of our direct selling business model, will allow us to look beyond our anticipated challenges in 2009 and continue our focus on long-term sustainable, profitable growth.

STRATEGIC INITIATIVES

Advertising and Representative Value Proposition (RVP)

Investing in advertising is a key strategy. We significantly increased spending on advertising over the past three years. During 2008, we increased our investment in advertising by $22.1 or 6%. Approximately 70% of the incremental spending was spent in Russia, China and the United Kingdom. The incremental spending on advertising was at a rate somewhat less than revenue growth. The advertising investments supported new product launches, such as*, Anew Ultimate Contouring Eye System, Bond Girl* fragrance*, Pro-to-Go Lipstick*, *Anew Ultimate Age Repair Elixir, Supershock Mascara, Avon Solutions Hydra-Radiance, U by Ungaro* fragrances and *Anew Rejuvenate Eye.* Advertising investments also included advertising to recruit Representatives. We have also continued to forge alliances with celebrities, including alliances with Patrick Dempsey and Ferragamo Parfums S.P.A. for the U by Ungaro line of fragrances.

We continued to invest in our direct-selling channel to improve the reward and effort equation for our Representatives. We have committed significant investments for extensive research to determine the payback on advertising and field tools and actions, and the optimal balance of these tools and actions in our markets. We have allocated these significant investments in proprietary direct selling analytics to better understand the drivers of value for our Representatives. We measure our investment in RVP as the incremental cost to provide these value-enhancing initiatives. During 2008, we invested approximately $83 incrementally in our Representatives through RVP by continued implementation of our Sales Leadership program, enhanced incentives, increased sales campaign frequency, improved commissions and new e-business tools. This incremental investment was ahead of revenue growth. Investing in RVP will continue to be a key strategy. We will continue to look for ways to improve the earnings opportunity for Representatives through various means, including the following:

- Evaluating optimum discount structures in select markets;
- Continuing the roll-out of our Sales Leadership Program, which offers Representatives an enhanced career opportunity;
- Strategically examining the fee structure and brochure costs to enhance Representative economics;
- Recalibrating the frequency of campaigns to maximize Representative selling opportunities; and
- Applying the optimal balance of advertising and field investment in our key markets.

While the reward and effort will be different within our global portfolio of businesses, we believe that web enablement is a key element to reduce Representative effort worldwide. We will continue to focus on improving Internet-based tools for our Representatives.

Product Line Simplification

During 2006, we began to analyze our product line, under our PLS program, to develop a smaller range of better performing, more profitable products. The overall goal of PLS is to identify an improved product assortment to drive higher sales of more profitable products. During 2007, we completed the analysis of our product portfolio, concluded on the appropriate product assortment going forward and made decisions regarding the ultimate disposition of products that will no longer be part of our improved product assortment (such as selling at a discount, donation, or destruction). During 2007 and 2006, we recorded PLS charges of $187.8 and $81.4, respectively, primarily incremental inventory obsolescence expense of $167.3 and $72.6, respectively. We recorded final PLS charges in the fourth quarter of 2007. During the first half of 2008, we began to implement PLS in the U.K and early results appear favorable; however, the transition is a long process and will continue into 2009. In the second half of 2008, we began implementing PLS in all other markets, with full implementation expected by the end of 2009.

We expect that sales and marketing benefits will account for approximately 85% of our projected benefits. Improving our product assortment will allow us to increase exposure and improve presentation of the remaining products within our brochure, which is expected to yield more pleasurable consumer shopping experiences, easier Representative selling experiences, and greater sales per brochure page. A second source of benefits from PLS results from transferable demand. Transferable demand refers to the concept that when products with redundant characteristics are removed from our product assortment, some demand from the eliminated products will transfer to the remaining products that offer similar or comparable product characteristics. As part of PLS, when we identify products that have sufficient overlap of characteristics, we will eliminate the products with the lowest profitability and we expect the products that we retain will generate more profit. A third source of benefits from PLS is less price discounting. As we implement operating procedures under PLS, we anticipate introducing fewer new products and lengthening the lifecycle of products in our offering, which we expect will lead to less aggressive price discounting over a product s life cycle.

In addition to the benefits above, we also expect supply chain benefits to account for approximately 15% of our projected benefits. We expect improvements to cost of sales once PLS is fully implemented, primarily from a reduction in inventory obsolescence expense as a result of better managed inventory levels, lower variable spending on warehousing, more efficient manufacturing utilization and lower purchasing costs. We also expect operating expenses to benefit from a reduction in distribution costs and benefits to inventory productivity.

We estimate that we realized total benefits of approximately $40 during 2008 and we expect to realize benefits of approximately $120 in 2009 and in excess of $200 in 2010.

Strategic Sourcing Initiative

We launched SSI in 2007. This initiative is expected to reduce direct and indirect costs of materials, goods and services. Under this initiative, we are shifting our purchasing strategy from a local, commodity-oriented approach towards a globally-coordinated effort which leverages our volumes, allows our suppliers to benefit from economies of scale, utilizes sourcing best practices and processes, and better matches our suppliers capabilities with our needs. Beyond lower costs, our goals from SSI include improving asset management, service for Representatives and vendor relationships. During 2008, we realized benefits of approximately $114 from SSI. In addition, we were able to offset commodity cost increases of approximately $21 for full-year 2008 due to SSI actions already in place. We expect to realize annualized benefits from this initiative in excess of $250 by the end of 2009, with a full year of benefit in 2010. As a result, we expect to realize benefits of approximately $200 in 2009 and benefits in excess of $250 in 2010.

We continue to implement a Sales and Operations Planning process that is intended to better align demand plans with our supply capabilities and provide us with earlier visibility to any potential supply issues.

Enterprise Resource Planning System

We are in the midst of a multi-year global roll-out of an enterprise resource planning (ERP) system, which is expected to improve the efficiency of our supply chain and financial transaction processes. We began our global roll-out in Europe in 2005 and have since implemented ERP in our European manufacturing facilities, our larger European direct selling operations and in the U.S. As part of this continuing global roll-out, we expect to implement ERP in several countries over the next several years leveraging the knowledge gained from our previous implementations.

During 2008, we worked to improve the effectiveness of ERP in the U.S. and began to implement in the other markets within North America, as well as in certain smaller European direct selling operations. During 2008, we also began the multi-year implementation process in Latin America in one market. In Latin America, we plan to implement modules of ERP in a gradual manner across key markets over the next several years.

Zero-Overhead-Growth

We have institutionalized a zero-overhead-growth philosophy that aims to offset inflation through productivity improvements. These improvements in productivity will come primarily from SSI and our restructuring initiatives. We have defined overhead as fixed expenses such as costs associated with our sales and marketing infrastructure, and management and administrative activities. Overhead excludes variable expenses within selling, general and administrative expenses, such as shipping and handling costs and bonuses to our employees in the sales organization, and also excludes consumer and strategic investments that are included in selling, general and administrative expenses, such as advertising, RVP, research and development and brochure costs.

Restructuring Programs

2005 Program

We launched our original restructuring program under our multi-year turnaround plan in late 2005 (the 2005 Program). In January 2008, we announced the final initiatives that are part of the 2005 Program. We expect to record total restructuring charges and other costs to implement restructuring initiatives under this program of approximately $530 before taxes. We have recorded $504.2 through December 31, 2008, ($60.6 in

2008, $158.3 in 2007, $228.8 in 2006 and $56.5 in 2005) for actions associated with our restructuring initiatives under the 2005 Program, primarily for employee-related costs, including severance, pension and other termination benefits, and professional service fees related to these initiatives. We expect to record a majority of the remaining costs by the end of 2009.

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The costs to implement restructuring initiatives during 2005 through 2008 are associated with specific actions, including:

- organization realignment and downsizing in each region and global through a process called delayering, taking out layers to bring senior management closer to operations;
- the phased outsourcing of certain services, including certain finance, information technology, human resource and customer service processes, and the move of certain services from markets to lower cost shared service centers;
- the restructure of certain international direct-selling operations;
- the realignment of certain distribution and manufacturing operations, including the realignment of certain of our North America and Latin America distribution operations;
- the automation of certain distribution processes;
- the exit of certain unprofitable operations, including the closure of the Avon Salon & Spa, the closure of our operations in Indonesia, the exit of a product line in China and the exit of the *beComing* product line in the U.S.; and
- the reorganization of certain functions, primarily sales-related organizations.

Actions implemented under these restructuring initiatives resulted in savings of approximately $270 in 2008, as compared to savings of approximately $230 in 2007. We expect to achieve annualized savings of approximately $430 once all initiatives are fully implemented by 2011-2012. We expect the savings to reach approximately $300 in 2009.

2009 Restructuring Program

In February 2009, we announced a new restructuring program under our multi-year turnaround plan (the 2009 Program). The restructuring initiatives under the 2009 Program are expected to focus on restructuring our global supply chain operations, realigning certain local business support functions to a more regional basis to drive increased efficiencies, and streamlining transaction-related services, including selective outsourcing. We expect to incur restructuring charges and other costs to implement these initiatives in the range of $300 to $400 before taxes over the next several years. We are targeting annualized savings under the 2009 Program of approximately $200 upon full implementation by 2012-2013.

See Note 14, Restructuring Initiatives, on pages F-33 through F-37 of this 2008 Annual Report on Form 10-K.

NEW ACCOUNTING STANDARDS

Information relating to new accounting standards is included Note 2, New Accounting Standards, on pages F-10 through F-11 of this 2008 Annual Report on Form 10-K.

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KEY PERFORMANCE INDICATORS

Within the following discussion and analysis, we utilize the key performance indicators (KPIs) defined below to assist in the evaluation of our business.

