PROCTER & GAMBLE Co
Form 8-K
October 09, 2018

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act Of 1934

Date of Report (Date of earliest event reported) October 9, 2018

THE PROCTER & GAMBLE COMPANY
(Exact name of registrant as specified in its charter)

Ohio	1-434	31-0411980
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

One Procter & Gamble Plaza, Cincinnati, Ohio	45202
(Address of principal executive offices)	Zip Code

(513) 983-1100	45202
(Registrant's telephone number, including area code)	Zip Code

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

ITEM 7.01 REGULATION FD DISCLOSURE

On October 9, 2018, the Company announced that its Board of Directors declared a quarterly dividend of $0.7172 per share on the Common Stock and on the Series A and Series B ESOP Convertible Class A Preferred Stock of the Company, payable on or after November 15, 2018, to Common Stock shareholders of record at the close of business on October 19, 2018, and to Series A and Series B ESOP Convertible Class A Preferred Stock shareholders of record at the start of business on October 19, 2018.
The Company is furnishing this 8-K pursuant to Item 7.01, "Regulation FD Disclosure."

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

Exhibit Number	Description
99.1	Dividend News Release by The Procter & Gamble Company dated October 9, 2018.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

BY: /s/ Sandra T. Lane
Sandra T. Lane
Assistant Secretary
October 9, 2018

INDEX TO EXHIBIT(S)

Exhibit Number	Description
99.1	Dividend News Release by The Procter & Gamble Company dated October 9, 2018.

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Accumulated benefit obligation

82.2	798.1	633.3	551.5	N/A	N/A

Fair value plan assets

693.0	452.2	314.6	N/A	N/A

The U.S. pension plans include funded qualified plans and unfunded non-qualified plans. As of December 31, 2006 and 2005, the U.S. qualified pension plans had benefit obligations of $735.3 and $766.7, and plan assets of $738.8 and $693.0, respectively. We believe we have adequate investments and cash flows to fund the liabilities associated with the unfunded non-qualified plans.

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

	Pension Benefits								
	U.S. Plans			Non-U.S. Plans			Postretirement Benefits		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Net Periodic Benefit Cost:									
Service cost	$ 25.8	$ 29.5	$ 25.5	$ 21.4	$ 20.3	$ 18.3	$ 3.4	$ 2.4	$ 2.5
Interest cost	48.4	48.9	48.1	34.2	33.0	32.3	10.5	9.2	11.5
Expected return on plan assets	(54.5)	(52.5)	(51.5)	(31.1)	(28.0)	(26.5)			
Amortization of prior service (credit) cost	(2.2)	(2.3)	(.3)	.2	1.6	1.4	(6.0)	(6.1)	(5.0)
Amortization of actuarial losses	33.1	38.6	30.5	11.5	9.5	6.3	1.9	2.2	1.7
Settlements/curtailments	11.2			2.6	1.9	.3	(2.1)		
Special termination benefits	6.3	.2		.6			3.3		
Other				(.2)	(.7)	.6			
Net periodic benefit cost	$ 68.1	$ 62.4	$ 52.3	$ 39.2	$ 37.6	$ 32.7	$ 11.0	$ 7.7	$ 10.7

The amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost during 2007 are as follows:

	Pension Benefits		
	U.S. Plans	Non-U.S. Plans	Postretirement Benefits
Net actuarial loss	$ 32.4	$ 12.2	$ 1.9
Prior service credit	(1.9)	(1.7)	(6.1)
Transition obligation		.1	

In 2002 and 2001, the plan assets experienced weaker investment returns, which was mostly due to unfavorable returns on equity securities. These unfavorable investment returns increased pension costs in 2006, 2005 and 2004. In addition, net periodic pension cost may significantly increase in the future if settlement losses are required to be recorded due to an increase in the aggregate benefits paid as lump sum distributions. Settlement losses may result in the future if the number of eligible participants deciding to receive lump sum distributions and the amount of their benefits increases. Curtailment gains or losses may result in the future if an event occurs that significantly reduces the number of years of future service of current employees or eliminates the accrual of defined benefits for some or all future services of a significant number of employees.

Assumptions

Weighted-average assumptions used to determine benefit obligations recorded on the Consolidated Balance Sheets as of December 31 were as follows:

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
	2006	2005	**2006**	2005	**2006**	2005
Discount rate	5.90%	5.50%	4.93%	4.83%	5.90%	5.50%
Rate of compensation increase	5.00%	6.00%	3.05%	2.94%	N/A	N/A

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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 most significant plans, were based on the internal rate 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 has increased to 5.43% at December 31, 2006, from 5.20% at December 31, 2005. In determining the long-term rates of return, we consider the nature of each plan s investments, an expectation for each plan s investment strategies, historical rates of return and current economic forecasts, among other factors. We evaluate the expected rate of return on plan assets annually and adjust as necessary.

Weighted-average assumptions used to determine net cost recorded in the Consolidated Statements of Income for the years ended December 31 were as follows:

	Pension Benefits								
	U.S. Plans			Non-U.S. Plans			Postretirement Benefits		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Discount rate	5.50%	5.80%	6.25%	5.01%	5.48%	5.77%	6.33%	5.65%	6.25%
Rate of compensation increase	6.00	6.00	4.50	3.14	2.80	3.01	N/A	N/A	N/A
Rate of return on assets	8.00	8.00	8.75	6.97	7.14	7.18	N/A	N/A	N/A

In determining the net cost for the year ended December 31, 2006, the assumed rate of return on assets globally was 7.55%, which represents the weighted-average rate of return on all plan assets, including the U.S. and non-U.S. plans.

