

AVON PRODUCTS INC
Form DEF 14A
March 31, 2008
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement.
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
- Definitive Proxy Statement.
- Definitive Additional Materials.
- Soliciting Material Pursuant to §240.14a-12.

Avon Products, Inc.

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(Name of Registrant as Specified In Its Charter)

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(4) Date Filed:

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March 31, 2008

Dear Shareholder:

You are cordially invited to attend the 2008 Annual Meeting of Shareholders, which will be held at 10:00 a.m. on Thursday, May 1, 2008, at the Lighthouse Conference Center and Theater, 111 East 59th Street, New York City.

Details regarding admission to the meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement. We hope that you will be able to attend.

Whether or not you plan to attend the Annual Meeting, your vote is important. You can vote via the Internet, by telephone or by completing the enclosed proxy card. Instructions for voting via the Internet or telephone are given on the enclosed proxy card.

On behalf of the Board of Directors and the management of Avon, I extend our appreciation for your continued support and interest in Avon.

Sincerely yours,
Andrea Jung

Chairman of the Board and

Chief Executive Officer

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AVON PRODUCTS, INC.

1345 Avenue of the Americas

New York, NY 10105

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The 2008 Annual Meeting of Shareholders of Avon Products, Inc. will be held at the Lighthouse Conference Center and Theater, 111 East 59th Street, New York, New York on Thursday, May 1, 2008 at 10:00 a.m. for the following purposes:

- (1) To elect directors to one-year terms expiring in 2009;
- (2) To act upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2008;
- (3) To act upon a proposal to adopt an Executive Incentive Plan intended to comply with Section 162(m) of the Internal Revenue Code;
- (4) If presented, to consider and vote on a shareholder proposal requesting the Board to publish a report to shareholders on Avon's policies on nanomaterial product safety by November 1, 2008; and
- (5) To transact such other business as properly may come before the meeting.

The Board of Directors has fixed the close of business on March 14, 2008, as the record date for the purpose of determining the shareholders who are entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof.

Kim K. Azzarelli
Vice President, Associate General Counsel

and Corporate Secretary

March 31, 2008

New York, New York

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THE BOARD OF DIRECTORS URGES YOU

TO VOTE BY THE INTERNET OR BY TELEPHONE

OR TO MARK, SIGN AND RETURN THE ENCLOSED PROXY CARD

IN THE POSTAGE-PREPAID ENVELOPE PROVIDED.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR

THE 2008 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 1, 2008.

The Company's Proxy Statement for the 2008 Annual Meeting of Shareholders and the Annual Report to Shareholders for the fiscal year ended December 31, 2007 are available at www.edocumentview.com/avp

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INFORMATION ABOUT THIS PROXY STATEMENT AND THE ANNUAL MEETING

Why am I receiving these materials?

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Avon Products, Inc. (Avon, the Company, we, us, or our) of proxies to be voted at our Annual Meeting of Shareholders, which will take place on Thursday, May 1, 2008. As a shareholder, you are invited to attend the Annual Meeting and you are entitled and requested to vote on the matters set forth in the Notice of Annual Meeting of Shareholders, which are described in this Proxy Statement. In addition, at the Annual Meeting, we will review the business and operations of the Company and respond to questions from shareholders.

Who may attend the Annual Meeting?

Anyone who was a shareholder as of the close of business on March 14, 2008 may attend the Annual Meeting if you have an admission ticket or are pre-registered by the means set forth below and have photo identification. For shareholders of record, an admission ticket is attached to the proxy card sent with this Proxy Statement. If you plan to attend the Annual Meeting, please vote your proxy but keep the admission ticket and bring it with you to the Annual Meeting. For beneficial owners holding shares in a bank or brokerage account, you can register to attend the meeting in advance by sending a written request, along with proof of ownership (such as a brokerage statement), to our Investor Relations Department, Avon Products, Inc., 1345 Avenue of the Americas, New York, NY 10105, by mail or by fax to 212-282-6035. We must receive your request at least one week prior to the Annual Meeting to have time to process your request. If you register by this means, you will not be mailed a ticket. Anyone who arrives without an admission ticket or pre-registration will not be admitted to the Annual Meeting unless it can be verified that the individual was a shareholder of the Company as of March 14, 2008.

What is the difference between holding shares as a shareholder of record and as a beneficial owner?

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the shareholder of record, and the proxy materials have been sent directly to you by Avon. If your shares are held in a stock brokerage account or by a bank or other record holder, you are considered the beneficial owner of shares held in street name. The proxy materials have been forwarded to you by your broker, bank or other record holder who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker, bank or other record holder on how to vote and you are also invited to attend the Annual Meeting. Your broker, bank or other record holder should have enclosed or provided voting instructions for you to use in directing the voting of your shares.

What is the purpose of this Proxy Statement?

This Proxy Statement describes the matters proposed to be voted on at the Annual Meeting, including the election of directors, the ratification of the appointment of our independent registered public accounting firm, the adoption of the Executive Incentive Plan and, if presented, a proposal by shareholders, and this Proxy Statement also contains other required information. The Proxy Statement and accompanying proxy card are being mailed on or about March 31, 2008.

Who is entitled to vote?

Only holders of record of Avon's common stock at the close of business on March 14, 2008 are entitled to vote. There were approximately 433,319,448 shares of Avon's common stock outstanding on March 14, 2008. Shareholders are currently entitled to cast one vote per share on all matters.

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How do I vote my shares in person at the Annual Meeting?

Shares held in your name as the shareholder of record may be voted in person at the Annual Meeting. Shares held beneficially in street name may be voted in person at the Annual Meeting only if you obtain a legal proxy from the broker, bank or other record holder that holds your shares giving you the right to vote the shares. Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

How do I vote my shares without attending the Annual Meeting?

You can vote by filling out the accompanying proxy card and returning it in the return envelope that we have enclosed for you. Also, shareholders can vote by telephone or via the Internet. Voting information is provided on the enclosed proxy card.

If your shares are held in the name of a bank, broker or other record holder, follow the voting instructions on the form that you receive from them. The availability of telephone and Internet voting will depend on the bank's or other record holder's voting process. Your bank, broker or other record holder may not be permitted to exercise voting discretion as to some of the matters to be acted upon. Therefore, please give voting instructions to your bank, broker or other record holder.

How will my proxy be voted?

Your proxy, when properly signed and returned to us, or processed by telephone or via the Internet, and not revoked, will be voted in accordance with your instructions relating to the election of directors, the ratification of the appointment of our independent registered public accounting firm, the adoption of the Executive Incentive Plan and, if presented, a proposal by shareholders. We are not aware of any other matter that may be properly presented at the meeting. If any other matter is properly presented, the persons named as proxies on the proxy card will have discretion to vote in their best judgment.

What if I don't mark the boxes on my proxy?

Unless you give other instructions on your proxy card, or unless you give other instructions when you cast your vote by telephone or via the Internet, the persons named as proxies will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth with the description of each Proposal in this Proxy Statement. In summary, the Board recommends a vote for the election of directors, the ratification of the appointment of our independent registered public accounting firm, and the adoption of the Executive Incentive Plan, and against the individual shareholder proposal.

May I revoke or change my vote?

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If you are a shareholder of record, you may revoke your proxy at any time before it is actually voted by giving written notice of revocation to the Secretary of Avon, by delivering a proxy bearing a later date or by attending and voting in person at the Annual Meeting. Attendance at the Annual Meeting will not cause your previously granted proxy to be revoked unless you specifically make that request. If you are a beneficial owner of shares, you may submit new voting instructions by contacting your bank, broker or other record holder, or, if you have obtained a legal proxy from your bank, broker or other record holder giving you the right to vote your shares, by attending the meeting and voting in person.

Will my vote be made public?

All proxies, ballots and voting materials that identify the votes of specific shareholders will generally be kept confidential, except as necessary to meet applicable legal requirements and to allow for the tabulation of votes and certification of the vote.

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What constitutes a quorum, permitting the meeting to conduct its business?

The presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares entitled to vote at the Annual Meeting will constitute a quorum, permitting the meeting to conduct its business. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a bank, broker or other record holder holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. If you do not give instructions to the bank, broker or other record holder holding your shares, it will not have discretionary voting power to vote your shares with respect to Proposal 4.

How many votes are needed to approve a Proposal?

Under New York law, corporate action taken at a shareholders' meeting is generally based on the votes cast. Votes cast means the votes actually cast for or against a particular proposal, whether in person or by proxy. Therefore, abstentions and broker non-votes generally have no effect in determining whether a proposal is approved by shareholders. Under Proposal 1, each of the ten nominees for director who receives at least a majority of the votes cast for such nominee will be elected. For purposes of Proposal 1, votes cast include votes to withhold authority but do not include abstentions with respect to that nominee's election. The approvals of Proposals 2, 3 and 4 require the affirmative vote of a majority of the votes cast at the Annual Meeting.

What if I am a participant in the Avon Personal Savings Account Plan or the Avon Puerto Rico Associates' Savings Plan?

We are also mailing this Proxy Statement and proxy card to participants in the Avon Personal Savings Account Plan and the Avon Puerto Rico Associates' Savings Plan. The trustees of the Plans, as record holders of the shares held in the Plans, will vote the shares allocated to your account under the Plans in accordance with your instructions. Unless your proxy card is received by 11:59 p.m. (New York time) on April 25, 2008 and unless you have specified your instructions, your shares cannot be voted by the trustees.

