

AVON PRODUCTS INC  
Form 11-K  
June 29, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 11-K**

**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2004**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number 1-4881**

**Avon Personal Savings Account Plan  
(Full title and address of the plan)**

**AVON PRODUCTS, INC.  
1345 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10105-0196**

**(Name of issuer of the securities held pursuant to the plan  
and address of its principal executive office.)**

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**REQUIRED INFORMATION**

(a) Financial Statements and Schedule

In accordance with the instructions to this Form 11-K, the financial statements and schedule prepared in accordance with the financial reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) are filed herewith in lieu of the requirements of Items 1 to 3. Certain schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting Disclosures under ERISA have been omitted because they are not applicable.

(b) Exhibits

23

Consent of PricewaterhouseCoopers LLP, Independent Registered  
Public Accounting Firm

# Avon Personal Savings Account Plan

## Financial Statements and Supplemental Schedule December 31, 2004 and 2003

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## Avon Personal Savings Account Plan Index December 31, 2004 and 2003

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	<b>Page(s)</b>
<b>Report of Independent Registered Public Accounting Firm</b>	1
<b>Financial Statements</b>	
Statements of Net Assets Available for Benefits	2
Statement of Changes in Net Assets Available for Benefits	3
Notes to Financial Statements	4-11
<b>Supplemental Schedule*</b>	
Schedule H, Line 4i - Schedule of Assets (Held at End of Year)	12

\*Other schedules required by Section 2520.103 -10 of the Department of Labor Rules and Regulations for Reporting Disclosures under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

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**Report of Independent Registered Public Accounting Firm**

To the Retirement Board of Avon Products, Inc.  
Fiduciary of the Avon Personal Savings Account Plan and  
Plan Participants of the Avon Personal Savings Account Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Avon Personal Savings Account Plan (the "Plan") at December 31, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, Line 4i □ Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

New York, New York  
June 28, 2005

<i>(in thousands of dollars)</i>	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Investments (Notes 3 and 4)		
Common stock of Avon Products, Inc.	\$ 280,886	\$ 265,867
Common/collective trusts	184,977	181,833
Mutual funds	175,754	146,361
Cash and cash equivalents	1,345	947
Participant loans	12,313	11,196
	<hr/>	<hr/>
Total investments	655,275	606,204
Due from broker	429	405
	<hr/>	<hr/>
Total assets	655,704	606,609
<b>Liabilities</b>		
Due to broker	-	159
	<hr/>	<hr/>
Total liabilities	-	159
	<hr/>	<hr/>
Net assets available for benefits	\$ 655,704	\$ 606,450
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

2

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## **Avon Personal Savings Account Plan**

### **Statement of Changes in Net Assets Available for Benefits**

#### **Year Ended December 31, 2004**

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*(in thousands of dollars)*

#### **Additions to net assets attributable to**

Investment income		
Net appreciation in fair value of investments (Note 3)		\$ 61,927
Dividends		7,725
Interest		6,028
		<hr/>
Total investment income		75,680

Contributions	
Participant	30,803
Rollovers	4,336
Employer	14,430
	<hr/>
Total contributions	49,569
	<hr/>
Total additions	125,249
	<hr/>
<b>Deductions from net assets attributable to</b>	
Benefits paid to participants	74,715
Administrative expenses	1,280
	<hr/>
Total deductions	75,995
	<hr/>
Net increase	49,254
	<hr/>
<b>Net assets available for benefits</b>	
Beginning of year	606,450
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End of year	\$ 655,704
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The accompanying notes are an integral part of these financial statements.

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## **Avon Personal Savings Account Plan**

### **Notes to Financial Statements**

### **December 31, 2004 and 2003**

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#### **1. Summary of Plan**

The following description of the Avon Personal Savings Account Plan (the "Plan") provides only general information. Participants in the Plan should refer to the Plan document for more complete information. Avon Products, Inc. ("Avon" or the "Company") is the administrator of the Plan (the "Plan Administrator").