KPI	**Definition**
Growth in Active Representatives	This indicator is based on the number of Representatives submitting an order in a campaign, totaled for all campaigns in the related period. This amount is divided by the number of billing days in the related period, to exclude the impact of year-to-year changes in billing days (for example, holiday schedules). To determine the growth in Active Representatives, this calculation is compared to the same calculation in the corresponding period of the prior year.
Change in Units	This indicator is based on the gross number of pieces of merchandise sold during a period, as compared to the same number in the same period of the prior year. Units sold include samples sold and product contingent upon the purchase of another product (for example, gift with purchase or purchase with purchase), but exclude free samples.
Inventory Days	This indicator is equal to the number of days of historical cost of sales covered by the inventory balance at the end of the period.

CRITICAL ACCOUNTING ESTIMATES

We believe the accounting policies described below represent our critical accounting policies due to the estimation processes involved in each. See Note 1, Description of the Business and Summary of Significant Accounting Policies, for a detailed discussion of the application of these and other accounting policies.

Restructuring Reserves

We record severance-related expenses once they are both probable and estimable in accordance with the provisions of FAS No. 112, *Employer s Accounting for Post-Employment Benefits* for severance provided under an ongoing benefit arrangement. One-time, involuntary benefit arrangements and disposal costs, primarily contract termination costs, are accounted for under the provisions of FAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. One-time, voluntary benefit arrangements are accounted for under the provisions of FAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. We evaluate impairment issues under the provisions of FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We estimate the expense for these initiatives, when approved by the appropriate corporate authority, by accumulating detailed estimates of costs for such plans. These expenses include the estimated costs of employee severance and related benefits, impairment of property, plant and equipment, contract termination payments for leases, and any other qualifying exit costs. These estimated costs are grouped by specific projects within the overall plan and are then monitored on a quarterly basis by finance personnel. Such costs represent management s best estimate, but require assumptions about the programs that may change over time, including attrition rates. Estimates are evaluated periodically to determine if an adjustment is required.

Allowances for Doubtful Accounts Receivable

Representatives contact their customers, selling primarily through the use of brochures for each sales campaign. Sales campaigns are generally for a two-week duration in the U.S. and a two- to four-week duration outside the U.S. The Representative purchases products directly from Avon and may or may not sell them to an end user. In general, the Representative, an independent contractor, remits a payment to Avon each sales campaign, which relates to the prior campaign cycle. The Representative is generally precluded from submitting an order for the current sales campaign until the accounts receivable balance for the prior campaign is paid; however, there are circumstances where the Representative fails to make the required payment. We record an estimate of an allowance for doubtful accounts on receivable balances based on an analysis of historical data and current circumstances. Over the past three years, annual bad debt expense has been in the range of $145 to $195, or approximately 1.7% of total revenue. We generally have no detailed information concerning, or any communication with, any end user of our products beyond the Representative. We have no legal recourse against the end user for the collectability of any accounts receivable balances due from the Representative to us. If the financial condition of our Representatives were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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Allowances for Sales Returns

We record a provision for estimated sales returns based on historical experience with product returns. Over the past three years, sales returns have been in the range of $295 to $370, or approximately 3.4% of total revenue. If the historical data we use to calculate these estimates does not approximate future returns, due to changes in marketing or promotional strategies, or for other reasons, additional allowances may be required.

Provisions for Inventory Obsolescence

We record an allowance for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value. In determining the allowance for estimated obsolescence, we classify inventory into various categories based upon its stage in the product life cycle, future marketing sales plans and the disposition process. We assign a degree of obsolescence risk to products based on this classification to determine the level of obsolescence provision. If actual sales are less favorable than those projected by management, additional inventory allowances may need to be recorded for such additional obsolescence. Annual obsolescence expense was $80.8, $280.6 and $179.7 for the years ended December 31, 2008, 2007 and 2006, respectively. 2007 and 2006 included incremental inventory obsolescence charges of $167.3 and $72.6, respectively, related to our PLS program and 2006 also includes $20.5 related to our decision to discontinue the sale of heavily discounted excess products. Obsolescence expense for 2008 benefited by approximately $13 from changes in estimates to our disposition plan under our PLS program.

Pension, Postretirement and Postemployment Benefit Expense

We maintain defined benefit pension plans, which cover substantially all employees in the U.S. and in certain international locations. Additionally, we have unfunded supplemental pension benefit plans for certain current and retired executives (see Note 11, Employee Benefit Plans).

For 2008, the weighted average assumed rate of return on all pension plan assets, including the U.S. and non-U.S. plans was 7.66%. In determining the long-term rates of return, we consider the nature of the plans investments, an expectation for the plans investment strategies, historical rates of return and current economic forecasts. We evaluate the expected long-term rate of return annually and adjust as necessary.

The majority of our pension plan assets relate to the U.S. pension plan. The assumed rate of return for 2008 for the U.S. plan was 8%, which was based on an asset allocation of approximately 35% in corporate and government bonds and mortgage-backed securities (which are expected to earn approximately 4% to 6% in the long term) and 65% in equity securities (which are expected to earn approximately 8% to 10% in the long term). Historical rates of return on the assets of the U.S. plan for the most recent 10-year and 20-year periods were 2.0% and 7.6%, respectively. In the U.S. plan, our asset allocation policy has favored U.S. equity securities, which have lost .7% and returned 8.4%, respectively, over the 10-year and 20-year periods. The plan assets in the U.S. lost 26.2% and returned 9.3% in 2008 and 2007, respectively.

The discount rate used for determining future pension obligations for each individual plan is based on a review of long-term bonds that receive a high-quality rating from a recognized rating agency. The discount rates for our more significant plans, including our U.S. plan, were based on the internal rates of return for a portfolio of high quality bonds with maturities that are consistent with the projected future benefit payment obligations of each plan. The weighted-average discount rate for U.S. and non-U.S. plans determined on this basis was 6.11% at December 31, 2008, and 5.88% at December 31, 2007.

Our funding requirements may be impacted by regulations or interpretations thereof. Our calculations of pension, postretirement and postemployment costs are dependent upon the use of assumptions, including discount rates, expected return on plan assets, interest cost, health care cost trend rates, benefits earned, mortality rates, the number of associate retirements, the number of associates electing to take lump-sum payments and other factors. Actual results that differ from assumptions are accumulated and amortized to expense over future periods and, therefore, generally affect recognized expense in future periods. At December 31, 2008, we had pretax actuarial losses and prior service credits totaling $538.4 and $260.6 for the U.S. and non-U.S. plans, respectively, that have not yet been charged to expense. These actuarial losses have been charged to accumulated other comprehensive loss within shareholders equity. While we believe that the assumptions used are reasonable, differences in actual experience or changes in assumptions may materially affect our pension, postretirement and postemployment obligations and future expense. During 2008, the plan assets experienced significant losses, which were mostly due to unfavorable returns on equity securities. These unfavorable returns will increase pension cost in future periods. For 2009, our assumption for the expected rate of return on assets is 8.0% and 7.2% for our U.S. and non-U.S. plans, respectively. Our assumptions are reviewed and determined on an annual basis.

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A 50 basis point change (in either direction) in the expected rate of return on plan assets, the discount rate or the rate of compensation increases, would have had the following effect on 2008 pension expense:

	Increase/(Decrease) in Pension Expense	
	50 basis point Increase	**50 basis point Decrease**
Rate of return on assets	(6.0)	6.0
Discount rate	(8.6)	8.4
Rate of compensation increase	1.2	(1.5)

Taxes

We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. While we have considered projected future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to the deferred tax asset would increase earnings in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would decrease earnings in the period such determination was made. Deferred taxes are not provided on the portion of unremitted earnings of subsidiaries outside of the U.S. when management concludes that these earnings are indefinitely reinvested. Deferred taxes are provided on earnings not considered indefinitely reinvested.

We establish additional provisions for income taxes when, despite the belief that our tax positions are fully supportable, there remain certain positions that are likely to be challenged and may or may not be sustained on review by tax authorities. We adjust these additional accruals in light of changing facts and circumstances. We file income tax returns in many jurisdictions. In 2009, a number of income tax returns are scheduled to close by statute and it is possible that a number of tax examinations may be completed. If Avon s filing positions are ultimately upheld, it is possible that the 2009 provision for income taxes may reflect adjustments.

In accordance with FIN 48, we recognize the benefit of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We believe that our assessment of more likely than not is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact the Consolidated Financial Statements.

Share-based Compensation

All share-based payments to employees are recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. We use a Black-Scholes-Merton option-pricing model to calculate the fair value of options. This model requires various judgmental assumptions including volatility, forfeiture rates and expected option life. If any of the assumptions used in the model change significantly, share-based compensation may differ materially in the future from that recorded in the current period.

Loss Contingencies

In accordance with FAS No. 5, *Accounting for Contingencies*, we determine whether to disclose and accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable. Our assessment is developed in consultation with our outside counsel and other advisors and is based on an analysis of possible outcomes under various strategies. Loss contingency assumptions involve judgments that are inherently subjective and can involve matters that are in litigation, which, by its nature is unpredictable. We believe that our assessment of the probability of loss contingencies is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact the Consolidated Financial Statements.

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RESULTS OF OPERATIONS - CONSOLIDATED

	2008	2007	2006	Favorable (Unfavorable) %/Point Change 2008 vs. 2007	2007 vs. 2006
Total revenue	$ 10,690.1	$ 9,938.7	$ 8,763.9	8%	13%
Cost of sales	3,949.1	3,941.2	3,416.5	%	(15)%
Selling, general and administrative expenses	5,401.7	5,124.8	4,586.0	(5)%	(12)%
Operating profit	1,339.3	872.7	761.4	53%	15%
Interest expense	100.4	112.2	99.6	11%	(13)%
Interest income	(37.1)	(42.2)	(55.3)	(12)%	(24)%
Other expense, net	37.7	6.6	13.6	*	51%
Net income	$ 875.3	$ 530.7	$ 477.6	65%	11%
Diluted earnings per share	$ 2.04	$ 1.21	$ 1.06	69%	14%
Advertising expenses[1]	$ 390.5	$ 368.4	$ 248.9	(6)%	(48)%
Gross margin	63.1%	60.3%	61.0%	2.8	(.7)
Selling, general and administrative expenses as a % of total revenue	50.5%	51.6%	52.3%	1.1	.7
Operating margin	12.5%	8.8%	8.7%	3.7	.1
Effective tax rate	29.3%	33.0%	31.8%	3.7	(1.2)
Units sold				1%	7%
Active Representatives				7%	9%

* Calculation not meaningful

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

Total Revenue

Total revenue increased 8% in 2008, with foreign exchange contributing 3 percentage points to the revenue growth. Revenue grew in all segments, except North America. Revenue growth was driven by an increase of 7% in Active Representatives.