What is the deadline for voting my shares?

If you hold shares as the shareholder of record, you should complete and return the proxy card as soon as possible, but no later than the closing of the polls at the Annual Meeting. If you vote by telephone or the Internet, your vote must be received by 11:59 p.m. (New York time) on April 30, 2008. If you hold shares in the Avon Personal Savings Account Plan or the Avon Puerto Rico Associates' Savings Plan, as indicated above, your voting instructions must be received by 11:59 p.m. (New York time) on April 25, 2008. If your shares are held in street name, you should return your voting instructions in accordance with the instructions provided by the bank, broker or other record holder who holds the shares on your behalf.

Who will count the vote?

Representatives of our transfer agent, Computershare Trust Company, N.A., will tabulate the votes and act as inspectors of election.

How can I find the voting results of the Annual Meeting?

We intend to announce preliminary voting results at the Annual Meeting and to publish final results in our quarterly report on Form 10-Q for the second quarter of 2008.

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PROPOSAL 1 ELECTION OF DIRECTORS

Effective from and after the date of the 2006 Annual Meeting, the Board of Directors has fixed the number of directors at 10. At last year's Annual Meeting, our shareholders approved a proposal to amend our Restated Certificate of Incorporation and By-Laws to implement the adoption of a majority vote standard and to eliminate cumulative voting in the election of directors. Our current directors are standing for re-election. Each nominee elected as a director will hold office until the next succeeding annual meeting or until his or her successor is elected and qualified.

PROPOSAL 1: The Board of Directors has nominated W. Don Cornwell, Edward T. Fogarty, Fred Hassan, Andrea Jung, Maria Elena Lagomasino, Ann S. Moore, Paul S. Pressler, Gary M. Rodkin, Paula Stern and Lawrence A. Weinbach for election as directors. All nominees are current members of our Board.

All shares duly voted will be voted for the election of directors as specified by the shareholders. Unless otherwise specified, it is the intention of the persons named on the enclosed proxy card to vote **FOR** the election of all of the nominees, each of whom has consented to serve as a director of the Company if elected. We have no reason to believe that any of the nominees will be unable or decline to serve as a director.

Each of the ten nominees for director who receives at least a majority of the votes cast for such nominee will be elected. Votes cast include votes to withhold authority but do not include abstentions with respect to that nominee's election. At last year's Annual Meeting, our shareholders approved a proposal to amend our Restated Certificate of Incorporation and By-Laws in order to eliminate plurality voting in uncontested elections of directors and to require that a nominee for director in an uncontested election receive a majority of the votes cast with respect to such director's election in order to be elected to the Board. Furthermore, our shareholders approved the elimination of cumulative voting. These amendments became effective as of May 3, 2007 and apply to all director elections following the 2007 Annual Meeting of Shareholders.

If a nominee receives a greater number of votes withheld from his or her election than votes for such election, he or she is required to tender his or her resignation to the Chairman of the Board for consideration by the Nominating and Corporate Governance Committee in accordance with the corporate governance guideline adopted by the Board in January 2006 and amended in July 2007, and described on page 12.

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Set forth below is certain information furnished to the Company by each nominee.

The Board of Directors recommends that you vote FOR the election as directors of the nominees listed below.

W. DON CORNWELL

Director since 2002 Age: 60

Mr. Cornwell is Chairman and Chief Executive Officer of Granite Broadcasting Corporation, a group broadcasting company that owns and operates television stations across the U.S., which he founded in 1988. On December 11, 2006, Granite Broadcasting Corporation filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code and emerged from its restructuring on June 4, 2007. Previously, Mr. Cornwell was Chief Operating Officer for the Corporate Finance Department at Goldman, Sachs & Co. from 1980 to 1988 and Vice President of the Investment Banking Division of Goldman, Sachs from 1976 to 1980. He is a director of Pfizer, Inc. He is also a director of the Wallace Foundation and is a trustee of Big Brothers Big Sisters of New York.

EDWARD T. FOGARTY

Director since 1995 Age: 71

Mr. Fogarty was the Chairman, President and Chief Executive Officer of Tambrands, Inc., a major global consumer products company, from September 1996 to July 1997. Prior to assuming that position, Mr. Fogarty was President and Chief Executive Officer of Tambrands from May 1994 to September 1996. Previously, he was President-USA/Canada/Puerto Rico for the Colgate Palmolive Company from 1989 to 1994. From 1983 to 1989, he was President, Worldwide Consumer Products, at Corning Inc.

FRED HASSAN

Director since 1999 Age: 62

Mr. Hassan is the Chairman and Chief Executive Officer of Schering-Plough Corporation, a research-based global pharmaceutical company. Prior to assuming this position in April 2003, Mr. Hassan had been Chairman and Chief Executive Officer of Pharmacia Corporation since February 2001. Prior to that time, he served as President and Chief Executive Officer of Pharmacia after its creation in March 2000 from the merger of Pharmacia & Upjohn, Inc. with Monsanto Company. Before that he served as President and CEO of Pharmacia & Upjohn since May 1997. Mr. Hassan previously held senior positions with Wyeth, including that of Executive Vice President and Board member. Mr. Hassan is a director of Schering-Plough Corporation.

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ANDREA JUNG

Director since 1998 Age: 49

Ms. Jung was elected Chairman of the Board of Directors and Chief Executive Officer of the Company effective September 2001, having previously served as Chief Executive Officer since November 1999. Ms. Jung has been a member of the Board of Directors since January 1998 and was President from January 1998 to January 2001 and Chief Operating Officer from July 1998 to November 1999. She was elected an Executive Vice President of the Company in March 1997 concurrently continuing as President, Global Marketing, a position she held from July 1996 to the end of 1997. Ms. Jung joined the Company in January 1994 as President, Product Marketing for Avon U.S. Previously, she was Executive Vice President for Neiman Marcus and a Senior Vice President for I. Magnin. Ms. Jung is a director of Apple Inc. and the General Electric Company. She is a member of the N.Y. Presbyterian Hospital Board of Trustees, a member and former Chairman of the Board of Directors of the Personal Care Products Council (formerly the Cosmetic, Toiletry and Fragrance Association) and a director of Catalyst.

MARIA ELENA LAGOMASINO

Director since 2000 Age: 59

Ms. Lagomasino is the Chief Executive Officer of GenSpring Family Offices, an affiliate of Sun Trust Banks Inc. Prior to assuming this position in November 2005, Ms. Lagomasino was Chairman and Chief Executive Officer of JP Morgan Private Bank, a division of JP Morgan Chase & Co. from September 2001 to March 2005. Prior to assuming this position, Ms. Lagomasino was Managing Director at The Chase Manhattan Bank in charge of its Global Private Banking Group. Ms. Lagomasino had been with Chase Manhattan since 1983 in various positions in private banking. Prior to 1983 she was a Vice President at Citibank. She served on the Board of the Coca-Cola Company and as Trustee of the Synergos Institute. Currently, she is a Trustee of the National Geographic Society and is a Board member of Lincoln Center Theater.

ANN S. MOORE

Director since 1993 Age: 57

Mrs. Moore is Chairman and Chief Executive Officer of Time Inc. Prior to assuming this position in July 2002, Mrs. Moore was Executive Vice President of Time Inc. since September 2001, where she had executive responsibilities for a portfolio of magazines including Time, The Parenting Group, People, InStyle, Teen People, People en Español and Real Simple. Mrs. Moore joined Time Inc. in 1978 in Corporate Finance. Since then, she has held consumer marketing positions at Sports Illustrated, Fortune, Money and Discover, moving to general management of Sports Illustrated in 1983 and to publisher of People in 1991. She is also a director of the Wallace Foundation.

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PAUL S. PRESSLER

Director since 2005 Age: 51

Mr. Pressler was President and Chief Executive Officer of Gap, Inc. from September 2002 to January 2007. He also served on Gap, Inc.'s Board of Directors from October 2002 until January 2007. Prior to joining Gap, Inc., Mr. Pressler spent fifteen years with The Walt Disney Company where he was Chairman of the company's Global Theme Park and Resorts Division. Mr. Pressler previously served as President of Disneyland, President of The Disney Stores and Senior Vice President of Consumer Products. Prior to Disney, he was Vice President of Marketing and Design for Kenner-Parker Toys. Mr. Pressler is a director of Overture Acquisition Corp. He serves on the Board of Big Brothers Big Sisters of America.

GARY M. RODKIN

Director Nominee Age: 55

Mr. Rodkin is the Chief Executive Officer of ConAgra Foods, Inc. Prior to assuming this position in October 2005, he was Chairman and Chief Executive Officer of PepsiCo Beverages and Foods North America (consumer products and manufacturing) from 2002 to 2005. Mr. Rodkin also served as President and Chief Executive Officer of Pepsi-Cola North America from 1999 to 2002, and President of Tropicana from 1995 to 1998. He held various management positions at General Mills from 1979 to 1995, including President of Yoplait Yogurt. He serves on the Boards of the Grocery Manufacturers of America and Boys Town.

PAULA STERN, PhD.

Director since 1997 Age: 63

The Honorable Paula Stern is Chairwoman of The Stern Group, Inc., an international advisory firm in areas of business and government strategy established in 1988. She was Commissioner of the U.S. International Trade Commission from 1978 to 1987 and Chairwoman from 1984 to 1986. Dr. Stern is a director of Hasbro, Inc. She is Vice-Chair of the Atlantic Council of the United States and serves on the Board of Trustees of the Committee for Economic Development and on the Advisory Council of Columbia University School of Social Work. She is also a member of Council on Foreign Relations, Inter-American Dialogue, Bretton Woods Committee, and the High Level Advisory Group for the Global Subsidies Initiative of the International Institute for Sustainable Development.