#### **General**

The Plan is a defined contribution plan covering all full-time employees of the Company from their date of hire and all part-time employees once they have completed one year of service. The Plan was amended on December 17, 2001 to comply with the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, and the Community Renewal Tax Relief Act of 2000. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan was amended on December 28, 2002, to comply with and make changes

permitted by the Economic Growth and Relief Act of 2001 (EGTRRA).

### Contributions

Participants may contribute into the Plan from one percent to twenty five percent of qualified compensation as defined by the Plan. A participant can contribute on a before-tax basis, an after-tax basis, or a combination thereof.

In 2004, Avon matched contributions at a rate of \$1.00 for every \$1.00 of participant contributions up to the first three percent of eligible compensation, and \$.50 for each \$1.00 contributed from four percent to six percent of eligible compensation. These matching contributions are made in cash, which is then used to purchase shares of Avon common stock in the open market. During 2005, Avon has temporarily suspended the Company match.

Participants can diversify their employer contributions into other funds based on the following schedule:

Less than 3 years of participation	0%
3 or more years of participation	50%
Attained age 55, with 10 years of service	
at the Company	100%

In accordance with the provisions of Section 415 of the Internal Revenue Code (the "Code") the annual additions (generally employer and participant contributions) to a participant's account may not exceed the applicable limitations of: (a) the lesser of \$41,000 in 2004 and \$40,000 in 2003 or (b) 100% of a participant's compensation. In addition, the amount a participant can contribute on a before-tax basis was limited to \$13,000 in 2004 and \$12,000 in 2003.

Eligible participants age 50 or over are allowed to make additional catch-up contributions, so long as they have met the annual contribution limit. In 2004, an additional \$3,000 could be contributed on a pre-tax basis once the annual limit was reached for a total pre-tax contribution of \$16,000. In 2003, an additional \$2,000 could have been contributed on a pre-tax basis once the annual limit was reached for a total pre-tax contribution of \$14,000.

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## Avon Personal Savings Account Plan

### Notes to Financial Statements

### December 31, 2004 and 2003

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Rollover contributions are assets transferred to the Plan by participants who receive distributions from other qualified plans (i.e., tax-qualified rollovers, pension, profit-sharing or savings plan).

These contributions are accepted subject to the consent of Avon, the administrator of the Plan (the "Plan Administrator"). Any such rollovers will become part of the participant's account but will not be entitled to any employer matching contribution.

### Participant Accounts

Each participant's account is credited with the participant's contribution and receives an allocation of: (a) the Company's contribution; (b) Plan earnings; and (c) an allocation of administrative expenses. Allocations are based on participant earnings on account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

### **Investments**

Each participant may direct the investment of all their contributions to any one of the following funds or a combination thereof (in multiples of one percent):

#### *JPMorgan Fleming Stable Value Fund*

This fund seeks to protect principal invested from market fluctuations and produce relatively predictable returns that should typically exceed money market funds. The fund invests in a diversified portfolio of high quality, intermediate maturity fixed income investments as well as "benefit responsive" contracts that provide for principal and return stability.

#### *American Century Growth Fund*

This domestic equity growth fund seeks long-term growth by investing in larger companies with market capitalization in excess of \$5 billion.

#### *Northern Trust S&P 500 Index*

This fund seeks capital appreciation. The fund invests in a sample of the securities found in the S&P 500 index and attempts to match the risk and return characteristics of the S&P 500 Index as closely as possible.

#### *RS Diversified Growth Fund*

This fund seeks long-term capital growth by investing primarily in small capitalization growth companies with capitalization of \$1.5 billion or less and may also invest in securities of larger companies. RS Diversified Growth Fund invests in a broadly diversified mix of industry sectors and companies.

#### *T. Rowe Price Equity Income Fund*

This fund seeks to provide substantial dividend income and long-term capital appreciation through investments in common stock of established companies.

#### *T. Rowe Price Mid-Cap Fund*

This fund seeks to provide long-term capital appreciation by investing in mid-cap stocks with the potential for above-average earnings growth.