The majority of our pension plan assets relate to the U.S. pension plan. The assumed rate of return for determining 2006 net costs for the U.S. plan was 8.0%. Historical rates of return for the U.S. plan for the most recent ten-year and 20-year periods were 7.6% and 9.7%, respectively. In the U.S plan, our asset allocation policy has favored U.S. equity securities, which have returned 8.0% and 11.8%, respectively, over the ten-year and 20-year period.

In addition, the current rate of return assumption for the U.S. plan was based on an asset allocation of approximately 35% in corporate and government bonds and mortgage-backed securities (which are expected to earn approximately 5% to 7% in the long term) and 65% in equity securities (which are expected to earn approximately 8% to 10% in the long term). Similar assessments were performed in determining rates of return on non-U.S. pension plan assets, to arrive at our weighted-average rate of return of 7.55% for determining 2006 net cost.

Plan Assets

Our U.S. and non-U.S. pension plans target and weighted-average asset allocations at December 31, 2006 and 2005, by asset category were as follows:

	U.S. Plans % of Plan Assets			Non-U.S. Plans % of Plan Assets		
	Target	at Year End		Target	at Year End	
Asset Category	2007	**2006**	2005	2007	**2006**	2005
Equity securities	65%	65%	65%	62%	61%	65%
Debt securities	35	35	35	31	28	30
Other				7	11	5
Total	100%	100%	100%	100%	100%	100%

The overall objective of our U.S. pension plan is to provide the means to pay benefits to participants and their beneficiaries in the amounts and at the times called for by the plan. This is expected to be achieved through the investment of our contributions and other trust assets and by utilizing investment policies designed to achieve adequate funding over a reasonable period of time.

Pension trust assets are invested so as to achieve a return on investment, based on levels of liquidity and investment risk that is prudent and reasonable as circumstances change from time to time. While we recognize the importance of the preservation of capital, we also adhere to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns. Consequently, prudent risk-taking is justifiable.

The asset allocation decision includes consideration of the non-investment aspects of the Avon Products, Inc. Personal Retirement Account Plan, including future retirements, lump-sum elections, growth in the number of participants, company contributions, and cash flow. These actual characteristics of the plan place certain demands upon the level, risk, and required growth of trust assets. We regularly conduct analyses of the plan s current and likely future financial status by forecasting assets, liabilities, benefits and company contributions over time. In so doing, the impact of alternative investment policies upon the plan s financial status is measured and an asset mix which balances asset returns and risk is selected.

Our decision with regard to asset mix is reviewed periodically. Asset mix guidelines include target allocations and permissible ranges for each asset category. Assets are monitored on an ongoing basis and rebalanced as required to maintain an asset mix within the permissible ranges. The guidelines will change from time to time, based on an ongoing evaluation of the plan s tolerance of investment risk.

Cash Flows

We expect to contribute up to approximately $23.0 and $70.0 to our U.S. and non-U.S. pension plans, respectively, in 2007.

Total benefit payments expected to be paid from the plans are as follows:

	Pension Benefits			Postretirement Benefits	
	U.S. Plans	Non-U.S. Plans	Total	Gross Payments	Federal Subsidy
2007	$ 134.2	$ 37.0	$ 171.2	$ 12.5	$ 1.8
2008	96.0	35.0	131.0	12.9	1.9
2009	69.5	35.8	105.3	13.4	2.0
2010	64.2	37.8	102.0	13.8	2.1
2011	63.9	37.7	101.6	14.4	2.4
2012 2016	272.2	208.1	480.3	74.1	12.2

Postretirement Benefits

For 2006, the assumed rate of future increases in the per capita cost of health care benefits (the health care cost trend rate) was 9.0% for all claims and will gradually decrease each year thereafter to 5.0% in 2012 and beyond. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

(In millions)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	1.7	(1.5)
Effect on postretirement benefit obligation	16.5	(14.9)

Postemployment Benefits

We provide postemployment benefits, which include salary continuation, severance benefits, disability benefits, continuation of health care benefits and life insurance coverage to eligible former employees after employment but before retirement. At December 31, 2006 and 2005, the accrued cost for postemployment benefits was $53.7 and $51.6, respectively, and was included in employee benefit plans.

Supplemental Retirement Programs

We offer the Avon Products, Inc. Deferred Compensation Plan (the Plan) for certain key employees. The Plan is an unfunded, unsecured plan for which obligations are paid to participants out of our general assets, including assets held in a grantor trust, described below, and corporate-owned life insurance policies. The Plan allows for the deferral of up to 50% of a participant s base salary, the deferral of up to 100% of incentive compensation bonuses, and the deferral of contributions that would have been made to the Avon Personal Savings Account Plan (the PSA) but that are in excess of U.S. Internal Revenue Code limits on contributions to the PSA. Participants may elect to have their deferred compensation invested in one or more of three investment alternatives. Expense associated with the Plan for the years ended December 31, 2006, 2005 and 2004, was

$6.1, $5.8 and $4.2, respectively. At December 31, 2006, the accrued cost for the deferred compensation plan was $101.5 (2005 $99.3) and was included in other liabilities.