LAWRENCE A. WEINBACH

Director since 1999 Age: 68

Mr. Weinbach is a partner in Yankee Hill Capital Management LLC, a private equity firm. On January 31, 2006, he retired as Chairman of the Board of Unisys Corporation, a worldwide information services and technology company. Mr. Weinbach joined Unisys in September 1997 as Chairman, President and Chief Executive Officer. In January 2004, his title changed to Chairman and Chief Executive Officer and he held the position of Chairman from January 2005 until his retirement. He previously was Managing Partner Chief Executive of Andersen Worldwide, a global professional services organization from 1989 to 1997 and had held various senior executive positions with Andersen for a number of years prior thereto. Mr. Weinbach is a director of Discover Financial Services, Quadra Realty Trust, Inc. and UBS, AG.

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INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Company's Board of Directors held nine meetings in 2007. The Board has the following regular standing committees: Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, and Finance and Strategic Planning Committee. The charters of each Committee, the Company's Corporate Governance Guidelines and the Company's Code of Business Conduct and Ethics (which applies to the Company's directors, officers and employees) are available on the Company's investor website (www.avoninvestor.com) and in print to any shareholder upon request. Directors are expected to attend all meetings of the Board of Directors and the Board Committees on which they serve and to attend the Annual Meeting of Shareholders. No director attended less than 75% of the aggregate number of meetings of the Board and of each Board Committee on which he or she served. All directors attended the 2007 Annual Meeting. In addition to participation at Board and Committee meetings and the Annual Meeting of Shareholders, our directors discharge their duties throughout the year through communications with senior management regarding issues relating to the Company.

The non-management directors meet in regularly scheduled executive sessions, as needed, without the management directors or other members of management. On May 3, 2007, the Board appointed Fred Hassan to preside at all executive sessions of the Board and will review this appointment periodically. In the absence of the presiding director from any executive session, the non-management directors will choose from among themselves one director to preside at such executive session. A shareholder or other interested party who wishes to communicate with the Board, the non-management directors as a group, the presiding director or any other individual director may do so by addressing the correspondence to that individual or group, c/o Corporate Secretary, Avon Products, Inc., 1345 Avenue of the Americas, New York, NY 10105. All correspondence addressed to a director will be forwarded to that director.

The Committee memberships listed below were effective as of December 31, 2007.

Audit Committee

Current Members	Messrs. Weinbach (Chair), Cornwell and Fogarty and Ms. Lagomasino
Number of Meetings in 2007	Seven
Primary Responsibilities	The Company has a separately designated standing Audit Committee established in accordance with the Securities Exchange Act of 1934. The Board has determined that Lawrence A. Weinbach, the Committee's Chair, is qualified to be an audit committee financial expert, under the rules of the Securities and Exchange Commission and that he is independent as defined by the listing standards of the New York Stock Exchange. The Audit Committee assists the Board in fulfilling its responsibility to oversee the integrity of the Company's financial statements, controls and disclosures, the Company's compliance with legal and regulatory requirements, the qualifications and independence of the Company's independent accountants and the performance of the Company's internal audit function and its independent accountants. The Committee has the authority to conduct any investigation appropriate to fulfilling its purpose and responsibilities. The responsibilities of the Committee are set forth in the Committee's charter and include: reviewing major issues regarding accounting principles and financial statement presentations; reviewing with management and the independent accountants the Company's annual audited and quarterly financial statements; discussing generally with management the types of

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information to be disclosed in earnings press releases; the appointment, compensation, retention and oversight of the independent accountants; approving all audit and non-audit fees and services; and reviewing with management and the independent accountants the Company's disclosure controls and procedures and its internal controls. The Committee's charter is available on the Company's investor website (www.avoninvestor.com) and was most recently revised as of December 1, 2004; any future revisions will be posted to the same location on our website. In addition, a separate report of the Audit Committee is set forth on page 54.

Compensation Committee

Current Members	Mrs. Moore (Chair), Messrs. Hassan, Pressler and Rodkin, and Ms. Lagomasino
Number of Meetings in 2007	Seven
Primary Responsibilities	<p>The Compensation Committee is appointed by the Board to discharge the responsibilities of the Board relating to compensation of the Company's executives. The responsibilities of the Compensation Committee are set forth in the Committee's charter and include: establishing the Company's overall compensation and benefits philosophy; reviewing and approving the corporate goals and objectives relevant to the compensation of the Chief Executive Officer, and recommending to the independent members of the Board the compensation of the Chief Executive Officer; determining and approving the compensation of all senior officers; approving grants of equity compensation awards under our stock plans, including the 2005 Stock Incentive Plan; approving or recommending for shareholder approval, as appropriate, all incentive compensation plans and equity-based plans; approving the adoption or amendment of certain employee benefit plans; and approving agreements with senior officers. The Committee is also charged with the responsibility of reviewing and discussing with management the Compensation Discussion and Analysis to be included in our proxy statement and, based on that review and discussion, determining whether to recommend to our Board of Directors inclusion of the Compensation Discussion and Analysis in the proxy statement.</p>

The Committee may delegate responsibilities to a subcommittee comprised of one or more members of the Committee, provided that any action taken shall be reported to the full Committee as soon as practicable, but in no event later than at the Committee's next meeting. In addition, the Committee may delegate certain other responsibilities. As described on page 27 under "Compensation Discussion and Analysis - Elements of Compensation - Equity-Based Long-Term Incentives," the Committee has delegated to Ms. Jung as a director the authority to approve off-cycle stock option and stock-based grants to employees who are not Senior Officers. The full Committee, however, determines the aggregate amount, as well as the terms and conditions, of the off-cycle grants. A description of the external compensation consulting firm engaged by the Committee and scope of authority of the Committee is set forth on pages 22 and 23 under

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Compensation Discussion and Analysis External Compensation Consulting Firm and Compensation Discussion and Analysis Role of the Committee and Management. The Committee's charter is also available on the Company's investor website (www.avoninvestor.com) and was most recently revised as of March 7, 2007; any future revisions will be posted to the same location on our website.

Nominating and Corporate Governance Committee

Current Members	Messrs. Hassan (Chair) and Rodkin, Mrs. Moore and Dr. Stern
Number of Meetings in 2007	Three
Primary Responsibilities	The Nominating and Corporate Governance Committee identifies individuals qualified to become Board members, consistent with criteria approved by the Board; recommends to the Board the candidates for directorships to be filled by the Board and director nominees to be proposed for election at the annual meeting of shareholders; develops and recommends to the Board a set of corporate governance principles applicable to the Company; monitors developments in corporate governance and makes recommendations to the Board regarding changes in governance policies and practices; reviews the Company's management succession plans and oversees the evaluation of management; and oversees the evaluation of the Board, including conducting an annual evaluation of the performance of the Board and Board committees. The responsibilities of the Committee are set forth in the Committee's charter and include: reviewing and recommending to the Board policies regarding the size and composition of the Board, qualifications and criteria for Board and committee membership, and the compensation of non-management directors; and establishing and reviewing the principles for the selection and performance review of the Chief Executive Officer. The Committee's charter is available on the Company's investor website (www.avoninvestor.com) and was most recently revised as of January 26, 2006; any future revisions will be posted to the same location on our website.

Finance and Strategic Planning Committee

Current Members	Messrs. Fogarty (Chair), Cornwell and Pressler and Dr. Stern
Number of Meetings in 2007	Eight
Primary Responsibilities	The Finance and Strategic Planning Committee assists the Board in fulfilling its responsibilities to oversee the financial management of the Company, including oversight of the Company's capital structure and financing strategies, investment strategies, banking relationships and funding of the Company's employee benefit plans, and the strategic management of the Company, including oversight of the Company's plans with respect to possible acquisitions, divestitures or other strategic transactions. The responsibilities of the Committee are set forth in the Committee's charter and include: reviewing with management on a timely basis significant financial matters of the Company, including matters relating to the Company's capitalization, dividend policy and

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practices, credit ratings, cash flows, borrowing activities, investment of surplus funds and financial risk management; and reviewing with management the Company's strategic planning process and procedures and its strategic plans. The Committee's charter is available on the Company's investor website (www.avoninvestor.com) and was most recently revised as of December 1, 2004; any future revisions will be posted to the same location on our website.

Director Independence

The Board of Directors assesses the independence of its members at least annually in accordance with the listing standards of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and the regulations of the Securities and Exchange Commission, as well as the Company's Corporate Governance Guidelines available on the Company's investor website (www.avoninvestor.com). As part of its assessment of the independence of the non-management directors, the Board determines whether or not any such director has a material relationship with Avon, either directly or indirectly as a partner, shareholder or officer of an organization that has a relationship with Avon. In making this determination, the Board broadly considers all relevant facts and circumstances and will consider this issue not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. This consideration will include: (i) the nature of the relationship; (ii) the significance of the relationship to Avon, the other organization and the individual director; (iii) whether or not the relationship is solely a business relationship in the ordinary course of Avon's and the other organization's businesses and does not afford the director any special benefits; and (iv) any commercial, industrial, banking, consulting, legal, accounting, charitable, familial and other relationships; *provided*, that ownership of a significant amount of Avon stock is not, by itself, a bar to independence. In assessing the independence of directors and the materiality of any relationship with Avon and the other organization, the Board has determined that a relationship in the ordinary course of business involving the sale, purchase or leasing of property or services will not be deemed material if the amounts involved, on an annual basis, do not exceed the greater of (i) \$1,000,000 or (ii) one percent (1%) of Avon's revenues or one percent (1%) of the revenues of the other organization involved.