On a category basis, the 2008 increase in revenue was primarily driven by an increase of 10% in Beauty sales, with increases in all sub-categories of Beauty. Within the Beauty category, fragrance grew 9%, color grew 11%, skin care grew 10%, and personal care grew 8%. Fashion sales increased 6%, while Home sales decreased 3%.

Total revenue increased 13% in 2007 with growth in all segments. Revenue growth was driven by an increase of 9% in Active Representatives, while foreign exchange contributed 5 percentage points to the revenue growth. Additional selling opportunities in Central & Eastern Europe had a minimal impact on Active Representative growth.

On a category basis, the 2007 increase in revenue was primarily driven by an increase of 15% in Beauty sales. Within the Beauty category, fragrance increased 20%, color increased 16%, skin care increased 6% and personal care increased 21%. Fashion sales increased 12% and Home sales increased 6%.

For additional discussion of the changes in revenue by segment, see the Segment Review section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Gross Margin

Gross margin increased 2.8 points in 2008, primarily due to a decrease in inventory obsolescence provisions in 2008, which benefited gross margin by 2.0 points, and from increased pricing and favorable product mix, which benefited gross margin by 1.3 points. These benefits to gross margin were partially offset by higher commodity costs and the unfavorable impact of foreign exchange on product cost in Europe. 2007 included incremental inventory obsolescence charges of $167.3 related to our PLS program. Obsolescence expense for 2008 also benefited by approximately $13 from changes in estimates to our disposition plan under our PLS program.

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Gross margin decreased .7 point in 2007, primarily due to an increase in inventory obsolescence provisions of approximately $100 in 2007, which negatively impacted gross margin by 1.1 points, and an unfavorable mix of products sold, partially offset by supply chain efficiencies. As discussed in the Overview section, 2007 and 2006 included incremental inventory obsolescence charges of $167.3 and $72.6, respectively, related to our decision to discontinue the sale of certain products as part of our PLS program. Additionally, 2006 included incremental inventory obsolescence charges of $20.5 related to our decisions to discontinue the sale of certain heavily discounted products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $276.9 during 2008, primarily due to the following:

- higher investments in RVP and advertising of approximately $105;
- higher variable expenses such as freight from increased sales volume and brochure costs;
- higher overhead primarily due to higher marketing costs; and
- the impact of foreign exchange.

These higher costs were partially offset by lower costs incurred to implement our restructuring initiatives of $99.8, due to costs associated with previously approved initiatives.

Selling, general and administrative expenses increased $538.8 during 2007, primarily due to the following:

- higher investments in advertising and RVP of approximately $240;
- higher variable expenses such as freight and commissions from increased sales volume; and
- increased distribution costs as a percentage of revenue.

These higher costs were partially offset by $71.8 of lower costs incurred to implement our restructuring initiatives and savings associated with position eliminations resulting from restructuring initiatives. Additionally, 2007 benefited from a favorable comparison to 2006 which included a one-time charge of $21.0 related to the resolution of a long-standing dispute regarding value-added taxes in the U.K., the recognition of unclaimed sales-related tax credits and a reduction of a reserve for statutory liabilities.

See the Segment Review section of Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information related to changes in operating margin by segment.

Other Expenses

Interest expense decreased in 2008, primarily due to lower domestic interest rates. Interest expense increased in 2007 as compared to 2006, mainly due to higher borrowings to support our share repurchase programs, as well as increases in domestic interest rates. At December 31, 2008 and 2007, we held interest rate swap agreements that effectively converted approximately 50% and 30% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR, respectively. The total exposure of our debt to floating interest rates at December 31, 2008, and December 31, 2007, was approximately 65% and 60%, respectively.

Interest income decreased in 2008, primarily due to lower interest rates. Interest income decreased in 2007 as compared to 2006, primarily due to lower cash and cash equivalent balances.

Other expense, net increased in 2008, primarily due to net foreign exchange losses in 2008, as compared to foreign exchange gains in 2007. Other expense, net decreased in 2007 as compared to 2006, primarily due to higher net foreign exchange gains in 2007.

Effective Tax Rate

The effective tax rate for 2008 was 29.3%, compared to 33.0% for 2007 and 31.8% for 2006.

During 2008, the tax rate was favorably impacted by 3.8 points due to an audit settlement, partially offset by 1.2 points from the establishment of a valuation allowance against deferred tax assets. The rate was also favorably impacted by changes in the earnings mix of international subsidiaries, which is not expected to recur. During 2007, the tax rate was favorably impacted by approximately 2.0 points due to the net release of valuation allowances, partially offset by the unfavorable impact of restructuring and PLS initiatives. During 2006, the effective tax rate was favorably impacted by approximately 4.0 points due to the closure of tax years by expiration of the statute of limitations and audit settlements as well as 1.7 points due to tax refunds. These benefits were partially offset by the repatriation of international earnings, which increased the rate by approximately 3.1 points, and the tax impact associated with our restructuring charges due to the lower weighted-average effective tax rate of subsidiaries incurring the charges.

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SEGMENT REVIEW

Below is an analysis of the key factors affecting revenue and operating profit by reportable segment for each of the years in the three-year period ended December 31, 2008.

Years ended December 31	**2008**		**2007**		**2006**	
	Total Revenue	**Operating Profit**	**Total Revenue**	**Operating Profit**	**Total Revenue**	**Operating Profit**
Latin America	$ 3,884.1	$ 690.3	$ 3,298.9	$ 483.1	$ 2,743.4	$ 424.0
North America	2,492.7	213.9	2,622.1	213.1	2,554.0	181.6
Central & Eastern Europe	1,719.5	346.2	1,577.8	296.1	1,320.2	296.7
Western Europe, Middle East & Africa	1,351.7	121.0	1,308.6	33.9	1,123.7	(17.8)
Asia Pacific	891.2	102.4	850.8	64.3	810.8	42.5
China	350.9	17.7	280.5	2.0	211.8	(10.8)
Total from operations	10,690.1	1,491.5	9,938.7	1,092.5	8,763.9	916.2
Global and other expenses		(152.2)		(219.8)		(154.8)
Total	10,690.1	1,339.3	$ 9,938.7	$ 872.7	$ 8,763.9	$ 761.4

Global and other expenses include, among other things, costs related to our executive and administrative offices, information technology, research and development, and marketing. Certain planned global expenses are allocated to our business segments primarily based on planned revenue. The unallocated costs remain as global and other expenses. We do not allocate costs of implementing restructuring initiatives related to our global functions to our segments. Costs of implementing restructuring initiatives related to a specific segment are recorded within that segment.

	2008	**2007**	**% Change**	**2007**	**2006**	**% Change**
Total global expenses	$ 534.5	$ 552.6	3%	$ 552.6	$ 463.6	(19)%
Allocated to segments	(382.3)	(332.8)	15%	(332.8)	(308.8)	8%
Net global expenses	$ 152.2	$ 219.8	31%	$ 219.8	$ 154.8	(42)%

The increase in the amount allocated to the segments in 2008 was primarily due to higher global marketing and research and development costs, higher information technology costs and higher costs related to global initiatives. The decrease in net global expenses was primarily due to lower costs to implement restructuring initiatives and lower professional service fees associated with our PLS initiative.

The increase in the amount allocated to the segments in 2007 was primarily due to higher global marketing costs, reflecting increased spending for market research, research and development, and advertising. The increase in net global expenses in 2007 was primarily due to higher costs related to global initiatives, higher information technology costs and higher performance-based compensation expense.

Latin America   2008 Compared to 2007

			%/Point Change	
	2008	**2007**	**US$**	**Local Currency**
Total revenue	$ 3,884.1	$ 3,298.9	18%	14%
Operating profit	690.3	483.1	43%	38%
Operating margin	17.8%	14.6%	3.2	3.0
Units sold				4%

Active Representatives	6%

Total revenue increased for 2008, driven by a larger average order and growth in Active Representatives, as well as favorable foreign exchange. Growth in Active Representatives reflects significant investments in RVP and a continued high level of investment in advertising. Revenue for 2008 benefited from continued growth in substantially all markets. In particular, during 2008, revenue grew 24% in Brazil, 36% in Venezuela, 5% in Mexico and 3% in

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Colombia. Revenue growth in Brazil was driven by higher average order, growth in Active Representatives and the impact of foreign exchange. Revenue growth in Venezuela was driven by higher average order, while revenue in Mexico benefited from growth in Active Representatives. We have experienced a deceleration of growth in Colombia during the second half of 2008 due to economic conditions as well as competition.

The increase in operating margin in Latin America for 2008 was primarily due to the impact of higher revenues, increased pricing, lower inventory obsolescence expense, and lower costs to implement restructuring initiatives. These benefits to margin were partially offset by higher investments in RVP. Operating margin for 2007 benefited from the recognition of unclaimed sales-related tax credits.

Currency restrictions enacted by the Venezuelan government in 2003 have impacted the ability of our subsidiary in Venezuela (Avon Venezuela) to obtain foreign currency at the official rate to pay for imported products. 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.