*Fidelity Freedom Income Fund*

This fund seeks high current income and, as a secondary objective, capital appreciation. The fund invests in a combination of Fidelity equity, fixed-income and money market funds.

*Fidelity Freedom 2010 Fund*

This fund seeks high total return and is targeted to investors expected to retire around the year 2010. The fund invests in a combination of Fidelity equity, fixed-income and money market funds and allocates the assets among these funds according to an asset allocation strategy. As the fund meets its target date of 2010, it continues to become more conservative, until the asset mix is approximately the same as the Fidelity Freedom Income Fund. Ultimately, the funds will merge.

*Fidelity Freedom 2020 Fund*

This fund seeks high total return and is targeted to investors expected to retire around the year 2020. The fund invests in a combination of Fidelity equity, fixed-income and money market funds and allocates the assets among these funds according to an asset allocation strategy. As the fund meets its target date of 2020, it continues to become more conservative, until the asset mix is approximately the same as the Fidelity Freedom Income Fund. Ultimately, the funds will merge.

*Fidelity Freedom 2030 Fund*

This fund seeks high total return and is targeted to investors expected to retire around the year 2030. The fund invests in a combination of Fidelity equity, fixed-income and money market funds and allocates the assets among these funds according to an asset allocation strategy. As the fund meets its target date of 2030, it continues to become more conservative, until the asset mix is approximately the same as the Fidelity Freedom Income Fund. Ultimately, the funds will merge.

*Fidelity Freedom 2040 Fund*

This fund seeks high total return and is targeted to investors expected to retire around the year 2040. The fund invests in a combination of Fidelity equity, fixed-income and money market funds and allocates the assets among these funds according to an asset allocation strategy. As the fund meets its target date of 2040, it continues to become more conservative, until the asset mix is approximately the same as the Fidelity Freedom Income Fund. Ultimately, the funds will merge.

*American Century Ultra® Fund*

This domestic equity growth fund seeks long-term capital growth by investing in common stocks of companies with accelerating earnings and revenue growth. The fund generally invests in large companies with capitalization in excess of \$5 billion.

*Royce Total Return Fund*

This fund seeks both long-term growth of capital and current income. The fund invests primarily in a diversified portfolio of dividend-paying securities issued by small- and micro-cap companies. Normally, the fund will invest at least 65% of its assets in common stocks and convertible securities.

*Tweedy, Browne Global Value Fund*

This fund seeks long-term growth of capital by investing throughout the world in a diversified portfolio consisting primarily of non-U.S. marketable equity securities, although investments in U.S. securities are permitted and will be made when opportunities in the U.S. appear more attractive. Investments are focused in developed markets, and where practicable, foreign currency exposure is hedged back into U.S. dollars.



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## **Avon Personal Savings Account Plan**

### **Notes to Financial Statements**

### **December 31, 2004 and 2003**

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#### *Avon Stock Fund*

This fund is invested in common stock of Avon. This fund is comprised of employee and employer contributions. This fund was created effective February 20, 2004 when the Avon Common Stock Fund, which held employee contributions, and the Avon ESOP Account, which held employee matching contributions and net assets from the former Avon Stock Grant Account, were combined.

#### *PIMCO Total Return Fund*

This fund invests primarily in debt securities, including U.S. government securities, corporate bonds and mortgage-related securities, and foreign securities. The fund's focus is on preservation of capital with minimum risk.

#### *Columbia Acorn International Fund*

This fund seeks to provide long-term growth of principal by investing in a well-diversified portfolio of small and medium sized companies. The fund generally invests in the stocks of companies around the globe with capitalizations of less than \$2 billion, favoring reasonably priced stocks, with strong earnings growth prospects.

#### *Fidelity Diversified International Fund*

This fund seeks capital growth by investing primarily in equity securities of companies located outside the U.S. The fund invests across countries and regions considering the size of the market in each country and region relative to the size of the international market as a whole.