The Company, as is common for major global consumer products companies, regularly advertises through various media, including television and magazines. Some of these advertisements may appear from time to time on television stations owned by or associated with Granite Broadcasting Corp., of which Mr. Cornwell is Chairman and Chief Executive Officer, or in magazines owned by Time Inc., of which Mrs. Moore is Chairman and Chief Executive Officer. In 2007, the aggregate cost of advertisements appearing on such television stations or in such magazines was not material to Avon nor was the associated revenue material to either Granite Broadcasting Corp. or Time Inc.

Based on the materiality standard described above, none of the relationships between the Company and Mrs. Moore or Mr. Cornwell, respectively, or any of the other non-management directors was material during 2007. The Board of Directors has concluded that each non-management director is independent of the Company.

Director Nomination Process & Shareholder Nominations

As noted above, the Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent as defined by the listing standards of the New York Stock Exchange and the Company's Corporate Governance Guidelines.

The Committee's process for considering all candidates for election as directors, including shareholder-recommended candidates, is designed to ensure that the Committee fulfills its responsibility to recommend candidates that are properly qualified and are not serving any special interest groups, but rather the best interest of all of the shareholders.

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Our Corporate Governance Guidelines and the charter of the Nominating and Corporate Governance Committee require that our directors possess the highest standards of personal and professional ethics, character and integrity and meet the standards set forth in our Corporate Governance Guidelines. In identifying candidates for membership on the Board, the Committee takes into account all factors it considers appropriate, consistent with criteria approved by the Board, which may include professional experience, knowledge, independence, diversity of backgrounds and the extent to which the candidate would fill a present or evolving need on the Board.

If there is a need for a new director because of an open position on the Board or because the Board has determined to increase the total number of directors, the Committee may retain a third-party search firm to locate candidates that meet the needs of the Board at that time. When a search firm is used, the firm typically provides information on a number of candidates for review and discussion by the Committee. If appropriate, the Committee chair and some or all of the members of the Committee may interview potential candidates. If in these circumstances the Committee determines that a potential candidate meets the needs of the Board, has the relevant qualifications, and meets the standards set forth in the Company's Corporate Governance Guidelines, the Committee will vote to recommend to the Board the election of the candidate as a director.

The Nominating and Corporate Governance Committee will consider director candidates recommended by shareholders if properly submitted to the Committee. Shareholders wishing to recommend persons for consideration by the Committee as nominees for election to the Board of Directors can do so by writing to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Avon Products, Inc., 1345 Avenue of the Americas, New York, New York 10105. Recommendations must include the proposed nominee's name, detailed biographical data, work history, qualifications and corporate and charitable affiliations, as well as a written statement from the proposed nominee consenting to be named as a nominee and, if nominated and elected, to serve as a director. The Committee will then consider the candidate and the candidate's qualifications using the criteria as set forth above. The Committee may discuss with the shareholder making the nomination the reasons for making the nomination and the qualifications of the candidate. The Committee may then interview the candidate and may also use the services of a search firm to provide additional information about the candidate prior to making a recommendation to the Board.

In addition, shareholders of record may nominate candidates for election to the Board by following the procedures set forth in our By-Laws. Information regarding these procedures for nominations by shareholders will be provided upon request to the Corporate Secretary of the Company.

Board Policy Regarding Voting for Directors

The Company has a corporate governance guideline whereby any nominee for director who receives a greater number of votes withheld than votes for his or her election in an uncontested election of directors will promptly tender his or her resignation to the Board for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will recommend to the Board whether to accept or reject the tendered resignation, or whether other action should be taken. The Nominating and Corporate Governance Committee will consider any factors or other information that it considers appropriate or relevant. The Board will act on the tendered resignation, taking into account the Nominating and Corporate Governance Committee's recommendation and publicly disclose (in a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The above is set forth in the Company's Corporate Governance Guidelines, which are available on the Company's investor website (www.avoninvestor.com).

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Director Compensation

Information regarding director compensation is set forth on page 51 under Director Compensation.

Certain Legal Proceedings

In August 2005, a shareholder derivative complaint was filed in the United States District Court for the Southern District of New York, 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 and the plaintiffs have opposed that motion.

Compensation Committee Interlocks and Insider Participation

No member of our Board's Compensation Committee, each of whom is listed under Compensation Committee Report on page 21, has served as one of our officers or employees at any time. None of our executive officers served during 2007 as a member of the board of directors or as a member of a compensation committee of any other company that has an executive officer serving as a member of our Board of Directors or Compensation Committee.

Table of Contents**EXECUTIVE OFFICERS**

The executive officers of the Company as of the date hereof are listed below. Executive officers are generally designated by the Board of Directors at its first meeting following the Annual Meeting of Shareholders. Each executive officer holds office until the first meeting of the Board of Directors following the next Annual Meeting of Shareholders at which Directors are elected, or until his or her successor is elected, except in the event of death, resignation or removal or the earlier termination of his or her term of office.

<u>Name</u>	<u>Title</u>	<u>Age</u>	<u>Year Designated Executive Officer</u>
Andrea Jung	Chairman and Chief Executive Officer	49	1997
Elizabeth Smith	President	44	2005
Charles W. Cramb	Vice Chairman, Chief Finance and Strategy Officer	61	2005
Charles M. Herington	Executive Vice President, Latin America	48	2006
Brian C. Connolly	Executive Vice President, Global Sales	52	2002
Lucien Alziari	Senior Vice President, Human Resources	48	2004
Bennett R. Gallina	Senior Vice President, China, Western Europe, the Middle East and Africa	53	2006
John P. Higson	Senior Vice President, Central and Eastern Europe	49	2006
John F. Owen	Senior Vice President, Global Supply Chain	50	2006
Kim K.W. Rucker	Senior Vice President and General Counsel	41	2008
James C. Wei	Senior Vice President, Asia Pacific	50	2006
Richard S. Foggio	Group Vice President and Corporate Controller	48	2006

Andrea Jung was elected as Avon's Chairman of the Board of Directors and Chief Executive Officer effective September 2001, having previously served as Chief Executive Officer since November 1999. Ms. Jung has been a member of the Board of Directors since January 1998 and was President from January 1998 to January 2001 and Chief Operating Officer from July 1998 to November 1999. She was elected an Executive Vice President of Avon in March 1997 concurrently continuing as President, Global Marketing, a position she held from July 1996 to the end of 1997. Ms. Jung joined Avon in January 1994 as President, Product Marketing for Avon U.S. Previously, she was Executive Vice President for Neiman Marcus and a Senior Vice President for I. Magnin. Ms. Jung is a director of Apple Inc. and the General Electric Company. She is a member of the N.Y. Presbyterian Hospital Board of Trustees, a member and former Chairman of the Board of Directors of the Personal Care Products Council (formerly the Cosmetic, Toiletry and Fragrance Association) and a director of Catalyst.

Elizabeth Smith has been Avon's President since September 2007, and, prior to that, served as Avon's Executive Vice President, President North America and Global Marketing from September 2005 to September 2007, as well as Avon's Executive Vice President and Brand President from January 2005 to September 2005. Prior to joining Avon, she was with Kraft Foods, Inc. as Group Vice President and President U.S. Beverages and Grocery Sectors from January 2004 to November 2004. Before that she was Group Vice President, Kraft Foods, Inc. and President, U.S. Beverage, Desserts and Cereal from October 2002 to January 2004, and Executive Vice

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President and General Manager of the Beverage Division from September 2000 to October 2002. Prior to that, she was with Kraft Foods, Inc. as Vice President, Beverage and Desserts Division, from February 2000 to September 2000, and Director of Strategy and New Business Development, Beverage and Desserts Division, from February 1999 to February 2000. Ms. Smith is a director of Carter's Inc.

Charles W. Cramb has been Avon's Vice Chairman, Chief Finance and Strategy Officer since September 2007 and, prior to that, served as Executive Vice President, Finance and Technology, and Chief Financial Officer since joining Avon in November 2005. Prior to that, Mr. Cramb was Senior Vice President, Finance and Chief Financial Officer of The Gillette Company from 1997 to 2005. Previously, he was with The Gillette Company as Vice President and Corporate Controller from 1995 to 1997 and, prior to that, he held various positions within finance of ascending responsibility during his 35 years at the company. Mr. Cramb is a director of Idenix Pharmaceuticals, Inc. and Tenneco Inc.

Charles M. Herington has been Avon's Executive Vice President, Latin America, since March 2008 and prior to that, Senior Vice President, Latin America since March 2006. Prior to joining Avon, Mr. Herington was President and Chief Executive Officer of America Online Latin America from 1999 to February 2006. On June 23, 2005, America Online Latin America filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. Prior to joining America Online Latin America, Mr. Herington served as President of Revlon Latin America. From 1990 to 1997, Mr. Herington held executive positions with PepsiCo Restaurants International, serving most recently from 1995 to 1997 as Division President of Kentucky Fried Chicken, Pizza Hut and Taco Bell of South America, Central America and the Caribbean. He also held several positions in management and marketing with Procter & Gamble in Canada, Puerto Rico and Mexico during the 10 years prior to his association with PepsiCo. Mr. Herington is a director of NII Holdings, Inc. (formerly Nextel International) and Molson-Coors.