We maintain supplemental retirement programs consisting of a Supplemental Executive Retirement and Life Plan (SERP) and the Benefits Restoration Pension Plan of Avon Products, Inc. (Restoration Plan) under which non-qualified supplemental pension benefits are paid to higher paid employees in addition to amounts received under our qualified retirement plan, which is subject to IRS limitations on covered compensation. The annual cost of this program has been included in the determination of the net periodic benefit cost shown above and in 2006 amounted to $12.5 (2005 $12.1; 2004 $12.2). The benefit obligation under this program at December 31, 2006, was $54.5 (2005 $58.8) and was included in employee benefit plans.

We also maintain a Supplemental Life Insurance Plan (SLIP) under which additional death benefits ranging from $.4 to $2.0 are provided to certain active and retired officers.

We established a grantor trust to provide assets that may be used for the benefits payable under the SERP, Restoration Plan and SLIP and for obligations under the Plan. The trust is irrevocable and, although subject to creditors claims, assets contributed to the trust can only be used to pay such benefits with certain exceptions. The assets held in the trust are included in other assets and at December 31 consisted of the following:

	2006	2005
Fixed-income portfolio	$ 15.6	$ 14.9
Corporate-owned life insurance policies	36.1	34.1
Cash and cash equivalents	25.2	34.4
Total	$ 76.9	$ 83.4

Additionally, we have assets that may be used for other benefit payments. These assets are included in other assets and at December 31 consisted of the following:

	2006	2005
Corporate-owned life insurance policies	$ 58.1	$ 43.5
Mutual funds	2.4	2.2
Total	$ 60.5	$ 45.7

The assets are recorded at market value, with increases or decreases in the corporate-owned life insurance policies reflected in our Consolidated Statements of Income.

The fixed-income portfolio held in the grantor trust and the mutual funds are considered available-for-sale securities. See Note 5, Accumulated Other Comprehensive Loss.

NOTE 11. Segment Information

Our operating segments, which are our reportable segments, are based on geographic operations and include commercial business units in North America; Latin America; Western Europe, Middle East & Africa; Central & Eastern Europe; Asia Pacific; and China. Global expenses include, among other things, costs related to our executive and administrative offices, information technology, research and development, and marketing. We allocate certain planned global expenses to our business segments primarily based on planned revenue. The unallocated costs remain as global expenses. We do not allocate income taxes, foreign exchange gains or losses, or 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. In Europe, our manufacturing facilities primarily support Western Europe, Middle East & Africa and Central & Eastern Europe. In our disclosures of total assets, capital expenditures and depreciation and amortization, we have allocated amounts associated with the European manufacturing facilities between Western Europe, Middle East & Africa and Central & Eastern Europe based upon planned sale of beauty units. A similar allocation is done in Asia where our manufacturing facilities primarily support Asia Pacific and China.

The segments have similar business characteristics and each offers similar products through similar customer access methods.

The accounting policies of the segments are the same as those described in Note 1, Description of the Business and Summary of Significant Accounting Policies. We evaluate the performance of our segments based on revenues and operating profits or losses. Segment revenues reflect direct sales of products to Representatives based on the Representative s geographic location. Intersegment sales and transfers are not significant. Each segment records direct expenses related to its employees and its operations.

Summarized financial information concerning our segments as of December 31 is shown in the following tables.

Total Revenue & Operating Profit

	2006		2005		2004	
	Total Revenue	Operating Profit	Total Revenue	Operating Profit	Total Revenue	Operating Profit
North America	$ 2,554.0	$ 181.6	$ 2,510.5	$ 282.8	$ 2,632.3	$ 331.9
Latin America	2,743.4	424.0	2,272.6	453.2	1,934.6	420.7
Western Europe, Middle East & Africa	1,123.7	(17.8)	1,065.1	63.7	1,035.5	101.7
Central & Eastern Europe	1,320.2	296.7	1,226.3	331.7	1,066.7	307.0
Asia Pacific	810.8	42.5	868.6	102.9	855.7	121.9
China	211.8	(10.8)	206.5	7.7	223.0	35.2
Total from operations	8,763.9	916.2	8,149.6	1,242.0	7,747.8	1,318.4
Global and other		(154.8)		(93.0)		(89.4)
Total	$ 8,763.9	$ 761.4	$ 8,149.6	$ 1,149.0	$ 7,747.8	$ 1,229.0

Total Assets

	2006	2005	2004
North America	$ 739.3	$ 753.2	$ 772.6
Latin America	1,396.4	1,204.9	726.4
Western Europe, Middle East & Africa	546.1	548.3	466.8
Central & Eastern Europe	771.0	641.3	616.9
Asia Pacific	392.7	347.8	351.8
China	270.1	215.0	170.4
Total from operations	4,115.6	3,710.5	3,104.9
Global and other	1,122.6	1,050.9	1,043.2
Total assets	$ 5,238.2	$ 4,761.4	$ 4,148.1

Capital Expenditures

	2006	2005	2004
North America	$ 33.0	$ 36.5	$ 40.4
Latin America	57.4	43.1	42.6
Western Europe, Middle East & Africa	33.0	37.0	33.8
Central & Eastern Europe	13.7	30.3	44.8
Asia Pacific	13.4	11.9	9.3
China	4.5	7.6	4.5
Total from operations	155.0	166.4	175.4
Global and other	19.8	40.4	74.7
Total capital expenditures	$ 174.8	$ 206.8	$ 250.1