At December 31, 2008, Avon Venezuela had cash balances of approximately $120, primarily denominated in bolivars. During 2007, Avon Venezuela remitted dividends of approximately $40 at the official exchange rate. Avon Venezuela continues to receive official foreign exchange for some of its imports and other remittances. We continue to use the official rate to translate the financial statements of Avon Venezuela into U.S. dollars. During 2008, Avon Venezuela s revenue and operating profit represented approximately 4% and 8% of consolidated revenue and consolidated operating profit, respectively.

Inflation in Venezuela has continued to increase over the past few years and it is possible that Venezuela will be designated as a highly inflationary economy during 2009. Gains and losses resulting from the translation of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. If Venezuela is designated as a highly inflationary economy and there is a devaluation of the official rate, earnings will be negatively impacted. For example, based on the balance sheet of our Venezuelan subsidiary at December 31, 2008, if Venezuela is designated as a highly inflationary economy and there is a 20% devaluation, our pre-tax earnings would be negatively impacted by approximately $30. Additionally, revenue and operating profit on an ongoing basis would be impacted by the devaluation.

Latin America 2007 Compared to 2006

			%/Point Change	
	2007	**2006**	**US$**	**Local Currency**
Total revenue	$ 3,298.9	$ 2,743.4	20%	13%
Operating profit	483.1	424.0	14%	3%
Operating margin	14.6%	15.5%	(.9)	(1.3)
Units sold				9%
Active Representatives				8%

Total revenue increased during 2007, driven by growth in Active Representatives, reflecting significant investments in advertising and RVP, and a larger average order, as well as favorable foreign exchange. Revenue for 2007 benefited from growth in most markets, particularly from growth of approximately 30% in each of Brazil, Colombia and Venezuela.

Revenue growth in Brazil for 2007 was driven by increases in both average order and Active Representatives, primarily due to significant investments in advertising and RVP, recruiting advertising and field incentives, as well as favorable foreign exchange. Revenue in Mexico was flat in 2007, as a mid-single digit increase in Active Representatives was offset by a lower average order. The increase in Active Representatives in Mexico primarily reflects strengthened training and incentives and the retraining of our zone managers in field fundamentals. The lower average order was mainly due to product mix and a higher share of sales from new Representatives.

The decrease in operating margin for 2007 was primarily driven by higher spending on advertising and RVP and an unfavorable mix of products sold. These higher costs were partially offset by the impact of higher revenue, lower costs to implement restructuring initiatives, which positively impacted operating margin by .8 point, savings associated with position eliminations resulting from restructuring initiatives, and the recognition of unclaimed sales-related tax credits.

North America 2008 Compared to 2007

			%/Point Change	
	2008	2007	US$	Local Currency
Total revenue	$ 2,492.7	$ 2,622.1	(5)%	(5)%
Operating profit	213.9	213.1	0%	1%
Operating margin	8.6%	8.1%	.5	.5
Units sold				(4)%
Active Representatives				2%

North America consists largely of Avon s U.S. business.

Revenue for 2008 was impacted by the macroeconomic environment, including deteriorating consumer confidence and higher year-over-year fuel prices. Sales of non-Beauty products declined 9% in 2008, consistent with the general retail environment. Sales of Beauty products declined 1% in 2008. Given the economic environment, we expect these trends to continue.

Total revenue decreased for 2008, as the lower average order received from Representatives more than offset an increase in Active Representatives. Growth in Active Representatives benefited from continued investments in RVP, including more frequent brochure distribution in Canada, and recruiting advertising. The decline in average order was in large part due to customer demand for non-beauty products slowing markedly in this recessionary environment.

The increase in operating margin for 2008 was primarily driven by lower obsolescence and overhead expenses. These benefits to operating margin were partially offset by higher variable selling costs, including paper for the brochure, bad debt and transportation, and the impact of lower revenue.

North America 2007 Compared to 2006

			%/Point Change	
	2007	2006	US$	Local Currency
Total revenue	$ 2,622.1	$ 2,554.0	3%	2%
Operating profit	213.1	181.6	17%	15%
Operating margin	8.1%	7.1%	1.0	.9
Units sold				3%
Active Representatives				3%

Total revenue increased 3% in 2007, primarily due to growth in Active Representatives, benefiting from continued investments in RVP and recruiting advertising. During the fourth quarter of 2007, we began to see decelerating trends in non-Beauty, particularly in accessories and apparel, driven by the negative impact of rising gas prices, as well as softness in the U.S. retail sector, which negatively impacted average order.

The increase in operating margin for 2007 was primarily driven by lower costs to implement restructuring initiatives, which positively impacted operating margin by 1.9 points, savings associated with position eliminations resulting from restructuring initiatives and supply chain efficiencies. These benefits to operating margin were partially offset by higher inventory obsolescence expense, higher spending on advertising and RVP, and costs related to the implementation of an enterprise resource planning system.

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Central & Eastern Europe 2008 Compared to 2007

			%/Point Change	
	2008	2007	US$	Local Currency
Total revenue	$ 1,719.5	$ 1,577.8	9%	4%
Operating profit	346.2	296.1	17%	11%
Operating margin	20.1%	18.8%	1.3	1.1
Units sold				2%
Active Representatives				12%

Beginning at the end of June 2007, we provided our Representatives with additional selling opportunities through more frequent brochure distribution, which encourages more frequent customer contact. Active representative growth during the first half of 2008 benefited from the increased brochure distribution frequency.

Total revenue increased for 2008, reflecting growth in Active Representatives, as well as favorable foreign exchange, partially offset by a lower average order. Average order was impacted by a lower average order during the first half of 2008 as our Representatives transitioned to the shorter selling cycle. Average order during the second half of 2008 declined to a much lesser degree as compared to the first half of 2008.

For 2008, the region s revenue growth benefited from increases in Russia of 8%, as well as growth in other markets in the region, led by Ukraine with growth of over 20%. The revenue increase in Russia for 2008 was primarily due to strong growth in Active Representatives, as well as favorable foreign exchange. We completed the roll-out of Sales Leadership and improved the discount structure we offer Representatives in Russia near the end of the third quarter of 2008.

The increase in operating margin for 2008 was primarily driven by the impact of higher revenue, lower inventory obsolescence expense and increased pricing, partially offset by higher spending on RVP and advertising, and the impact of unfavorable foreign exchange on product cost.

Central & Eastern Europe 2007 Compared to 2006

			%/Point Change	
	2007	2006	US$	Local Currency
Total revenue	$ 1,577.8	$ 1,320.2	20%	10%
Operating profit	296.1	296.7	%	(12)%
Operating margin	18.8%	22.5%	(3.7)	(4.3)
Units sold				6%
Active Representatives				13%

Total revenue increased for 2007, reflecting growth in Active Representatives, as well as favorable foreign exchange, partially offset by a lower average order as our Representatives transitioned to a shorter selling cycle. Active Representative growth for 2007 benefited from additional selling opportunities that we provided to our Representatives through more frequent brochure distribution beginning at the end of June 2007, which encourages more frequent customer contact.

The region s revenue growth in 2007 was primarily driven by Russia, as well as growth in all markets in the region. Revenue in Russia increased over 20% for 2007 due to strong Active Representative growth, which benefited from the additional selling opportunities, as well as favorable foreign exchange. Revenue in Russia for 2007 also benefited from increased advertising, continued merchandising improvements, and the launch of Hello Tomorrow.

The decrease in operating margin for 2007 was primarily driven by higher inventory obsolescence expense, higher spending on advertising and RVP, partially offset by lower product costs due to favorable foreign exchange movements and the impact of higher revenue.

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Western Europe, Middle East & Africa 2008 Compared to 2007

			%/Point Change	
	2008	2007	US$	Local Currency
Total revenue	$ 1,351.7	$ 1,308.6	3%	6%
Operating profit	121.0	33.9	*	*
Operating margin	8.9%	2.6%	6.3	6.8
Units sold				(3)%
Active Representatives				4%

* Calculation not meaningful

Total revenue increased for 2008 due to growth in Active Representatives and a higher average order, partially offset by unfavorable foreign exchange. Revenue growth for 2008 was driven by Italy and Turkey.

Revenue in the United Kingdom in 2008 declined 3% due to unfavorable foreign exchange. Revenue in the United Kingdom in local currency increased, driven by an increase in Active Representatives, benefiting from investments in representative recruiting. Revenue in the United Kingdom also benefited from the continued roll-out of PLS and strong merchandising. Revenue growth in Turkey of 8% for 2008 was due to a larger average order. Revenue in Turkey also benefited from continued high levels of investments in advertising and RVP. Revenue in Italy in 2008 increased due to growth in Active Representatives.

The increase in operating margin for 2008 was primarily driven by lower costs to implement restructuring initiatives, the impact of higher revenue, lower inventory obsolescence expense, lower overhead expenses and increased pricing. These benefits to operating margin were partially offset by the impact of unfavorable foreign exchange on product cost and higher spending on RVP and advertising.

Western Europe, Middle East & Africa 2007 Compared to 2006

			%/Point Change	
	2007	2006	US$	Local Currency
Total revenue	$ 1,308.6	$ 1,123.7	16%	7%
Operating profit	33.9	(17.8)	*	*
Operating margin	2.6%	(1.6)%	4.2	3.1
Units sold				6%
Active Representatives				7%

* Calculation not meaningful

Total revenue increased for 2007 reflecting growth in Active Representatives, as well as favorable foreign exchange. The revenue increase for 2007 was primarily driven by growth in Turkey and the U.K. Revenue growth in Turkey of over 35% for 2007 was primarily due to growth in Active Representatives, as well as favorable foreign exchange. Revenue growth in the U.K. of over 10% in 2007 benefited from growth in Active Representatives, mainly due to the strength of the Sales Leadership program, and favorable foreign exchange. Revenue in Turkey and the U.K. also benefited from new product launches and significant investments in advertising and RVP.