Brian C. Connolly retired from the Company as of March 31, 2008. Mr. Connolly was Avon's Executive Vice President, Global Sales from September 2005 to March 31, 2008. Prior to that, Mr. Connolly was Executive Vice President and President, North America from 2003 to 2005, Senior Vice President and President, North America from 2001 to 2003, President of Avon U.S. from 2000 to 2001 and Senior Vice President of Sales and Operations for Avon U.S. from 1999 to 2000. Previously, Mr. Connolly was Group Vice President of Sales and Customer Service for Avon U.S. from 1998 to 1999 and Group Vice President-Sales for Avon U.S. from 1997 to 1998 and, before that, held various positions in sales and finance since joining Avon in 1978.

Lucien Alziari joined Avon as Senior Vice President, Human Resources in September 2004. Prior to joining Avon, he was Chief Human Resources Officer for PepsiCo's Corporate Division from 2003 to 2004. Prior to that, Mr. Alziari was Vice President, Staffing and Executive Development from 2000 to 2003, Vice President, Corporate Human Resources from 1998 to 2000, and Vice President, Human Resources for the Middle East, Pakistan and Africa from 1994 to 1997.

Bennett R. Gallina has been Avon's Senior Vice President, China, Western Europe, the Middle East and Africa since November 2005 and, prior to that, was Senior Vice President and President, Asia Pacific from 2004 to 2005, Senior Vice President, Global Operations from 2000 to 2004, President of Avon Canada from 1998 to 2000 and held various positions in finance since joining Avon in 1977.

John P. Higson has been Avon's Senior Vice President, Central and Eastern Europe since December 2005 and, prior to that, was Area Vice President, Central and Eastern Europe from 2002 to 2005 and, additionally during that period, was General Manager, Avon Poland from 2003 to 2005 and head of Global Sales Development from 1999 to 2002. Before that, he held various positions since joining Avon in 1985.

John F. Owen has been Avon's Senior Vice President, Global Supply Chain since December 2005 and, prior to that, was Senior Vice President and President, Europe, Middle East & Africa from 2004 to 2005, Senior Vice President, Business Transformation from 2002 to 2004, Group Vice President, Global Finance from 2000 to

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2002, Vice President, Finance North America from 1997 to 2000 and held various positions in finance since joining Avon in 1980.

Kim K.W. Rucker has been Avon's Senior Vice President and General Counsel since March 31, 2008. Prior to joining Avon, Ms. Rucker was the Senior Vice President, Secretary and Chief Governance Officer of Energy Future Holdings Corp. (formerly TXU Corp.) from 2004 to 2008. Ms. Rucker was Counsel, Corporate Affairs at Kimberly-Clark Corporation from 2001 to 2004 and previously was a partner at the Chicago law firm of Sidley Austin LLP.

James C. Wei has been Avon's Senior Vice President, Asia Pacific since November 2005 and, prior to that, was Vice President, New Markets and Strategic Planning, Asia Pacific from 2004 to 2005 and Regional Vice President, Strategic Planning, Asia Pacific from 2003 to 2004. Before joining Avon in 2003, Mr. Wei was the Vice President and General Manager of Procter & Gamble Health and Beauty Care, GBU, Greater China from 1999 to 2003 and, before that, held various positions in general management and marketing with Procter & Gamble in his 19 years there. He is a director of Li Ning Company Limited and Tsann Kuen (China) Enterprise Co. Ltd.

Richard S. Foggio has been Avon's Group Vice President and Corporate Controller since January 2006 and, prior to that, was Group Vice President, Global Finance from 2002 to 2004 and Vice President, Global Finance from 2000 to 2002. Prior to 2000, Mr. Foggio held various positions in finance at Avon including Assistant Treasurer International, and Finance Director for the Americas Region since joining Avon in 1987. Prior to joining Avon, Mr. Foggio held various strategy and financial positions at CBS, Inc. and American Can Co.

Table of Contents**OWNERSHIP OF SHARES**

The following table sets forth certain information as of March 14, 2008 regarding the beneficial ownership of Avon's common stock by each director and director nominee of Avon, each named executive officer (as defined in the introduction to the Summary Compensation Table on page 31), and all directors and executive officers of Avon as a group. The table also shows information for holders of more than five percent of the outstanding shares of common stock, as set forth in recent filings with the Securities and Exchange Commission. All shares shown in the table reflect sole voting and investment power except as otherwise noted.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
FMR LLC (1)	39,512,751	9.2%
Capital World Investors (2)	38,437,200	9.0%
Capital Research Global Investors (3)	23,098,960	5.4%
Brian Connolly (7) (8) (10)	475,889	*
W. Don Cornwell (4) (5) (6)	41,963	*
Charles W. Cramb (7) (8) (10)	171,129	*
Edward T. Fogarty (4) (5)	112,907	*
Fred Hassan (4) (5) (9)	89,079	*
Andrea Jung (7) (8) (10)	3,603,828	*
Gilbert L. Klemann, II (7) (8) (10)	421,508	*
Maria Elena Lagomasino (4) (5)	60,419	*
Ann S. Moore (4) (5) (6) (9)	98,223	*
Paul S. Pressler (4) (5)	19,635	*
Gary M. Rodkin (4)	2,519	*
Elizabeth Smith (7) (8) (10)	201,185	*
Paula Stern (4) (5)	39,999	*
Lawrence A. Weinbach (4) (5)	70,079	*
All 21 directors and executive officers as a group (8) (11)	6,448,694	1.5%

* Indicates less than 1% of the outstanding shares, inclusive of shares that may be acquired within 60 days of March 14, 2008 through the exercise of stock options.

- (1) In its Schedule 13G/A filed on February 14, 2008 with the Securities and Exchange Commission, FMR LLC reported the beneficial ownership of 39,512,751 shares on behalf of certain of its subsidiaries and Fidelity International Limited. Most shares are held by its subsidiary, Fidelity Management & Research Company, as a result of acting as investment adviser to various companies registered under Section 8 of the Investment Company Act of 1940. FMR LLC reported that it had sole voting power with respect to 2,270,714 shares, shared voting power with respect to no shares, sole dispositive power with respect to 39,512,751 shares and shared dispositive power with respect to no shares. The address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.
- (2) In its Schedule 13G filed on February 11, 2008 with the Securities and Exchange Commission, Capital World Investors, an investment advisor registered under Section 203 of the Investment Advisors Act of 1940 and a division of Capital Research and Management Company (CRMC), reported the beneficial ownership of 38,437,200 shares as a result of CRMC acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. Capital World Investors reported that it had sole voting power with respect to 9,667,200, shared voting power with respect to no shares, sole dispositive power with respect to 38,437,200 shares and shared dispositive power with respect to no shares. The address of Capital World Investors is 333 South Hope Street, Los Angeles, California 90071.
- (3) In its Schedule 13G filed on February 12, 2008 with the Securities and Exchange Commission, Capital Research Global Investors, an investment advisor registered under Section 203 of the Investment Advisors Act of 1940 and a division of Capital Research and

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Management Company (CRMC), reported the beneficial ownership of 23,098,960 shares as a result of CRMC acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. Capital Research Global Investors reported that it had sole voting power with respect to 10,860,960 shares, shared voting power with respect to no shares, sole dispositive power with respect to 23,098,960 shares and shared dispositive power with respect to no shares. The address of Capital Research Global Investors is 333 South Hope Street, Los Angeles, California 90071.