Depreciation and Amortization

	2006	2005	2004
North America	$ 30.0	$ 35.4	$ 35.8
Latin America	48.7	31.2	21.7
Western Europe, Middle East & Africa	23.1	18.7	21.6
Central & Eastern Europe	19.8	18.0	15.6
Asia Pacific	10.6	11.2	11.4
China	5.2	4.2	3.0
Total from operations	$ 137.4	118.7	109.1

Global and other	22.2	20.9	24.6
Total depreciation and amortization	$ 159.6	$ 139.6	$ 133.7

Total Revenue by Major Country

	2006	2005	2004
U.S.	$ 2,157.1	$ 2,140.7	$ 2,287.6
Brazil	1,039.2	785.3	557.9
All other	5,567.6	5,223.6	4,902.3
Total	$ 8,763.9	$ 8,149.6	$ 7,747.8

A major country is defined as one with total revenues greater than 10% of consolidated total revenues.

Long-Lived Assets by Major Country

	2006	2005	2004
U.S.	$ 418.2	$ 431.0	$ 415.3
Colombia	145.1	163.3	
Poland	123.4	121.1	135.0
All other	792.5	703.6	649.5
Total	$ 1,479.2	$ 1,419.0	$ 1,199.8

A major country is defined as one with long-lived assets greater than 10% of consolidated long-lived assets. Long-lived assets primarily include property, plant and equipment and intangible assets. Colombia s long-lived assets consist primarily of goodwill and intangible assets associated with the 2005 acquisition of this business (See Note 16, Goodwill and Intangible Assets). Poland s long-lived assets consist primarily of property, plant and equipment related to a European manufacturing facility.

Revenue by Product Category

	2006	2005	2004
Beauty (1)	$ 6,028.8	$ 5,588.7	$ 5,259.6
Beauty Plus (2)	1,676.6	1,527.0	1,401.9
Beyond Beauty (3)	971.9	949.5	994.7
Net sales	8,677.3	8,065.2	7,656.2
Other revenue (4)	86.6	84.4	91.6
Total revenue	$ 8,763.9	$ 8,149.6	$ 7,747.8

(1) Beauty includes cosmetics, fragrances, skin care and toiletries.

(2) Beauty Plus includes fashion jewelry, watches, apparel and accessories.

(3) Beyond Beauty includes home products and gift and decorative products.

(4) Other primarily includes shipping and handling fees billed to Representatives.

NOTE 12. Leases and Commitments

Minimum rental commitments under noncancellable operating leases, primarily for equipment and office facilities at December 31, 2006, are included in the following table under leases. Purchase obligations include commitments to purchase paper, inventory and other services.

Year	Leases	Purchase Obligations
2007	$ 88.0	$ 222.9
2008	70.6	87.5
2009	54.3	62.0
2010	36.8	47.9
2011	32.6	16.3
Later years	69.9	79.4
Sublease rental income	(11.3)	
Total	$ 340.9	$ 516.0

Rent expense in 2006 was $114.7 (2005 $109.2; 2004 $109.9). Plant construction, expansion and modernization projects with an estimated cost to complete of approximately $76.4 were in progress at December 31, 2006.

NOTE 13. 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 our turnaround plan, restructuring initiatives include:

- enhancement of organizational effectiveness, including efforts to flatten the organization and bring senior management closer to consumers through a substantial organization downsizing;
- implementation of a global manufacturing strategy through facilities realignment;
- additional supply chain efficiencies in distribution; and
- streamlining of transactional and other services through outsourcing and moves to low-cost countries.

We expect to incur restructuring charges and other costs to implement these initiatives in the range of $500.0 before taxes. We incurred a significant portion of the total costs to implement these initiatives during 2006, but we expect to incur additional significant charges over the next few years.

Restructuring Charges 2005

In December 2005 and January 2006, exit and disposal activities that are a part of this multi-year restructuring plan were approved. Specific actions for this initial phase of our multi-year restructuring plan included:

- 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 exit of unprofitable lines of business or markets, including the closure of unprofitable operations in Asia, primarily Indonesia and the exit of a product line in China, and the exit of the *beComing* product line in the U.S.; and
- the move of certain services from markets within Europe to lower cost shared service centers.

The actions described above were completed during 2006, except for the move of certain services from markets within Europe to lower cost shared service centers, which is expected to be completed in phases through 2008.

In connection with these initiatives, we recorded charges of $51.6 pretax in the fourth quarter of 2005, primarily for employee related costs, including severance, pension and other termination benefits, asset impairment charges and cumulative foreign currency translation charges previously recorded directly to shareholders equity. The charges included $8.4 to cost of sales for inventory write-offs, and $43.2 to selling, general and administrative expenses. Approximately 58% of these charges resulted in cash expenditures. Additionally, we incurred costs of $4.9 for professional service fees, which are recorded in selling, general and administrative expenses, related to the implementation of these initiatives, resulting in total costs to implement during 2005 of $56.5.

Restructuring Charges 2006

During 2006 and January 2007, additional exit and disposal activities that are a part of our restructuring initiatives were approved. Specific actions for this phase of our restructuring initiatives included:

- 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 key human resource and customer service processes;
- the realignment of North America distribution operations;
- the exit of certain unprofitable operations, including the closure of the Avon Salon & Spa; and
- the reorganization of certain functions, primarily sales-related organizations.