Operating margin for 2006 was suppressed by 1.9 points due to $21.0 of expense associated with the resolution of a value-added tax dispute in the U.K. in the third quarter of 2006. The increase in operating margin for 2007 was also driven by lower product costs due to favorable foreign exchange movements and savings associated with position eliminations resulting from restructuring initiatives. These benefits to operating margin were partially offset by higher costs to implement restructuring initiatives, which negatively impacted operating margin by 1.1 points in 2007, higher spending on advertising and RVP and higher inventory obsolescence expense.

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Asia Pacific 2008 Compared to 2007

			%/Point Change	
	2008	2007	US$	Local Currency
Total revenue	$ 891.2	$ 850.8	5%	0%
Operating profit	102.4	64.3	59%	54%
Operating margin	11.5%	7.6%	3.9	4.0
Units sold				0%
Active Representatives				4%

Total revenue increased for 2008 due to foreign exchange. Revenue growth in the Philippines of almost 20%, was primarily due to growth in Active Representatives, supported by RVP initiatives, as well as favorable foreign exchange. Revenue in Japan increased slightly due to foreign exchange. Revenue in Japan in local currency declined in 2008 due to lower sales from both direct mail and direct selling. We expect to continue to see downward pressure in Japan going forward. Revenue in Taiwan declined in 2008, reflecting the impact of a field restructuring and economic weakness, partially offset by favorable foreign exchange.

Operating margin increased for 2008, primarily due to the impact of lower inventory obsolescence expense, increased pricing and lower overhead expenses, partially offset by higher spending on RVP and an unfavorable mix of products sold.

Asia Pacific 2007 Compared to 2006

			%/Point Change	
	2007	2006	US$	Local Currency
Total revenue	$ 850.8	$ 810.8	5%	(1)%
Operating profit	64.3	42.5	51%	35%
Operating margin	7.6%	5.2%	2.4	1.9
Units sold				2%
Active Representatives				4%

Total revenue increased for 2007 due to favorable foreign exchange. The region s revenue increase for 2007 was primarily driven by growth in the Philippines, partially offset by declines in Japan and Taiwan. Revenue in the Philippines for 2007 increased almost 30%, driven by substantial growth in Active Representatives, supported by RVP initiatives, including the roll-out of the Sales Leadership program nationwide, and investments in recruiting advertising, as well as favorable foreign exchange. Revenue in Japan declined mid-single digits for 2007, reflecting weak performance in skin care. In Japan, lower sales from direct mailing were partially offset by a modest increase in sales from direct selling. While less than the overall revenue decline in the beauty market, revenue in Taiwan declined due to economic weakness.

The increase in operating margin for 2007 was primarily driven by lower costs to implement restructuring initiatives, which positively impacted operating margin by 2.2 points. Additionally, the operating margin improvement was due to lower inventory obsolescence expense and savings associated with position eliminations resulting from restructuring initiatives, partially offset by higher spending on RVP and advertising and unfavorable category and country mixes of products sold.

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China   2008 Compared to 2007

			%/Point Change	
				Local
	2008	**2007**	**US$**	**Currency**
Total revenue	$ 350.9	$ 280.5	25%	14%
Operating profit	17.7	2.0	*	*
Operating margin	5.0%	.7%	4.3	4.1
Units sold				2%
Active Representatives				79%

*   Calculation not meaningful

Revenue in China increased for 2008, primarily due to an increase in Active Representatives, partially offset by a lower average order. The growth in Active Representatives reflected continued expansion of our direct selling efforts, which were supported with significant Representative recruiting, television advertising and field incentives. The lower average order resulted from the continued expansion of direct selling, as Representatives order in smaller quantities than beauty boutiques, and orders from new Representatives tend to be smaller than the average direct selling order. Beauty boutique ordering activity levels have remained steady during this extended period of direct selling expansion, as our beauty boutique operators continue to service our Representatives.

The results in China for 2008 were negatively impacted by the earthquake and subsequent flooding that occurred during the second quarter of 2008.

The increase in operating margin for 2008 was primarily driven by the impact of higher revenue and lower product costs, partially offset by ongoing higher spending on RVP and advertising and costs associated with the 2008 earthquake and floods. Operating margin for 2007 benefited from higher reductions in reserves for statutory liabilities.

For information concerning an internal investigation into our China operations, see Risk Factors and Note 15, Contingencies.

China   2007 Compared to 2006

			%/Point Change	
				Local
	2007	**2006**	**US$**	**Currency**
Total revenue	$ 280.5	$ 211.8	32%	26%
Operating profit	2.0	(10.8)	*	*
Operating margin	.7%	(5.1)%	5.8	5.5
Units sold				19%
Active Representatives				145%

*   Calculation not meaningful

Total revenue in China increased significantly in 2007, primarily due to an increase in Active Representatives reflecting further expansion of the direct-selling business, which contributed over one half of the region s revenue in 2007. Active Representatives increased significantly in 2007 due to Representative recruiting, as well as the absence of a meaningful base comparison for the first half of 2006. The lower average order was mainly due to a higher share of sales from new Representatives. At the same time that we have been building on direct selling, we have seen ordering activity levels maintained by our beauty boutiques as they continue to engage in direct selling by servicing our Representatives. Additionally, the number of beauty boutiques has remained stable over the last year. Revenue in 2007 benefited from representative recruiting and continued significant investments in advertising.

The increase in operating margin for 2007 was primarily driven by the impact of higher revenue and a reduction of a reserve for statutory liabilities. These positive impacts were partially offset by ongoing higher spending on RVP and fees paid to registered service centers for providing services to our Active Representatives.

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LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds historically have been cash flows from operations, commercial paper and borrowings under lines of credit. We currently believe that existing cash, cash from operations (including the impacts of cash required for restructuring initiatives) and available sources of public and private financing are adequate to meet anticipated requirements for working capital, dividends, capital expenditures, the share repurchase program, possible acquisitions and other cash needs in the short and long term.

We may, from time to time, seek to repurchase our equity in open market purchases, privately negotiated transactions, pursuant to derivative instruments or otherwise. During 2008, we repurchased approximately 4.6 million shares of our common stock for an aggregate purchase price of approximately $172.

Retirements of debt will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material. We may also elect to incur additional debt or issue equity or convertible securities to finance ongoing operations, acquisitions or to meet our other liquidity needs.

Any issuances of equity securities or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact earnings per share in future periods.

Our liquidity could also be impacted by dividends, capital expenditures and acquisitions. At any given time, we may be in the process of discussing and negotiating an acquisition. An acquisition may be accretive or dilutive and by its nature, involve numerous risks and uncertainties. See our Cautionary Statement for purposes of the Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.

While recent turmoil in global financial markets has limited access to capital for many companies, in 2008 we did not experience any limitations in issuing commercial paper, reflecting our investment-grade credit rating (Standard and Poor s rating of single A and Moody s rating of A2). In addition, our commercial paper program is fully supported by a revolving line of credit, which is described below under Capital Resources . Management is not aware of any issues currently impacting our lenders ability to honor their commitment to extend credit under the revolving line of credit. It is unclear the extent to which this credit crisis will persist and what overall impact it may have on Avon.

Balance Sheet Data

	2008	2007
Cash and cash equivalents	$ 1,104.7	$ 963.4
Total debt	2,487.6	2,097.4
Working capital	644.7	462.0

Cash Flows

	2008	2007	2006
Net cash provided by operating activities	$ 748.1	$ 589.8	$ 796.1
Net cash used by investing activities	(403.4)	(287.2)	(207.9)
Net cash used by financing activities	(141.5)	(597.1)	(490.4)
Effect of exchange rate changes on cash and equivalents	(61.9)	59.0	42.4

Net Cash Provided by Operating Activities

Net cash provided by operating activities during 2008 was $158.3 higher than during 2007, primarily due to higher cash-related net income in 2008, favorable impacts of inventory and accounts receivable balances and lower contributions to retirement-related plans in 2008. These cash inflows were partially offset by the unfavorable impact of the accounts payable balance, additional payments of value added taxes due to a tax law change in Brazil that we began to recover during the fourth quarter of 2008, higher incentive-based compensation payments in 2008 related to our 2006-2007 Turnaround Incentive Plan and a payment of $38.0 upon settlement of treasury lock agreements associated with our $500 debt issuance during the first quarter of 2008.

Inventory levels decreased during 2008, to $1,007.9 at December 31, 2008, from $1,041.8 at December 31, 2007, reflecting the impact of foreign exchange, partially offset by business growth and revenue declines in North America. New inventory life cycle management processes leveraged with initiatives such as PLS, SSI, ERP implementation and the Sales and Operations Planning process are expected to improve inventory levels in the long-term. Inventory days are down three days in 2008 as compared to 2007, and we expect our initiatives to help us deliver improvements of three to five inventory day reductions per year for the next three to four years.

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We maintain defined benefit pension plans and unfunded supplemental pension benefit plans (see Note 11, Employee Benefit Plans). Our funding policy for these plans is based on legal requirements and cash flows. The amounts necessary to fund future obligations under these plans could vary depending on estimated assumptions (as detailed in Critical Accounting Estimates). The future funding for these plans will depend on economic conditions, employee demographics, mortality rates, the number of associates electing to take lump-sum distributions, investment performance and funding decisions. Based on current assumptions, we expect to make contributions in the range of $60 to $100 to our U.S. pension plans and in the range of $20 to $30 to our international pension plans during 2009.

Net cash provided by operating activities decreased by $206.3 during 2007 as compared to 2006, primarily due to higher payments for inventory purchases, higher incentive-based compensation payments in 2007 for compensation earned in 2006 and higher interest payments, partially offset by lower payments associated with restructuring initiatives.

Net Cash Used by Investing Activities

Net cash used by investing activities during 2008 was $116.2 higher than 2007, primarily due to higher capital expenditures. 2007 included a payment associated with an acquisition of a licensee in Egypt.