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- (4) Includes, for each indicated non-management director, restricted shares that have been granted as part of his or her annual retainer compensation, as follows: Mr. Cornwell, 9,563 shares; Mr. Fogarty, 15,999 shares; Mr. Hassan, 13,079 shares; Ms. Lagomasino, 10,819 shares; Mrs. Moore, 15,999 shares; Mr. Pressler, 6,635 shares; Mr. Rodkin, 2,519 shares; Dr. Stern, 15,999 shares; and Mr. Weinbach, 13,079 shares. Also includes additional restricted shares granted to certain non-management directors upon the discontinuance in 1997 of the Directors Retirement Plan, as follows: Mr. Fogarty, 4,408 shares; and Mrs. Moore, 9,624 shares. For all such restricted shares, the director has sole voting but no investment power.
- (5) Includes, for each indicated non-management director, shares which he or she has the right to acquire within 60 days of March 14, 2008 through the exercise of stock options, as follows: Mr. Cornwell, 32,000 shares; Mr. Fogarty, 64,000 shares; Mr. Hassan, 56,000 shares; Ms. Lagomasino, 44,000 shares; Mrs. Moore, 64,000 shares; Mr. Pressler, 8,000 shares; Dr. Stern, 24,000 shares; and Mr. Weinbach, 56,000 shares.
- (6) Includes, with respect to Mr. Cornwell, 200 shares held in the name of a family member as to which he disclaims beneficial ownership. Includes, as to Mrs. Moore, 400 shares held in the names of family members as to which she disclaims beneficial ownership.
- (7) Includes, for each named executive officer, shares which he or she has the right to acquire within 60 days of March 14, 2008 through the exercise of stock options, as follows: Mr. Connolly, 443,302 shares; Mr. Cramb, 159,324 shares; Ms. Jung, 3,282,670 shares; Mr. Klemann, 403,273 shares; and Ms. Smith, 178,903 shares. Includes, for Ms. Jung, 84,862 shares pledged as security.
- (8) The table above excludes, for each named executive officer, and the directors and executive officers as a group, restricted stock units because restricted stock units do not afford the holder of such units voting or investment power. As of March 14, 2008, Mr. Connolly held 24,260 restricted stock units, Mr. Cramb held 133,991 restricted stock units, Ms. Jung held 166,920 restricted stock units, Mr. Klemann held 10,390 restricted stock units which vested upon his separation from service but will not be settled until March 2010 provided the performance goals are satisfied (as described under Executive Compensation Option Exercises and Stock Vested on page 38), Ms. Smith held 122,963 restricted stock units, and the directors and executive officers as a group (including Mr. Klemann who was a named executive officer during 2007) held 762,840 restricted stock units. In addition, the table above excludes, for each named executive officer, and the directors and officers as a group, deferred stock units because deferred stock units do not afford the holder of such units voting or investment power. As of March 14, 2008, Mr. Connolly held 38,000 deferred stock units, Ms. Jung held 140,000 deferred stock units, Mr. Klemann held 22,000 deferred stock units, Ms. Smith held 44,885 deferred stock units, and the directors and executive officers as a group (including Mr. Klemann who was a named executive officer during 2007) held 262,885 deferred stock units.
- (9) Mr. Hassan shares voting and investment power with his spouse as to 20,000 of his shares. Mrs. Moore shares voting and investment power with her spouse as to 8,200 of her shares.
- (10) Includes, for each named executive officer, shares held in the Avon Personal Savings Account Plan (401(k) Plan), as follows: Mr. Connolly, 19,550 shares; Mr. Cramb, 3,805 shares; Ms. Jung, 5,157 shares; Mr. Klemann 1,954 shares; and Ms. Smith, 2,339 shares. The trustee of the 401(k) Plan will vote the shares in accordance with the instructions provided to the trustee.
- (11) The table above provides beneficial ownership information as a group for all of the Company's directors and executive officers as of March 14, 2008 as well as Mr. Klemann, who was a named executive officer during 2007 but separated from service effective December 31, 2007. Includes 600 shares as to which such directors and executive officers as a group disclaim beneficial ownership. Includes 28,200 shares as to which beneficial ownership was shared with others and 5,799,073 shares which such directors and executive officers as a group have a right to acquire within 60 days of March 14, 2008 through the exercise of stock options. Includes 47,577 shares held by executive officers in the 401(k) Plan as to which the trustee of the 401(k) Plan will vote in accordance with the instructions provided to the trustee.

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TRANSACTIONS WITH RELATED PERSONS

Transactions with Related Persons

There have been no related person transactions required to be reported since the beginning of 2007.

Policies and Procedures for Related Person Transactions

The Company has policies and procedures for the review, approval and ratification of related person transactions as defined under the rules and regulations of the Securities Exchange Act of 1934.

The Company's Code of Business Conduct and Ethics, which is available on the Company's investor website (www.avoninvestor.com), prohibits all conflicts of interest. Under the Code, conflicts of interest occur when personal, private or family interests interfere in any way, or even appear to interfere, with the interests of the Company.

The Company's compliance committee, which was established by the Board of Directors and includes members of the Company's senior management, initially reviews all actual or apparent conflicts of interest, or potential conflicts of interest, under the Code. However, under the written charter of the committee, any conflicts of interest that are deemed related person transactions must be forwarded, with a recommendation of how to proceed, to the Board of Directors for review, approval or ratification of the transaction. The Board of Directors shall consider any such related person transactions, including the recommendation from the compliance committee, in a manner that best serves the interests of the Company and its shareholders. Any approval or ratification of a related person transaction that requires a waiver of the Code by the Board of Directors shall be disclosed as required.

The Company has multiple processes for reporting conflicts of interests, including related person transactions, to the compliance committee. Under the Code, all employees are required to report any actual or apparent conflict of interest, or potential conflict of interest, to the compliance committee. The Company also annually distributes a questionnaire to its executive officers and members of the Board of Directors requesting certain information regarding, among other things, their immediate family members, employment and beneficial ownership interests, which information is then reviewed for any conflicts of interest under the Code. In addition, the Company's global internal audit function has processes in place, under its written procedure policies, to identify potential conflicts of interest and report them to the compliance committee. One process is its periodic survey of employees, including executive officers, which asks specific questions regarding potential conflicts of interest under the Code, and requires certification of compliance with the Code. The global internal audit function also periodically surveys the Company's global finance function, including accounts payable, for any amounts paid to any member of the Board of Directors, executive officer or 5% shareholder of the Company, and certain of such persons' affiliates. Accounts payable then produces a report of any amounts paid to any such persons, which is then reviewed for any potential conflicts of interest under the Code.

The Company also has other policies and procedures to prevent conflicts of interest, including related person transactions. For example, the Company's Corporate Governance Guidelines, which are available on the Company's investor website (www.avoninvestor.com), require that the Board of Directors assess the independence of its non-management directors at least annually, including a requirement that it determine whether or not any such directors have a material relationship with the Company, either directly or indirectly, as defined therein and as further described under "Information Concerning the Board of Directors - Director Independence" on page 11. In addition, the Company maintains a number of

controls and procedures, including a written global policy, for the proper review and approval of contracts and other financial commitments.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of December 31, 2007 regarding the Company's equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	25,758,924(2)	\$ 33.25(2)	24,620,234(3)
Equity compensation plans not approved by security holders	0	N/A	0
Total	25,758,924	\$ 33.25	24,620,234

(1) These plans are the Company's 1993 Stock Incentive Plan, the 2000 Stock Incentive Plan and the 2005 Stock Incentive Plan.

(2) Excludes stock appreciation rights (SARs) of which 141,278 were outstanding as of December 31, 2007.

(3) As of December 31, 2007, 22,208,474 shares remained available for issuance under the 2005 Stock Incentive Plan, which permits grants of stock options, shares of restricted stock, restricted stock units, performance and other stock units, and SARs. Of the 22,208,474 shares, 5,272,823 shares remained available for awards of stock and stock units as of December 31, 2007. Although 1,327,592 and 1,084,168 shares remain available for issuance under the 2000 Stock Incentive Plan and 1993 Stock Incentive Plan, respectively, no additional stock options or other stock awards will be granted under those plans.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and greater than 10% shareholders to file certain reports with respect to beneficial ownership of the Company's equity securities. Based solely on a review of copies of reports furnished to the Company, or written representations that no reports were required, the Company believes that during 2007 all Section 16 reports that were required to be filed were filed on a timely basis, except that Form 4/As for each of Mr. Alziari, Mr. Cramb and Mr. Herington were filed one day late to report a grant of restricted stock units.

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EXECUTIVE COMPENSATION

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis for the year ended December 31, 2007. Based upon such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis section be included in this Proxy Statement and be incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Members of the Compensation Committee

Ann S. Moore, Chair

Fred Hassan

Maria Elena Lagomasino

Paul S. Pressler

Gary M. Rodkin

March 5, 2008

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Compensation Discussion and Analysis

Compensation Philosophy and Objectives

Our executive compensation program is designed to attract, retain, motivate and reward the key talent responsible for the Company's long-term success, to reward executives for achieving both financial and strategic Company goals and to support the Company's overall business strategy. The guiding principles used in the design of the program are:

Target total compensation levels must be competitive with the compensation practices of other leading beauty and consumer products companies and actual compensation levels commensurate with relative shareholder returns and financial performance.

Compensation is pay-for-performance such that individual compensation awards are tied to Company, business unit and individual performance.

Compensation programs must be designed to balance short-term and long-term financial and strategic objectives that reward both team and overall Company performance on an annual basis as well as reward for building shareholder value over a multi-year period.

Overall executive compensation levels (base salary and annual and long-term incentive compensation) are targeted at the median of the market. Compensation levels for sustained top performers, typically including our named executive officers, are targeted at the 75th percentile of market. Consistent with this philosophy, the total 2007 salary and annual and long-term incentive compensation for the named executive officers was, on average, between the median and the 75th percentile of the market.

External Compensation Consulting Firm

The Compensation Committee has engaged an external executive compensation consulting firm, Mercer HR Consulting, to advise it on executive compensation issues for Senior Officers, including, but not limited to, annual adjustments to pay levels, market practices regarding executive compensation including incentive plan design, equity awards, executive retirement and other benefit programs, and employment contracts. Senior Officers include all named executive officers as well as other officers at or above the level of Senior Vice President and, for 2007, an additional officer covered by Rule 16a-1(f) under the Securities Exchange Act of 1934. Mercer reports to the Committee and consults directly with the Chair as requested. Mercer typically attends Committee meetings when the compensation of named executive officers is scheduled to be discussed and, during the Committee's deliberations on the compensation of the Chairman and Chief Executive Officer (CEO), Mercer participates in the executive sessions of the Committee, typically without any members of management being present. Mercer also assists management in implementation of changes in the compensation of Senior Officers that are determined by the Committee. The Committee has the sole authority to continue or terminate its relationship with Mercer.

Mercer has also been retained by management to provide compensation consulting advice and services for officers and other executives below the level of Senior Officer. We believe that it is efficient for alignment and consistency purposes to have a compensation consultant familiar with our total compensation program to provide data, analysis and consultation on compensation matters for our Senior Officers as well as for officers and other executives below the Senior Officer level. In addition, other Mercer offices and consultants work with us throughout the world on various compensation and benefits issues. Mercer personnel involved in compensation matters for the Committee do not participate in any other services provided by Mercer to the Company.