Many of the actions were completed in 2006, including the delayering program. A majority of the remaining actions is expected to be completed in 2007. The outsourcing of certain services is expected to be completed in phases through 2009. The realignment of North America distribution operations is expected to be completed in phases through 2012. The reorganization of one of our functions is expected to be completed in phases through 2010.

In connection with these initiatives, we recorded charges of $218.3 during 2006, primarily for employee-related costs, including severance, and other termination benefits. These charges were included in selling, general and administrative expenses. We recorded adjustments of $16.1 in 2006, primarily relating to certain employees pursuing reassignments to other positions and higher than expected turnover (employees leaving prior to termination). Approximately 85% of these charges are expected to result in future cash expenditures, with a majority of the cash payments expected to be made during 2007.

Additionally, related to the implementation of these initiatives we incurred other costs to implement of $24.9 for professional service fees in 2006, which are recorded in selling, general and administrative expenses, $1.7 for accelerated depreciation in 2006, of which $.7 is recorded in cost of sales, and $1.0 in selling, general and administrative expenses, resulting in total costs to implement during 2006 of $228.8.

The liability balances for the initiatives that have been approved to date are shown below.

	Employee-Related Costs	Asset Write-offs	Inventory Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
2005 Charges	$ 30.4	$ 1.4	$ 8.4	$ 11.4	$	$ 51.6
Cash payments	(.5)					(.5)
Non-cash write-offs	(.7)	(1.4)	(8.4)	(11.4)		(21.9)
Foreign exchange						
Balance January 1, 2006	$ 29.2	$	$	$	$	$ 29.2
2006 Charges	201.2	9.8	.6	.2	6.5	218.3
Adjustments	(13.5)	(.6)	(1.6)		(.4)	(16.1)
Cash payments	(112.0)				(5.1)	(117.1)
Non-cash write-offs	(23.0)	(9.2)	1.0	(.2)		(31.4)
Foreign exchange	3.0				.1	3.1
Balance December 31, 2006	$ 84.9	$	$	$	$ 1.1	$ 86.0

Non-cash write-offs associated with employee-related costs are the result of settlement, curtailment and special termination benefit charges for pension plans and postretirement due to the initiatives implemented. Inventory write-offs relate to exited businesses.

The following table presents the restructuring charges incurred to date, net of adjustments, under our multi-year restructuring plan that began in the fourth quarter of 2005, along with the charges expected to be incurred for the initiatives approved to date:

	Employee-Related Costs	Asset Write-offs	Inventory Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
Charges incurred to date	$ 218.1	$ 10.6	$ 7.4	$ 11.6	$ 6.1	$ 253.8
Charges to be incurred on approved initiatives	9.5				.1	9.6
Total expected charges	$ 227.6	$ 10.6	$ 7.4	$ 11.6	$ 6.2	$ 263.4

The charges, net of adjustments, of initiatives approved to date by reportable business segment were as follows:

	North America	Latin America	Western Europe, Middle East & Africa	Central & Eastern Europe	Asia Pacific	China	Corporate	Total
2005	$ 6.9	$ 3.5	$ 11.7	$ 1.0	$ 18.2	$ 4.2	$ 6.1	$ 51.6
2006	61.8	34.6	45.1	6.9	22.2	2.1	29.5	202.2
Charges recorded to date	$ 68.7	$ 38.1	$ 56.8	$ 7.9	$ 40.4	$ 6.3	$ 35.6	$ 253.8
Charges to be incurred on approved initiatives	5.9	1.9	1.1	.1	.4		.2	9.6
Total expected charges	$ 74.6	$ 40.0	$ 57.9	$ 8.0	$ 40.8	$ 6.3	$ 35.8	$ 263.4

As noted previously, we expect to incur total costs to implement in the range of $500.0 before taxes for all restructuring initiatives, including restructuring charges and other costs to implement. The amounts shown in the tables above as charges recorded to date relate to initiatives that have been approved and recorded in the financial statements as the costs are probable and estimable. The amounts shown in the tables above as total expected charges represent charges recorded to date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording have not yet been met. In addition to the charges included in the tables above, we will incur other costs to implement such as consulting and other professional services.

NOTE 14. Contingencies

We are a defendant in an action commenced in 1975 in the Supreme Court of the State of New York by Sheldon Solow d/b/a Solow Building Company (Solow), the landlord of our former headquarters in New York City. Solow alleges that we misappropriated the name of our former headquarters building and seeks damages based on a purported value of one dollar per square foot of leased space per year over the term of the lease. A trial of this action took place in May 2005 and, in January 2006, the judge issued a decision in our favor. Solow has appealed that decision to the Appellate Division of the Supreme Court of the State of New York. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

Blakemore, et al. v. Avon Products, Inc., et al. is a purported class action pending in the Superior Court of the State of California on behalf of Avon Sales Representatives who since March 24, 1999, received products from Avon they did not order, thereafter returned the unordered products to Avon, and did not receive credit for those returned products. The complaint seeks unspecified compensatory and punitive damages, restitution and injunctive relief for alleged unjust enrichment and violation of the California Business and Professions Code. This action was commenced in March 2003. In January 2006, we filed a motion to strike the plaintiffs asserted nationwide class. In February 2006, the trial court declined to grant our motion but instead certified the issue to the Court of Appeal on an interlocutory basis. In April 2006, the Court of Appeal denied our motion and instructed the trial court to consider the issue at a subsequent point in the proceedings. We believe that this action is a dispute over purported customer service issues and is an inappropriate subject for consideration as a class action. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