Capital expenditures during 2008 were $380.5 compared with $278.5 in 2007. This increase was primarily driven by capital spending in 2008 for the construction of new distribution facilities in North America and Latin America, and information systems (including the continued development of the ERP system). Plant construction, expansion and modernization projects were in progress at December 31, 2008, with an estimated cost to complete of approximately $430. Capital expenditures in 2009 are currently expected to be in the range of $325 to $375 and will be funded by cash from operations. These expenditures will include investments for capacity expansion, modernization of existing facilities, continued construction of new distribution facilities in North America and Latin America and information systems.

Net cash used by investing activities in 2007 was $79.3 higher than in 2006 resulting from higher capital expenditures during 2007, and from payments associated with an acquisition of a licensee in Egypt during 2007, partially offset by the acquisition of the remaining minority interest in our two joint venture subsidiaries in China for approximately $39 during 2006.

Capital expenditures during 2007 were $278.5 compared with $174.8 in 2006. The increase in capital spending was primarily driven by spending in 2007 for capacity expansion, the construction of a new distribution facility in North America and information systems (including the continued development of the ERP system).

Net Cash Used by Financing Activities

Net cash used by financing activities during 2008 was $455.6 lower than during 2007, primarily due to lower repurchases of common stock during 2008.

Net cash used by financing activities in 2007 was $106.7 higher than in 2006, mainly driven by higher repurchases of common stock during 2007, partially offset by higher short-term borrowings and higher proceeds from stock option exercises during 2007.

We purchased approximately 4.6 million shares of Avon common stock for $172.1 during 2008, as compared to approximately 17.3 million shares of Avon common stock for $666.8 during 2007 and approximately 11.6 million shares of Avon common stock for $355.1 during 2006, under our previously announced share repurchase programs and through acquisition of stock from employees in connection with tax payments upon vesting of restricted stock units. In October 2007, the Board of Directors authorized the repurchase of $2,000.0 of our common stock over a five-year period, which began in December 2007.

We increased our quarterly dividend payments to $.20 per share in 2008 from $.185 per share in 2007. In February 2009, our Board approved an increase in the quarterly dividend to $.21 per share.

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Debt and Contractual Financial Obligations and Commitments

At December 31, 2008, our debt and contractual financial obligations and commitments by due dates were as follows:

	2009	2010	2011	2012	2013	2014 and Beyond	Total
Short-term debt	$ 1,027.1	$	$	$	$	$	$ 1,027.1
Long-term debt			500.0		375.0	500.0	1,375.0
Capital lease obligations	4.3	4.3	2.8	2.5	0.8		14.7
Total debt	1,031.4	4.3	502.8	2.5	375.8	500.0	2,416.8
Debt-related interest	90.7	68.9	55.8	42.8	33.8	63.0	355.0
Total debt-related	1,122.1	73.2	558.6	45.3	409.6	563.0	2,771.8
Operating leases	87.9	61.6	42.7	21.8	17.0	45.6	276.6
Purchase obligations	106.3	55.3	25.8	17.7	16.1	49.9	271.1
Benefit obligations [(1)]	77.4	13.9	11.6	10.4	11.3	50.4	175.0
Total debt and contractual financial obligations and commitments [(2)]	$ 1,393.7	$ 204.0	$ 638.7	$ 95.2	$ 454.0	$ 708.9	$ 3,494.5

(1) Amounts represent expected future benefit payments for our unfunded pension and postretirement benefit plans, as well as expected contributions for 2009 to our funded pension benefit plans.

(2) The amount of debt and contractual financial obligations and commitments excludes amounts due pursuant to derivative transactions. The table also excludes information on recurring purchases of inventory as these purchase orders are non-binding, are generally consistent from year to year, and are short-term in nature. The table does not include any reserves for income taxes under FIN 48 because we are unable to reasonably predict the ultimate amount or timing of settlement of our reserves for income taxes. At December 31, 2008, our reserves for income taxes, including interest and penalties, totaled $118.3.

See Note 4, Debt and Other Financing, and Note 13, Leases and Commitments, for further information on our debt and contractual financial obligations and commitments. Additionally, as disclosed in Note 14, Restructuring Initiatives, we have a remaining liability of $93.9 at December 31, 2008, associated with the restructuring charges recorded to date, and we also expect to record additional restructuring charges of $21.9 in future periods to implement the actions approved to date. The significant majority of these liabilities will require cash payments during 2009.

Off Balance Sheet Arrangements

At December 31, 2008, we had no material off-balance-sheet arrangements.

Capital Resources

We have a five-year, $1,000.0 revolving credit and competitive advance facility (the credit facility), which expires in January 2011. The credit facility may be used for general corporate purposes. The interest rate on borrowings under this credit facility is based on LIBOR or on the higher of prime or $^1/2$% plus the federal funds rate. The credit facility has an annual fee of $.7, payable quarterly, based on our current credit ratings. The credit facility contains various covenants, including a financial covenant which requires Avon s interest coverage ratio (determined in relation to our consolidated pretax income and interest expense) to equal or exceed 4:1. The credit facility also provides for possible increases by up to an aggregate incremental principal amount of $250.0, subject to the consent of the affected lenders under the credit facility. At December 31, 2008, there were no amounts outstanding under the credit facility.

We have a $1,000.0 commercial paper program. Under this program, we may issue from time to time unsecured promissory notes in the commercial paper market in private placements exempt from registration under federal and state securities laws, for a cumulative face amount not to exceed $1,000.0 outstanding at any one time and with maturities not exceeding 270 days from the date of issue. The commercial paper short-term notes issued under the program are not redeemable prior to maturity and are not subject to voluntary prepayment. The commercial paper program is supported by our credit facility. Outstanding commercial paper effectively reduces the amount available for borrowing under the credit facility. At December 31, 2008, we had commercial paper outstanding of $499.7.

We have a Japanese yen 11 billion ($122.0 at the exchange rate on December 31, 2008) uncommitted credit facility (yen credit facility), which expires in August 2009. Borrowings under the yen credit facility bear interest at the yen

LIBOR rate plus an applicable margin. The yen credit facility is available for general corporate purposes, including working capital and the repayment of outstanding indebtedness. At December 31, 2008, $102.0 (Japanese yen 9.2 billion) was outstanding under the yen credit facility.

In March 2008, we issued $500.0 principal amount of notes payable in a public offering. $250.0 of the notes bear interest at a per annum coupon rate equal to 4.8%, payable semi-annually, and mature on March 1, 2013, unless redeemed prior to maturity (the 2013 Notes). $250.0 of the notes bear interest at a per annum coupon rate of 5.75%, payable semi-annually, and mature on March 1, 2018, unless redeemed prior to maturity (the 2018 Notes). The net proceeds from the offering of $496.3 were used to repay outstanding indebtedness under our commercial paper program and for general corporate purposes. In August 2007, we entered into treasury lock agreements (the locks) with notional amounts totaling $500.0 designated as cash flow hedges of the anticipated interest payments on $250.0 principal amount of the 2013 Notes and $250.0 principal amount of the 2018 Notes. The losses on the locks of $38.0 were recorded in accumulated other comprehensive loss. $19.2 and $18.8 of the losses are being amortized to interest expense over five years and ten years, respectively.

At December 31, 2008, we were in compliance with all covenants in our indentures (see Note 4, Debt and Other Financing). Such indentures do not contain any rating downgrade triggers that would accelerate the maturity of our debt. However, we would be required to make an offer to repurchase the 2013 Notes and 2018 Notes at a price equal to 101% of their aggregate principal amount plus accrued and unpaid interest in the event of a change in control involving Avon and a corresponding ratings downgrade to below investment grade.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We do not enter into derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives. The master agreements governing our derivative contracts generally contain standard provisions that could trigger early termination of the contracts in certain circumstances, including if we were to merge with another entity and the creditworthiness of the surviving entity were to be materially weaker than that of Avon prior to the merger.

Interest Rate Risk

Our long-term, fixed-rate borrowings are subject to interest rate risk. We use interest rate swaps, which effectively convert the fixed rate on the debt to a floating interest rate, to manage our interest rate exposure. At December 31, 2008 and 2007, we held interest rate swap agreements that effectively converted approximately 50% and 30% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR, respectively. Avon s total exposure to floating interest rates at December 31, 2008, and December 31, 2007, was approximately 65% and 60%, respectively.

Our long-term borrowings and interest rate swaps were analyzed at year-end to determine their sensitivity to interest rate changes. Based on the outstanding balance of all these financial instruments at December 31, 2008, a hypothetical 50-basis-point change (either an increase or a decrease) in interest rates prevailing at that date, sustained for one year, would not represent a material potential change in fair value, earnings or cash flows. This potential change was calculated based on discounted cash flow analyses using interest rates comparable to our current cost of debt.

Foreign Currency Risk

We operate globally, with operations in various locations around the world. Over the past three years, approximately 75% to 80% of our consolidated revenue was derived from operations of subsidiaries outside of the U.S. The functional currency for most of our foreign operations is the local currency. We are exposed to changes in financial market conditions in the normal course of our operations, primarily due to international businesses and transactions denominated in foreign currencies and the use of various financial instruments to fund ongoing activities. At December 31, 2008, the primary currencies for which we had net underlying foreign currency exchange rate exposures were the Argentine peso, Brazilian real, British pound, Canadian dollar, Chinese renminbi, Colombian peso, the Euro, Japanese yen, Mexican peso, Philippine peso, Polish zloty, Russian ruble, Turkish lira, Ukrainian hryvna and Venezuelan bolivar.

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We may reduce our exposure to fluctuations in cash flows associated with changes in foreign exchange rates by creating offsetting positions through the use of derivative financial instruments.

Our hedges of our foreign currency exposure are not designed to, and, therefore, cannot entirely eliminate the effect of changes in foreign exchange rates on our consolidated financial position, results of operations and cash flows.