The Role of the Committee and Management

The Compensation Committee approves all compensation decisions which affect our Senior Officers. The Committee works closely with our senior human resource executives and Mercer to review competitive practices and pay ranges that impact the Senior Officer group and adjust the base salary and target incentive ranges based

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on the competitive review; to make significant compensation policy changes for executives and changes to the benefits program; and to review various internal policies and procedures including those related to equity awards, such as stock option grants. After considering the market data and relative internal contributions, the CEO makes individual compensation recommendations for Senior Officers, including the named executive officers, to the Committee for its review and approval. These individual compensation recommendations include merit increases, annual incentive targets and payouts, long-term incentive awards and composition of such awards, and other compensation awards as they may arise. In addition, for each Senior Officer, the Committee reviews retirement and savings accounts and deferred compensation account balances as part of its annual total compensation review.

The Committee, in consultation with the independent members of the Board of Directors, establishes performance objectives for the CEO each year. The attainment of these performance objectives is then evaluated by the Committee, in consultation with the independent members of the Board of Directors, in part to determine the CEO's annual incentive compensation payout. The Company's senior human resource executives work with the Committee's external executive compensation consultant to recommend any adjustments to the compensation structure and level of pay for the CEO.

The Committee at all times has direct access to any of our officers or employees. Executives do not recommend or determine any element of their own compensation packages.

Annual Executive Compensation Review

Compensation levels and practices for the CEO; the Vice Chairman, Chief Finance & Strategy Officer (CFO); and the President are assessed each year primarily against a peer group of 12 beauty and consumer goods companies. This group of peer companies was selected based on the fact that we compete with these organizations for employees, customers and shareholders. These companies are comparable to Avon in terms of their consumer products orientation, size and global scale. This group differs from the Industry Composite Group included in the Stock Performance Graph in our annual report on Form 10-K, as the Compensation Committee believes that these peers better represent the market with which we compete for executive talent. Our compensation peer group for 2007 remained the same as for 2006 and was comprised of: Campbell Soup, Clorox, Colgate-Palmolive, Estee Lauder, General Mills, H.J. Heinz, Hershey Foods, Kellogg, Kimberly Clark, Procter & Gamble, Revlon and Sara Lee.

In 2007, the Committee benchmarked the compensation of Senior Officers other than the CEO, the CFO and the President, including the other named executive officers, against Mercer's Consumer Goods Industry Composite (comprised of 16 companies, four of which are in our peer group). Although there is typically sufficient data available from peer group information for the CEO, CFO and President positions, there is typically insufficient data available solely from the peer group of 12 companies for the other Senior Officer positions. For this reason, we use a broader group to obtain data for the other Senior Officers. This second group of 16 consumer goods companies is comprised of organizations with revenues ranging from \$6 billion to \$10 billion and includes the following four companies that are also in our peer group: Campbell Soup, Estee Lauder, H.J. Heinz and Kellogg. When we refer to market, we mean the peer group of 12 companies where available data exists, and otherwise to Mercer's Consumer Goods Industry Composite. The other 12 companies in Mercer's Consumer Goods Industry Composite are: Black and Decker, Brunswick, Dean Foods, Dole Food, Fortune Brands, Hormel Foods, Land O Lakes, Mattel, Molsen Coors Brewing, Newell Rubbermaid, Reynolds America, and VF Corporation. We also use data from this other group of 16 companies for the CEO, the CFO and the President when a sufficient amount of comparative data is not available from the peer group data for which the Committee is seeking relevant information.

The Committee's goal is to provide total compensation packages that are competitive with prevailing practices within our peer group and market. The use of comparisons against the peer group and market is only one of the elements in the Committee's determination process, as the Committee retains flexibility within the compensation program in order to respond to and adjust for specific circumstances, personal

achievement and the evolving business environment.

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Elements of Compensation

The Company's executive compensation program is composed of the following elements:

Base salary;

Annual incentive; and

Long-term incentives, which for the named executive officers for 2007 included restricted stock units, stock options, and cash awards under the Avon Products, Inc. 2006-2007 Turnaround Incentive Plan (TIP). A performance cash plan is also a component of the long-term incentive program, although no payout was made under this plan as described further under 2005-2007 Performance Cash Plan below.

We target a pay mix for our named executive officers of approximately 25% in base salary, 20% in annual incentive, and 55% in long-term incentives, on average. Although we typically do not target each element of compensation to be at a specific competitive level, we target total compensation at the median of the market but at the 75th percentile of the market for sustained top performers. Consistent with this philosophy, the actual total 2007 salary and annual and long term incentive compensation for the named executive officers was, on average, between the median and the 75th percentile of the market. In addition, we provide a competitive benefits and perquisites program as outlined below.

Annual incentive compensation awards are made to Senior Officers under the Avon Products, Inc. Executive Incentive Plan (EIP) to motivate and reward them for meeting or exceeding the Company's annual financial goals and their personal contributions towards such goals during the year. In addition to the EIP, which motivates and rewards for one year of performance, awards of stock options and restricted stock units are designed to encourage long-term focus and reward increases in shareholder returns while encouraging executives to remain in our employ. The level of stock option and restricted stock unit awards is determined based on competitive practice as well as on the grantee's individual performance and potential individual contribution to the growth and development of the Company. When determining award sizes for each named executive officer, the Compensation Committee also considered the executive's opportunities under the long-term cash incentive plans in order to assess the executive's aggregate equity and long-term incentive opportunity.

In addition to stock options and restricted stock units, we use long-term performance cash plans to incentivize our executives to achieve multi-year objectives. Awards are made under the long-term incentive plans to encourage long-term retention and motivate executives to achieve the goals of the Company's multi-year turnaround plan. In establishing the TIP, the Committee determined that it desired executives to focus on achieving the Company's strategic and financial goals in order to fully align with its turnaround plan objectives.

The Committee applies the same compensation philosophies and guiding principles when determining total compensation for all named executive officers, including Ms. Jung. The total compensation level for Ms. Jung differs from the other named executive officers for several reasons: (i) as CEO, Ms. Jung has ultimate management responsibility and the key leadership role in the Company and has greater decision making authority and responsibility than the other named executive officers; (ii) the CEO has the primary responsibility of carrying out the strategic plans and policies and is the officer with ultimate accountability; and (iii) it is customary and consistent with the market for CEOs to be compensated at a multiple of the compensation of other named executive officers.

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The Committee also used the same principles for all of the named executive officers in determining the level of their equity-based incentive compensation, including consideration of the range appropriate to the executive's level as compared to the market, individual performance and potential future individual contributions to the growth and development of the Company. In order to incentivize Ms. Jung to achieve the goals of the Company's turnaround plan and to place a significant portion of her compensation at risk based on the Company's performance, the 2006 restricted stock unit award for Ms. Jung will not be paid unless both cumulative revenue and operating profit goals are achieved during the three-year period 2006 to 2008. The performance goals are

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aligned with the threshold global revenue and operating profit goals under the annual incentive program under the EIP for each of 2006 and 2007, and the annual revenue and operating profit goals established by the Committee for 2008. In addition, in order to further incentivize all of the named executive officers to achieve the Company's multi-year financial and strategic goals, the 2007 grant of restricted stock units for all of the named executive officers, including Ms. Jung, will vest only upon the attainment of cumulative revenue and operating profit goals over the period 2007 to 2009, similar to Ms. Jung's 2006 restricted stock unit award. See Long-Term Incentive Compensation Equity-Based Long-Term Incentives below.

Base Salary

We pay competitive base salaries to the named executive officers in order to compensate them for their contributions based on job responsibilities and individual performance and in order to retain them in our employ. Annual salary increases, normally effective April 1, are based on the Company's overall salary increase budget, individual performance and market comparison. Ms. Jung did not receive a salary increase during 2007 because we believe that her base pay level was appropriately aligned with the market. Ms. Smith and Mr. Cramb did not receive merit increases as part of the normal salary planning cycle as their salaries were already positioned competitively. However, in September 2007, Ms. Smith received a salary increase to \$750,000 upon her appointment as President, and Mr. Cramb received a salary increase to \$750,000 upon his appointment as Vice Chairman, Chief Finance & Strategy Officer. Mr. Klemann received a merit increase to \$535,000 annually and Mr. Connolly received a market adjustment and merit increase to \$600,000 annually.

Annual Incentive Plan

Under the EIP, the Compensation Committee establishes at the beginning of the year certain quantitative performance goals which, if met, allow for the funding of a maximum bonus opportunity of 200% of the target award. The EIP is designed to comply with Section 162(m) of the Internal Revenue Code so that we can take a tax deduction for executive compensation paid pursuant to the EIP to certain officers earning in excess of \$1 million. Each of our named executive officers participated in the annual incentive program under the EIP for 2007. The target awards for each of the named executive officers for 2007 were as follows: 175% of salary for Ms. Jung; 100% of salary for Mr. Cramb and Ms. Smith; 70% of salary for Mr. Klemann; and 80% of salary for Mr. Connolly.