In December 2002, our Brazilian subsidiary received a series of excise and income tax assessments from the Brazilian tax authorities asserting that the establishment in 1995 of separate manufacturing and distribution companies in that country was done without a valid business purpose. The assessments assert tax deficiencies during portions of the years 1997 and 1998 of approximately $97.0 at the exchange rate on December 31, 2006, plus penalties and accruing interest totaling approximately $175.0 at the exchange rate on December 31, 2006. In July 2003, a first-level appellate body rejected the basis for income tax assessments representing approximately 78% of the total assessment, or $213.0 (including interest). In March 2004, that rejection was confirmed in a mandatory second-level appellate review. The remaining assessments relating to excise taxes (approximately $59.0) were not affected. In December 2003, an additional assessment was received in respect of excise taxes for the balance of 1998, totaling approximately $122.0 at the exchange rate on December 31, 2006, and asserting a different theory of liability based on purported market sales data. In January 2005, an unfavorable first administrative level decision was received with respect to the appeal of that assessment and a further appeal has been taken. In December 2004, an additional assessment was received in respect of excise taxes for the period from January 1999 to December 2001, totaling approximately $267.0 at the exchange rate on December 31, 2006, and asserting the same theory of liability as in the December 2003 assessment. We appealed that assessment. In September 2005, an unfavorable first administrative level decision was received with respect to the appeal of the December 2004 assessment, and a further appeal is being taken. In the event that assessments are upheld in the earlier stages of review, it may be necessary for us to provide security to pursue further appeals, which, depending on the circumstances, may result in a charge to income. It is not possible to make a reasonable estimate of the amount or range of expense that could result from an unfavorable outcome in respect of these or any additional assessments that may be issued for subsequent periods. The structure adopted in 1995 is comparable to that used by many companies in Brazil, and we believe that it is appropriate, both operationally and legally, and that the assessments are unfounded. This matter is being vigorously contested and in the opinion of our outside counsel the likelihood that the assessments ultimately will be upheld is remote. Management believes that the likelihood that the assessments will have a material impact on our consolidated financial position, results of operations or cash flows is correspondingly remote.

Kendall v. Employees   Retirement Plan of Avon Products and the Retirement Board is a purported class action commenced in April 2003 in the United States District Court for the Southern District of New York. Plaintiff is a retired employee of Avon who, before retirement, had been on paid disability leave for approximately 19 years. The initial complaint alleged that the Employees   Retirement Plan of Avon Products (the   Retirement Plan) violated the Employee Retirement Income Security Act (ERISA) and, as a consequence, unlawfully reduced the amount of plaintiff s pension. Plaintiff sought a reformation of the Retirement Plan and recalculation of benefits under the terms of the Retirement Plan, as reformed for plaintiff and for the purported class. In November 2003, plaintiff filed an amended complaint alleging additional Retirement Plan violations of ERISA and seeking, among other things, elimination of a social security offset in the Retirement Plan. The purported class includes   all Plan participants, whether active, inactive or retired, and their beneficiaries and/or Estates, with one hour of service on or after January 1, 1976, whose accrued benefits, pensions or survivor s benefits have been or will be calculated and paid based on the Plan s unlawful provisions.   In February 2004, we filed a motion to dismiss the amended complaint, which motion is still pending before the court. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

Roqueta v. Avon Products, Inc., et al. is a purported class action commenced in April 2005 in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida. The action seeks general damages, special damages and punitive damages for alleged violations of the Florida Deceptive and Unfair Trade Practices Act and Florida statutes regarding misleading advertisements, and for negligent and fraudulent misrepresentation. The purported class includes   all persons who have purchased skin care products from the Defendant that have been falsely advertised to have an   anti-cellulite   or cellulite reducing effect.   We removed the action to the United States District Court for the Southern District of Florida and moved to dismiss the complaint for failure to state a claim upon which relief can be granted. In August 2005 the court dismissed plaintiff s claims for negligent and fraudulent misrepresentation, with prejudice. The court also dismissed plaintiff s remaining claims but granted plaintiff leave to amend her complaint, which she has done. In July 2006, the court issued an order denying a motion by the plaintiff to certify this action as a class action. Plaintiff has indicated her intention to voluntarily dismiss the matter but has not yet done so. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

In August 2005, we reported the filing of class action complaints for alleged violations of the federal securities laws in actions entitled *Nilesh Patel v. Avon Products, Inc. et al.* and *Michael Cascio v. Avon Products, Inc. et al.*, respectively, which subsequently have been consolidated. A consolidated amended class action complaint for alleged violations of the federal securities laws was filed in the consolidated action in December 2005 in the United States District Court for the Southern District of New York (Master File Number 05-CV-06803) under the caption *In re Avon Products, Inc. Securities Litigation* naming Avon, an officer and two officer/directors. The consolidated action, brought on behalf of purchasers of our common stock between February 3, 2004 and September 20, 2005, seeks damages for alleged false and misleading statements concerning Avon s operations and performance in China, the United States . . . and Mexico. The consolidated amended complaint also asserts that during the class period certain officers and directors sold shares of our common stock. In February 2006, we filed a motion to dismiss the consolidated amended class action complaint, asserting, among other things, that it failed to state a claim upon which relief may be granted, and the plaintiffs have opposed that motion.