Our foreign-currency financial instruments were analyzed at year-end to determine their sensitivity to foreign exchange rate changes. Based on our foreign exchange contracts at December 31, 2008, the impact of a hypothetical 10% appreciation or 10% depreciation of the U.S. dollar against our foreign exchange contracts would not represent a material potential change in fair value, earnings or cash flows. This potential change does not consider our underlying foreign currency exposures. The hypothetical impact was calculated on the open positions using forward rates at December 31, 2008, adjusted for an assumed 10% appreciation or 10% depreciation of the U.S. dollar against these hedging contracts.

Credit Risk of Financial Instruments

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

Non-performance of the counterparties on the balance of all the foreign exchange and interest rate agreements would result in a write-off of $111.8 at December 31, 2008. In addition, in the event of non-performance by such counterparties, we would be exposed to market risk on the underlying items being hedged as a result of changes in foreign exchange and interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our principal executive and principal financial officers carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon their evaluation, the principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of December 31, 2008, at the reasonable assurance level. Disclosure controls and procedures are designed to ensure that information relating to Avon (including our consolidated subsidiaries) required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management to allow timely decisions regarding disclosure.

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Management s Report on Internal Control over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Avon;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Avon are being made only in accordance with authorizations of management and directors of Avon; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Avon s assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of our management, including its principal executive and principal financial officers, we assessed as of December 31, 2008, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting as of December 31, 2008, was effective.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this 2008 Annual Report on Form 10-K, has audited the effectiveness of Avon s internal control over financial reporting as of December 31, 2008. Their report is included on page F-2 of this 2008 Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

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

We are implementing 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 occur in phases over the next several years. The implementation of a worldwide ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness.

We completed implementation in certain significant markets and will continue to roll-out the ERP system over the next several years. As with any new information technology application we implement, this application, along with the internal controls over financial reporting included in this process, were appropriately tested for effectiveness prior to the implementation in these countries. We concluded, as part of our evaluation described in the above paragraph, that the implementation of ERP in these countries has not materially affected our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Information regarding directors is incorporated by reference to the Proposal 1 - Election of Directors and Information Concerning the Board of Directors sections of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

Executive Officers

Information regarding executive officers is incorporated by reference to the Executive Officers section of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

Section 16(a) Beneficial Ownership Reporting Compliance

This information is incorporated by reference to the Section 16(a) Beneficial Ownership Reporting Compliance section of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

Code of Business Conduct and Ethics

Avon s Board of Directors has adopted a Code of Business Conduct and Ethics, amended in February 2008, that applies to all members of the Board of Directors and to all of the Company s employees, including its principal executive officer, principal financial officer and principal accounting officer or controller. Avon s Code of Business Conduct and Ethics is available, free of charge, on Avon s investor website, *www.avoninvestor.com*. Avon s Code of Business Conduct and Ethics is also available, without charge, from Investor Relations, Avon Products, Inc., 1345 Avenue of the Americas, New York, NY 10105-0196 or by sending an email to investor.relations@avon.com or by calling (212) 282-5623. Any amendment to, or waiver from, the provisions of this Code of Business Conduct and Ethics that applies to any of those officers will be posted to the same location on Avon s website.

Audit Committee; Audit Committee Financial Expert

This information is incorporated by reference to the Information Concerning the Board of Directors section of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

Material Changes in Nominating Procedures

This information is incorporated by reference to the Information Concerning the Board of Directors section of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference to the Information Concerning the Board of Directors, Executive Compensation and Director Compensation sections of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

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

This information is incorporated by reference to the Equity Compensation Plan Information and Ownership of Shares sections of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

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

This information is incorporated by reference to the Information Concerning the Board of Directors and Transactions with Related Persons sections of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This information is incorporated by reference to the Proposal 2 - Ratification of Appointment of Independent Registered Public Accounting Firm section of Avon s Proxy Statement for the 2009 Annual Meeting of Shareholders.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

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

See Index on page F-1.

(a) 2. Financial Statement Schedule

See Index on page F-1.

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

(a) 3. Index to Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, filed with the Secretary of State of the State of New York on May 3, 2007 (incorporated by reference to Exhibit 3.1 to Avon s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).
3.2	By-laws of Avon, as amended, effective May 3, 2007 (incorporated by reference to Exhibit 3.1 to Avon s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).
4.1	Indenture, dated as of November 9, 1999, between Avon, as Issuer, and The Chase Manhattan Bank, as Trustee, relating to the 6.90% Notes due 2004, and the 7.15% Notes due 2009 (incorporated by reference to Exhibit 4.2 to Avon s Registration Statement on Form S-4, Registration Statement No. 333-92333 filed December 8, 1999).
4.2	First Supplemental Indenture, dated as of January 5, 2000, between Avon, as Issuer and The Chase Manhattan Bank, as Trustee, pursuant to which the 6.90% Notes due 2004, and the 7.15% Notes due 2009 are issued (incorporated by reference to Exhibit 4.3 to Avon s Registration Statement on Form S-4/A, Registration Statement No. 333-92333 filed January 6, 2000).
4.3	Indenture, dated as of May 13, 2003, between Avon, as Issuer, and JPMorgan Chase Bank, as Trustee, relating to Avon s $125.0 aggregate principal amount of 4.625% Notes due 2013, $250.0 aggregate principal amount of 4.20% Notes due 2018 and $500.0 aggregate principal amount of Avon s 5.125% Notes due 2011 (incorporated by reference to Exhibit 4.1 to Avon s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
4.4	First Supplemental Indenture, dated as of March 3, 2008, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee, pursuant to which the 4.800% Notes due 2013 are issued (incorporated by reference to Exhibit 4.1 to Avon s Current Report on Form 8-K filed on March 4, 2008).
4.5	Second Supplemental Indenture, dated as of March 3, 2008, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee, pursuant to which the 5.750% Notes due 2018 are issued (incorporated by reference to Exhibit 4.2 to Avon s Current Report on Form 8-K filed on March 4, 2008).
4.6	Indenture, dated as of February 27, 2008, between Avon Products, Inc. and Deutsche Bank Trust Company Americas, as Trustee (incorporated by reference to Exhibit 4.5 to Avon s Current Report on Form 8-K filed on March 4, 2008).
10.1*	Avon Products, Inc. 1993 Stock Incentive Plan, approved by stockholders on May 6, 1993 (incorporated by reference to Exhibit 10.2 to Avon s Quarterly Report on Form 10-Q for the quarter ended June 30, 1993).
10.2*	Form of Stock Option Agreement to the Avon Products, Inc. 1993 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon s Annual Report on Form 10-K for the year ended December 31, 1993).
10.3*	First Amendment of the Avon Products, Inc. 1993 Stock Incentive Plan, effective January 1, 1997, approved by stockholders on May 1, 1997 (incorporated by reference to Exhibit 10.1 to Avon s Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).

10.4*	Avon Products, Inc. Year 2000 Stock Incentive Plan (incorporated by reference to Appendix A to the Company s Proxy Statement as filed with the Commission on March 27, 2000 in connection with Avon s 2000 Annual Meeting of Shareholders).

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10.5*	Amendment of the Avon Products, Inc. Year 2000 Stock Incentive Plan, effective January 1, 2002 (incorporated by reference to Exhibit 10.17 to Avon s Annual Report on Form 10-K for the year ended December 31, 2002).
10.6*	Second Amendment to the Avon Products, Inc. Year 2000 Stock Incentive Plan, effective January 1, 2009.
10.7*	Form of U.S. Stock Option Agreement under the Avon Products, Inc. Year 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.8*	Form of U.S. Restricted Stock Unit Award Agreement under the Avon Products, Inc. Year 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.39 to Avon s Annual Report on Form 10-K for the year ended December 31, 2005).
10.9*	Form of Revised U.S. Stock Option Agreement under the Avon Products, Inc. Year 2000 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to Avon s Current Report on Form 8-K filed on March 8, 2005).
10.10*	Form of Revised U.S. Restricted Stock Unit Award Agreement under the Avon Products, Inc. Year 2000 Stock Incentive Plan (incorporated by reference to Exhibit 99.2 to Avon s Current Report on Form 8-K filed on March 8, 2005).
10.11*	Avon Products, Inc. 2005 Stock Incentive Plan approved by stockholders on May 5, 2005 (incorporated by reference to Appendix G to Avon s Definitive Proxy Statement filed on May 5, 2005 in connection with Avon s 2005 Annual Meeting of Shareholders).
10.12*	First Amendment of the Avon Products, Inc. 2005 Stock Incentive Plan, effective January 1, 2006 (incorporated by reference to Exhibit 10.12 to Avon s Annual Report on Form 10-K for the year ended December 31, 2006).
10.13*	Second Amendment of the Avon Products, Inc. 2005 Stock Incentive Plan, effective January 1, 2007 (incorporated by reference to Exhibit 10.13 to Avon s Annual Report on Form 10-K for the year ended December 31, 2006).
10.14*	Third Amendment to the Avon Products, Inc. 2005 Stock Incentive Plan, dated October 2, 2008.
10.15*	Form of U.S. Stock Option Agreement under the Avon Products, Inc. Year 2005 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to Avon s Current Report on Form 8-K filed on September 6, 2005).
10.16*	Form of U.S. Restricted Stock Unit Award Agreement under the Avon Products, Inc. Year 2005 Stock Incentive Plan (incorporated by reference to Exhibit 99.2 to Avon s Current Report on Form 8-K filed on September 6, 2005).
10.17*	Form of Performance Contingent Restricted Stock Unit Award Agreement for Senior Officers under the Avon Products, Inc. 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10 to Avon s Current Report on Form 8-K filed on March 13, 2007).
10.18*	Form of Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on February 7, 2008).
10.19*	Form of Retention Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon s Current Report on Form 8-K filed on February 7, 2008).
10.20*	Supplemental Executive Retirement Plan of Avon Products, Inc., as amended and restated as of January 1, 2009.
10.21*	Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.20 to Avon s Annual Report on Form 10-K for the year ended December 31, 2007).
10.22*	Avon Products, Inc. Compensation Plan for Non-Employee Directors, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.21 to Avon s Annual Report on Form 10-K for the year ended December 31, 2007).
10.23*	Board of Directors of Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.22 to Avon s Annual Report on Form 10-K for the year ended December 31, 2007).
10.24*	Avon Products, Inc. Executive Incentive Plan, approved by shareholders on May 1, 2003 (incorporated by reference to Appendix E to Avon s Proxy Statement as filed with the Commission on March 27, 2003 in connection with Avon s 2003 Annual Meeting of Shareholders).
10.25*	Avon Products, Inc. 2008-2012 Executive Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on March 11, 2008).
10.26*	Benefit Restoration Pension Plan of Avon Products, Inc., as amended and restated as of January 1, 2009.
10.27*	Trust Agreement, dated as of October 29, 1998, between Avon and The Chase Manhattan Bank, N.A., as Trustee, relating to the grantor trust (incorporated by reference to Exhibit 10.12 to Avon s Annual Report on Form 10-K for the year ended December 31, 2004).