Funding. For 2007, the Committee established the following targets that must be met in order for the bonus opportunity to be funded for the named executive officers (other than Ms. Smith):

	30% of Target (Threshold)	200% of Target (Maximum)
Revenue (weighted 50%)	\$ 8.764 billion	\$ 9.231 billion
Operating Profit (weighted 50%)	\$ 1.072 billion	\$ 1.143 billion

As required under the EIP, the revenue measure excludes the impact of currency fluctuations, and the operating profit measure excludes the impact of acquisitions, divestitures, material disposal losses, restructuring costs, certain pension savings and currency fluctuations. As our actual 2007 global revenues, as calculated under the EIP, exceeded the 200% funding target, and our actual 2007 global operating profit, as calculated under the EIP, exceeded the 30% funding target but fell below the 200% funding target, funding of up to 142% of the target awards was authorized for our named executive officers other than Ms. Smith.

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The performance goals for Ms. Smith were weighted as follows: 22.5% global revenue, 22.5% global operating profit, 27.5% North America revenue and 27.5% North America operating profit. The Company is not able to disclose the North America targets for Ms. Smith, as the Company believes that such disclosure would result in competitive harm. Based on our experience in the region and the pay-for-performance history under the EIP, we believe that these targets were set sufficiently high to provide incentive to achieve a high level of performance. Over the past five years, the payout tied to North America regional revenue and operating profit has been between 0% and 151% of the participant's target award opportunity with an average approximate payout of 77%. For 2007, funding of up to 174% of the target award was authorized for Ms. Smith.

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Individual Payouts. Under Section 162(m), the Committee is permitted to adjust the awards downward, and for 2007, the Committee determined to pay EIP awards in a reduced amount for each named executive officer. In making a determination of the actual amount of the payouts, the Committee started its analysis with a potential payout of 100% of the target award and then reviewed whether to adjust this amount upward or downward based on the achievement of revenue and operating profit goals and also based on individual contributions of each named executive officer (but in no case more than the authorized percentages as set forth above). The ultimate payout was based on the following:

	<u>Global Revenue</u>	<u>Global Operating Profit</u>	<u>North America Revenue</u>	<u>North America Operating Profit</u>	<u>Individual Contribution</u>
Named Executive Officers (other than Ms. Smith)	35%	35%			30%
Ms. Smith	21.2%	21.2%	13.8%	13.8%	30%

As shown in the table above, 70% of the actual payout for each named executive officer was based on the Company's financial results. For payout purposes on the global financial component, the Committee considered the following global revenue and operating profit goals and payout levels:

	<u>30% of Target</u>	<u>100% of Target</u>	<u>200% of Target</u>
		(in billions)	
Revenue	\$ 8.764	\$ 9.231	\$ 9.508
Operating Profit	\$ 1.072	\$ 1.143	\$ 1.246

Threshold operating profit of \$1.072 billion for 2007 was required for any EIP payment. In 2007, for purposes of payout, the revenue measure excludes the impact of currency fluctuations, and the operating profit measure excludes the impact of restructuring costs, currency fluctuations and certain strategic investments. On this basis, global revenue of \$9.341 billion and global operating profit of \$1.119 billion were achieved.

The remaining 30% of the actual payout for each named executive officer was based on the Committee's subjective assessment of the performance of each named executive officer in fulfilling his or her role and responsibilities in light of the Company's strategic objectives. The Committee also considered the CEO's recommendation regarding the other named executive officers as part of this assessment.

The Committee established this 70/30 split to strike an appropriate balance between aligning the executive's incentives with the Company's overall corporate objectives and with individual accountability for each executive's personal contributions. Based on the achievement of the financial results described above (and North America regional results for Ms. Smith) and the Committee's subjective assessment described above, the Committee approved EIP payments for the named executive officers that ranged from 107% to 123% of their target amounts. The EIP payouts are quantified in the Summary Compensation Table.

Long-Term Incentive Compensation

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Our long-term incentive program for 2007 included the following equity-based and cash-based incentives:

Equity-based: stock options and performance-based restricted stock units (PRSUs).

Cash-based: Turnaround Incentive Plan and Performance Cash Plan.

In addition, from time to time certain of the named executive officers who are sustained top performers may receive a special grant of time-based restricted stock units as additional incentive to remain in the Company's employ.

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For the Senior Officer group, in 2007, equity-based compensation (as opposed to cash incentives) comprised a larger portion of their total long-term incentive compensation package than is typical in the market.

Equity-Based Long-Term Incentives

During 2007, the Compensation Committee granted stock options and PRSUs to each of the named executive officers. The Company offered a choice between stock options and restricted stock units for all eligible employees below the Senior Officer level. Senior Officers, including the named executive officers, were not provided with a choice and were awarded 50% of their equity grant in the form of stock options and 50% in the form of PRSUs. In calculating the number of stock options and PRSUs to grant, the Company uses a ratio of 3.5 stock options to 1.0 PRSU.

It is the policy of the Committee to approve annual equity grants at its regularly pre-scheduled meeting in March of each year. In addition, from time to time, we may make off-cycle equity grants (for example, to new hires or for promotions). The Committee establishes the aggregate number of shares that may be subject to such awards and the terms and conditions of such awards, but in the case of employees who are not Senior Officers, has delegated to Ms. Jung as a director the authority to determine the grantees of the awards and the number of shares subject to each award. These grants are made on pre-established dates established by Committee and we do not time the release of non-public information for the purpose of affecting the value of equity awards.

All of our equity awards are subject to forfeiture if, within one year after termination of employment, the employee violates non-competition, non-disclosure or non-solicitation of employee covenants that are contained in the stock option and stock award agreements.

PRSUs. The 2007 PRSUs are at risk they will only vest if cumulative revenue and operating profit goals are achieved over a three-year performance period beginning January 1, 2007 and ending December 31, 2009. These performance goals are aligned with the threshold global revenue and operating profit goals under the annual incentive program under the EIP for 2007, the annual revenue and operating profit goals established by the Committee for 2008, and the annual revenue and operating profit goals to be established by the Committee for 2009. Dividend equivalents accrue over the vesting period but will only be paid if, and when, the performance goals are met.

Stock options. Stock options are granted for a term of ten years and vest in equal one-third portions over three years, with the first third becoming exercisable on the first anniversary of the grant date. We use nonqualified stock options so that the Company receives a tax deduction upon exercise of the option.

Time-based restricted stock units. In 2007, Mr. Cramb received a grant of 100,000 time-based restricted stock units. These restricted stock units vest 100% after three years as we believe this vesting schedule most encourages retention. Dividend equivalents will be paid on these restricted stock unit awards annually.

Turnaround Incentive Plan

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In November 2005, we announced a multi-year four-point turnaround plan to restore sustainable growth. The four-point turnaround plan includes (i) committing to brand competitiveness, (ii) winning with commercial edge by more effectively utilizing pricing and promotion, expanding our Sales Leadership program and improving the service provided to our Representatives, (iii) elevating organization effectiveness by redesigning our structure to eliminate layers of management to take full advantage of our global scale and size, and (iv) transforming the cost structure so that our costs are aligned to our revenue growth and remain so. A significant portion of this initiative, which includes an organizational realignment to bring senior management closer to operations, was undertaken during 2006 and 2007.

In March 2006, the Compensation Committee approved the 2006-2007 Turnaround Incentive Plan (TIP) with performance measures linked to the four-point turnaround plan and which was designed to focus key executives on achieving its objectives. The TIP covers senior officers generally at the level of Vice President and

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above, including the named executive officers. The target award opportunity was equal to two-thirds of average earned base salary for 2006 and 2007 with potential payouts ranging from 0% to 200% of the target award depending upon achievement against the following performance metrics:

Weight	Goals	Measures
20%	Commit to Brand Competitiveness	Beauty, Skincare, Fragrance and Color category sales against market growth
20%	Win with Commercial Edge	Promotions (depth, frequency) Size of line reduction Active Representative growth Leadership adoption
20%	Elevate Organizational Effectiveness	Representative service Reduction in organizational layers and positions
20%	Radically Transform the Cost Structure	Adoption of matrix structure Restructuring plan
20%	Chairman's Overall Summary	Zero overhead growth Overall performance against goals

In order for any payout to occur, the Company needed to achieve cumulative global operating profit of \$1.708 billion during 2006 and 2007, which is the sum of the operating profit levels that were required to be achieved for each of 2006 and 2007 in order for there to be a threshold payout under the EIP. This measure excludes the impact of certain restructuring costs, strategic investments, certain tax charges, and currency fluctuations. As cumulative operating profit of \$1.892 billion was achieved for 2006-2007, the Committee was able to make payments under the TIP.

After the end of the performance period, the Committee evaluated performance against the goals and considered quantitative results against certain of the goals. The Committee considered the following as the most significant factors in determining the level of payout:

average growth in sales of beauty products was above market growth during 2006-2007 (7.5% versus market of 6%) and average growth in three out of the four categories was at or ahead of market;

size of line reduction of 27% was ahead of target of 25% and active Representative growth in 2007 was 9%, ahead of plan of 7%;

the delayering plan was completed with seven layers of management removed and approximately 4,500 positions eliminated;

zero overhead growth was achieved excluding the impact of restructuring costs; and

savings of approximately \$430 million will be achieved through the Company's original \$500 million restructuring plan, with savings to reach approximately \$300 million in 2009 and an additional \$130 million in savings to be achieved upon full implementation for an

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additional \$30 million in cost to bring the total cost of the plan to \$530 million.

In addition, the Chairman recommended an above target payout based on an overall assessment of the execution by the Company in achieving the goals described above and the fact that the Company succeeded in growing market share during a turnaround.

After review of the 2006-2007 performance against the quantitative and qualitative measures described above, the Committee, using its subjective assessment, determined that a payout of 150% of target should be made.

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2005-2007 Performance Cash Plan

In January 2005, the