In August 2005, we reported the filing of a complaint in a shareholder derivative action purportedly brought on behalf of Avon entitled *Robert L. Garber, derivatively on behalf of Avon Products, Inc. v. Andrea Jung et al. as defendants, and Avon Products, Inc. as nominal defendant.* An amended complaint was filed in this action in December 2005 in the United States District Court for the Southern District of New York (Master File Number 05-CV-06803) under the caption *In re Avon Products, Inc. Securities Litigation* naming certain of our officers and directors. The amended complaint alleges that defendants violations of state law, including breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment, between February 2004 and the present, have caused losses to Avon. In February 2006, we filed a motion to dismiss the amended complaint, asserting, among other things, that it failed to state a claim upon which relief may be granted, and the plaintiffs have opposed that motion.

In October 2005, we reported the filing of class action complaints for alleged violations of the Employee Retirement Income Security Act (ERISA) in actions entitled *John Rogati v. Andrea Jung, et al.* and *Carolyn Jane Perry v. Andrea Jung, et al.*, respectively, which subsequently have been consolidated. A consolidated class action complaint for alleged violations of ERISA was filed in the consolidated action in December 2005 in the United States District Court for the Southern District of New York (Master File Number 05-CV-06803) under the caption *In re Avon Products, Inc. ERISA Litigation* naming Avon, certain officers, Avon s Retirement Board and others. The consolidated action purports to be brought on behalf of the Avon Products, Inc. Personal Savings Account Plan and the Avon Products, Inc. Personal Retirement Account Plan (collectively the Plan) and on behalf of participants and beneficiaries of the Plan for whose individual accounts the Plan purchased or held an interest in Avon Products, Inc. . . . common stock from February 20, 2004 to the present. The consolidated complaint asserts breaches of fiduciary duties and prohibited transactions in violation of ERISA arising out of, inter alia, alleged false and misleading public statements regarding Avon s business made during the class period and investments in Avon stock by the Plan and Plan participants. In February 2006, we filed a motion to dismiss the consolidated complaint, asserting that it failed to state a claim upon which relief may be granted, and the plaintiffs have opposed that motion.

It is not possible to predict the outcome of litigation and it is reasonably possible that there could be unfavorable outcomes in the *In re Avon Products, Inc. Securities Litigation, In re Avon Products, Inc. Securities Litigation* (derivative action) and *In re Avon Products, Inc. ERISA Litigation* matters. Management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes but, under some circumstances, adverse awards could be material to our consolidated financial position, results of operations or cash flows.

Various other lawsuits and claims, arising in the ordinary course of business or related to businesses previously sold, are pending or threatened against Avon. In management s opinion, based on its review of the information available at this time, the total cost of resolving such other contingencies at December 31, 2006, should not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

NOTE 15. Supplemental Income Statement Information

For the years ended December 31, 2006, 2005 and 2004, the components of other expense, net were as follows:

	2006	2005	2004
Foreign exchange losses, net	$ 6.2	$ 5.8	$ 9.5
Net (gains) losses on available-for-sale securities (Note 5)		(2.5)	13.7
Amortization of debt issue costs and other financing	9.6	8.9	7.0
Gain on de-designated treasury lock agreement (Note 7)		(2.5)	
Other	(2.2)	(1.7)	(1.9)
Other expense, net	$ 13.6	$ 8.0	$ 28.3

NOTE 16. Goodwill and Intangible Assets

In August 2006, we purchased all of the remaining 6.155% outstanding shares in our two joint venture subsidiaries in China from the minority interest shareholders for approximately $39.1. We previously owned 93.845% of these subsidiaries and consolidated their results, while recording minority interest for the portion not owned. Upon completion of the transaction, we eliminated the minority interest in the net assets of these subsidiaries. The purchase of these shares did not have a material impact on our consolidated net income. Avon China is a stand-alone operating segment. The purchase price allocation resulted in goodwill of $33.3 and customer relationships of $1.9 with a ten-year weighted-average useful life.

On October 18, 2005, we purchased the Avon direct-selling business of our licensee in Colombia for approximately $154.0 in cash, pursuant to a share purchase agreement that Avon International Holdings Company, a wholly-owned subsidiary of the Company, entered into with Sarastro Ltd. Ldc. on October 7, 2005. The acquired business is being operated by a new wholly-owned subsidiary under the name Avon Colombia and is included in our Latin America operating segment. We had a pre-existing license arrangement with the acquired business. The negotiated terms of the license agreement were considered to be at market rates; therefore, no settlement gain or loss was recognized upon acquisition. During the fourth quarter of 2005, we recorded a preliminary purchase price allocation, which resulted in goodwill of $94.8, licensing agreement of $32.0 (four-year useful life), customer relationships of $35.1 (seven-year weighted-average useful life), and a noncompete agreement of $3.9 (three-year useful life). During 2006, we gathered additional data to refine certain assumptions of the valuation. The revised purchase price allocation resulted in goodwill of $94.6, licensing agreement of $36.0 (four-year useful life), customer relationships of $28.6 (five-year weighted-average useful life), and a noncompete agreement of $3.9 (three-year useful life).