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10.28*	Amendment to Trust Agreement, effective as of January 1, 2009.
10.29*	Avon Products, Inc. 2006-2007 Turnaround Incentive Plan, effective as of January 1, 2006 (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on March 31, 2006.)
10.30*	Amended and Restated Employment Agreement with Andrea Jung, dated December 5, 2008 (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on December 8, 2008).
10.31*	Offer letter from Avon Products, Inc. to Elizabeth A. Smith, dated November 1, 2004 (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on January 6, 2005).
10.32*	Amendment to Employment Letter Agreement, effective as of November 12, 2008 between Avon and Elizabeth A. Smith.
10.33*	Employment Letter Agreement, dated as of November 13, 2005, between Avon and Charles W. Cramb (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K/A filed on November 16, 2005).
10.34*	Amendment to Employment Letter Agreement, effective as of December 3, 2008 between Avon and Charles W. Cramb.
10.35*	Form of Performance Contingent Restricted Stock Unit Award Agreement under the Avon Products, Inc. 2005 Stock Incentive Plan for the Chief Executive Officer (incorporated by reference to Exhibit 10.2 to Avon s Current Report on Form 8-K filed on March 31, 2006).
10.36*	Restricted Stock Unit Award Agreement, dated as of July 26, 2006, by and between Avon Products, Inc. and Elizabeth Smith, Executive Vice President, President North America and Global Marketing, under the Avon Products, Inc. 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on August 1, 2006).
10.37*	Employment Letter Agreement, dated as of November 18, 2005, between Avon and Charles Herington.
10.38*	Amendment to Employment Letter Agreement, effective as of November 24, 2008 between Avon and Charles Herington.
10.39*	Expatriate Assignment Agreement, dated as of April 6, 2006, by and between Avon Products, Inc. and Ben Gallina.
10.40*	Amendment to Expatriate Assignment Agreement, effective as of December 1, 2008 between Avon and Ben Gallina.
10.41	Credit Agreement, dated as of August 23, 2005, among Avon Products, Inc., Avon Capital Corporation and Bank of America, N.A (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on August 26, 2005).
10.42	Credit Agreement, dated as of August 23, 2005, among Avon Products, Inc., Avon Capital Corporation and Citibank, N.A. (incorporated by reference to Exhibit 10.2 to Avon s Current Report on Form 8-K filed on August 26, 2005).
10.43	Guarantee of Avon Products, Inc. dated as of August 31, 2005 (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on September 6, 2005).
10.44	Revolving Credit and Competitive Advance Facility Agreement, dated as of January 13, 2006, among Avon Products, Inc., Avon Capital Corporation, Citibank, N.A., as Administrative Agent, Citigroup Global Markets Inc., Banc of America Securities LLC and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on January 13, 2006).
10.45	Loan Agreement, dated as of August 28, 2006, by and between Avon Products, Inc. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on August 31, 2006).
10.46	Amendment No. 1 to Loan Agreement, dated as of August 6, 2007, by and between Avon Products, Inc. and the Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on August 7, 2007).
10.47	Amendment No. 2 to Loan Agreement, dated August 21, 2008, by and between Avon Products, Inc. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference to Exhibit 10.1 to Avon s Current Report on Form 8-K filed on August 26, 2008).
10.48*	Supplemental Life Plan of Avon Products, Inc., amended and restated as of January 1, 2009.
10.49*	Pre-1990 Supplemental Life Plan of Avon Products, Inc., amended and restated as of January 1, 2009.
10.50*	Avon Products, Inc. Management Incentive Plan, effective as of January 1, 2009.
21	Subsidiaries of the registrant.
23	Consent of PricewaterhouseCoopers LLP.

24	Power of Attorney.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of Vice Chairman, Chief Finance and Strategy Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Vice Chairman, Chief Finance and Strategy Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* The Exhibits identified above with an asterisk (*) are management contracts or compensatory plans or arrangements.

Avon s Annual Report on Form 10-K for the year ended December 31, 2008, at the time of filing with the Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934 for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933, which incorporates by reference such Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 20th day of February 2009.

Avon Products, Inc.

/s/ Simon N.R. Harford
Simon N.R. Harford
Group Vice President and
Corporate Controller - Principal
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
* Andrea Jung	Chairman of the Board and Chief Executive Officer Principal Executive Officer	February 20, 2009
* Charles W. Cramb	Vice Chairman, Chief Finance and Strategy Officer Principal Financial Officer	February 20, 2009
* Simon N.R. Harford	Group Vice President and Corporate Controller Principal Accounting Officer	February 20, 2009
* W. Don Cornwell	Director	February 20, 2009
* Edward T. Fogarty	Director	February 20, 2009
* V. Anne Hailey	Director	February 20, 2009
* Fred Hassan	Director	February 20, 2009
* Maria Elena Lagomasino	Director	February 20, 2009
* Ann S. Moore	Director	February 20, 2009
* Paul S. Pressler	Director	February 20, 2009
*		

Gary M. Rodkin	Director	February 20, 2009
*		
Paula Stern	Director	February 20, 2009
*		
Lawrence A. Weinbach	Director	February 20, 2009
*By: /s/ Kim K.W. Rucker		
Kim K.W. Rucker	Attorney-in-fact	February 20, 2009

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AVON PRODUCTS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in shareholders equity present fairly, in all material respects, the financial position of Avon Products Inc. and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting, appearing in Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, in 2007 the Company changed the manner in which it accounts for uncertain tax positions. In 2006, the Company changed the manner in which it accounts for pension and other postretirement benefit plans.

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

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

/s/ PricewaterhouseCoopers LLP

New York, New York

February 20, 2009

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AVON PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

Years ended December 31	**2008**	**2007**	**2006**
Net sales	$ 10,588.9	$ 9,845.2	$ 8,677.3
Other revenue	101.2	93.5	86.6
Total revenue	10,690.1	9,938.7	8,763.9
Costs, expenses and other:			
Cost of sales	3,949.1	3,941.2	3,416.5
Selling, general and administrative expenses	5,401.7	5,124.8	4,586.0
Operating profit	1,339.3	872.7	761.4
Interest expense	100.4	112.2	99.6
Interest income	(37.1)	(42.2)	(55.3)
Other expense, net	37.7	6.6	13.6
Total other expenses	101.0	76.6	57.9
Income before taxes and minority interest	1,238.3	796.1	703.5
Income taxes	362.7	262.8	223.4
Income before minority interest	875.6	533.3	480.1
Minority interest	(0.3)	(2.6)	(2.5)
Net income	$ 875.3	$ 530.7	$ 477.6
Earnings per share:			
Basic	$ 2.05	$ 1.22	$ 1.07
Diluted	$ 2.04	$ 1.21	$ 1.06
Weighted-average shares outstanding:			
Basic	426.36	433.47	447.40
Diluted	429.53	436.89	449.16

The accompanying notes are an integral part of these statements.

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AVON PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

December 31	**2008**	**2007**
Assets		
Current assets		
Cash, including cash equivalents of $704.8 and $492.3	$ 1,104.7	$ 963.4
Accounts receivable (less allowances of $127.9 and $141.1)	687.8	795.0
Inventories	1,007.9	1,041.8
Prepaid expenses and other	756.5	715.2
Total current assets	3,556.9	3,515.4
Property, plant and equipment, at cost		
Land	85.3	71.8
Buildings and improvements	1,000.7	972.7
Equipment	1,353.9	1,317.9
	2,439.9	2,362.4
Less accumulated depreciation	(1,096.0)	(1,084.2)
	1,343.9	1,278.2
Other assets	1,173.2	922.6
Total assets	$ 6,074.0	$ 5,716.2
Liabilities and Shareholders Equity		
Current liabilities		
Debt maturing within one year	$ 1,031.4	$ 929.5
Accounts payable	724.3	800.3
Accrued compensation	234.4	285.8
Other accrued liabilities	581.9	713.2
Sales and taxes other than income	212.2	222.3
Income taxes	128.0	102.3
Total current liabilities	2,912.2	3,053.4
Long-term debt	1,456.2	1,167.9
Employee benefit plans	665.4	388.7
Long-term income taxes	168.9	208.7
Other liabilities (including minority interest of $37.4 and $38.2)	196.4	185.9
Total liabilities	$ 5,399.1	$ 5,004.6
Commitments and contingencies (Notes 13 and 15)		
Shareholders equity		
Common stock, par value $.25 authorized 1,500 shares; issued 739.4 and 736.3 shares	$ 185.6	$ 184.7
Additional paid-in capital	1,874.1	1,724.6

Retained earnings	4,118.9	3,586.5
Accumulated other comprehensive loss	(965.9)	(417.0)
Treasury stock, at cost 313.1 and 308.6 shares	(4,537.8)	(4,367.2)
Total shareholders equity	$ 674.9	$ 711.6
Total liabilities and shareholders&#146		