Goodwill

	Latin America	Western Europe, Middle East & Africa	Central & Eastern Europe	Asia Pacific	China	Total
Balance at December 31, 2005	$ 95.7	$ 24.6	$ 8.7	$ 10.1	$ 32.5	$ 171.6
Goodwill acquired					33.3	33.3
Impairment loss	(.7)					(.7)
Adjustments	(.2)					(.2)
Foreign exchange	.3	(.4)	.1	.1	(.4)	(.3)
Balance at December 31, 2006	$ 95.1	$ 24.2	$ 8.8	$ 10.2	$ 65.4	$ 203.7

The impairment losses relate to the write-off of goodwill associated with the closure of unprofitable operations in Asia Pacific as a result of the implementation of certain restructuring initiatives (see Note 13, Restructuring Initiatives).

Intangible Assets

	2006		2005	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortized Intangible Assets				
Customer relationships	$ 36.3	$ (12.0)	$ 40.8	$ (3.3)
Licensing agreements	36.0	(11.1)	32.0	(1.6)
Noncompete agreements	8.1	(3.8)	9.2	(3.4)
Total	$ 80.4	$ (26.9)	$ 82.0	$ (8.3)
Aggregate Amortization Expense:				
2006	$ 19.5			
2005	5.4			
2004	3.4			
Estimated Amortization Expense:				
2007	$ 15.9			
2008	15.6			
2009	13.4			
2010	1.3			
2011	1.3			

NOTE 17. Results of Operations by Quarter (Unaudited)

2006	First	Second	Third	Fourth	Year
Net sales	$ 1,982.4	$ 2,058.9	$ 2,038.1	$ 2,597.9	$ 8,677.3
Other revenue	20.8	20.6	20.5	24.7	86.6
Gross profit	1,223.5	1,303.0	1,243.8	1,559.0	5,329.3
Operating profit	86.2	225.3	167.5	282.4	761.4
Income before taxes and minority interest	71.3	217.3	149.0	265.9	703.5
Income before minority interest	56.8	150.7	87.5	185.1	480.1
Net income	$ 56.2	$ 150.9	$ 86.4	$ 184.1	$ 477.6
Earnings per share:					
Basic	$ .12	$ .34	$ .19	$ .42	$ 1.07(1)
Diluted	$ .12	$ .34	$ .19	$ .41	$ 1.06(1)

2005					
Net sales	$ 1,860.9	$ 1,963.9	$ 1,865.7	$ 2,374.7	$ 8,065.2
Other revenue	20.2	20.4	20.3	23.5	84.4
Gross profit	1,182.9	1,253.9	1,161.5	1,417.6	5,015.9
Operating profit	260.5	344.0	247.1	297.4	1,149.0
Income before taxes and minority interest	253.7	340.8	242.1	287.6	1,124.2
Income before minority interest	173.9	330.5	165.1	185.0	854.5
Net income	$ 172.0	$ 328.6	$ 163.8	$ 183.2	$ 847.6
Earnings per share:					
Basic	$ .36	$ .70	$ .35	$ .40	$ 1.82(1)
Diluted	$ .36	$ .69	$ .35	$ .40	$ 1.81(1)

(1) The sum of per share amounts for the quarters does not necessarily equal that for the year because the computations were made independently.

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First, second, third and fourth quarter 2006 include costs to implement restructuring initiatives of $120.1, $49.4, $15.6, and $43.7, respectively, of which ($.5), $.2, ($.5), and $.5 are reflected in cost of sales, respectively, and $120.6, $49.2, $16.1, and $43.2 are reflected in selling, general and administrative expenses, respectively.

Fourth quarter 2005 includes costs to implement restructuring initiatives of $56.5 of which $8.4 is reflected in cost of sales and $48.1 is reflected in selling, general and administrative expenses.

NOTE 18. Subsequent Events

On February 1, 2007, we announced an increase in our quarterly cash dividend to $.185 per share from $.175 per share. The first dividend at the new rate will be paid on March 1, 2007, to shareholders of record on February 15, 2007. With this increase, the indicated annual dividend rate is $.74 per share.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31, 2006, 2005 and 2004

(In millions) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Revenue	Deductions	Balance at End of Period
2006					
Allowance for doubtful accounts receivable	$ 85.8	$ 144.7	$	$ 139.4(1)	$ 91.1
Allowance for sales returns	24.3		295.0	291.3(2)	28.0
Allowance for inventory obsolescence	82.4	173.3		130.7(3)	125.0
Deferred tax asset valuation allowance	145.2	88.9(4)			234.1
2005					
Allowance for doubtful accounts receivable	$ 77.6	$ 135.6	$	$ 127.4(1)	$ 85.8
Allowance for sales returns	23.4		288.5	287.6(2)	24.3
Allowance for inventory obsolescence	57.0	83.9		58.5(3)	82.4
Deferred tax asset valuation allowance	70.2	75.0(4)			145.2
2004					
Allowance for doubtful accounts receivable	$ 61.6	$ 140.0	$	$ 124.0(1)	$ 77.6
Allowance for sales returns	19.5		285.1	281.2(2)	23.4
Allowance for inventory obsolescence	44.6	76.7		64.3(3)	57.0
Deferred tax asset valuation allowance	84.8			14.6(5)	70.2

(1) Accounts written off, net of recoveries and foreign currency translation adjustment.

(2) Returned product destroyed and foreign currency translation adjustment.

(3) Obsolete inventory destroyed and foreign currency translation adjustment.

(4) Increase in valuation allowance for tax loss and tax credit carryforward benefits is because it is more likely than not that some or all of the deferred tax assets will not be utilized in the future.

(5) Decrease in valuation allowance primarily due to a decrease in foreign tax credit carryforwards for which a valuation allowance had been provided.