#### *Neuberger & Berman Socially Responsive Trust*

This fund invests in common stocks issued by companies that the fund's management considers to be undervalued (in terms of assets and earnings power), but display leadership in areas of social impact such as environment, workplace diversity and corporate citizenship. Pending investment or distribution, any portion of the investment funds may be held in cash, short-term obligations of the United States Government or other types of short-term investments, including commercial paper. In addition, all or any part of the funds may be held in a pooled fund maintained by the JPMorgan Chase Bank (Trustee), together with the assets of other trusts established under deferred compensation plans qualified under Section 401(a) of the Internal Revenue Code (Code).

### **Vesting**

Participants are immediately 100% vested in participant and Company matching contributions.

### **Payment of Benefits**

Upon termination, participants receive their account balances as soon as practicable after termination. Terminated participants who have an account balance in excess of \$5,000 may elect to leave account balances in the Plan and withdraw it at any time up to age 65. As of March 28, 2005, the Plan has been amended to reduce the minimum account balance which allows participants to retain their accounts in the Plan from greater than \$5,000 to greater than \$1,000. A ten percent tax is imposed by the Code on a participant for certain withdrawals made before the Plan participant reaches 59-1/2.

### **Participant Loans**

The Plan provides that participants may apply for a loan collateralized by their account. To be eligible, a participant may not have another loan outstanding from their account. The maximum amount of any loan to an individual is the lesser: (a) of \$50,000 reduced by the highest outstanding

7

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## **Avon Personal Savings Account Plan**

### **Notes to Financial Statements**

### **December 31, 2004 and 2003**

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loan balance in the last 12 months; (b) or one half of the current value of the vested balance of the participant's account in the Plan. The minimum loan amount is \$1,000. Interest is charged at one percent above prime rate. Once determined, the interest rate is fixed for the duration of the loan.

Repayment periods generally range from one to five years, with a ten-year maximum repayment period for loans used in connection with the purchase of a principal residence. Loan repayments are made through payroll deductions with principal and interest being credited to the participants' accounts. Repayment of the entire balance is permitted at any time.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The financial statements are prepared using the accrual basis of accounting.

### **Use of Estimates**

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities, changes therein, and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### **Risks and Uncertainties**

The Plan offers a number of investment options including the Company common stock and a variety of pooled investment funds, some of which are registered investment companies. The investment funds include U.S. equities, international equities, and fixed income securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the

level of risk associated with certain investment securities, it is reasonable to expect that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant account balances.

The Plan's exposure to a concentration of credit risk is limited by the diversification of investments across all participant-directed fund elections. Additionally, the investments within each participant-directed fund election are further diversified into varied financial instruments, with the exception of the Avon Company Stock Fund, which invests in the common stock of Avon Products, Inc.

**Valuation of Investments**

Investments in Avon common stock are valued at quoted market prices. Investments in mutual funds are valued at quoted market prices, which represent the net asset value as calculated by the investment managers. Common/collective trusts are stated at fair value based on net asset value on the last day of the Plan year. Participant loans are valued at cost, which approximates fair value. The net depreciation or appreciation in the fair value of investments consists of the net realized gains and losses on the disposal of investments and the unrealized appreciation/depreciation of the market value for the investments remaining in the Plan in 2004.

Purchases and sales of securities are recorded on trade date and gains or losses on disposition are based on average cost. Dividend income is recorded on the ex-dividend date. Interest is recorded when earned.

**Avon Personal Savings Account Plan  
Notes to Financial Statements  
December 31, 2004 and 2003**

**Benefit Payments**

Benefit payments are recorded when paid.

**Administrative Costs**

Administrative expenses, including Trustee recordkeeping expenses and audit fees, are paid by the Plan. Certain other administrative fees are paid by Avon. Each fund bears its own applicable expenses for investment management fees.

**3. Investments**

The following investments represent five percent or more of the Plan's net assets at December 31, 2004 and 2003:

<i>(in thousands of dollars)</i>	<b>2004</b>	<b>2003</b>
Common stock of Avon Products, Inc.		
Participant-directed	\$ 94,137	\$ 89,063

Non participant-directed	186,749	176,804
JPMorgan Fleming Stable Value Fund	120,424	121,567
Northern S&P 500 Fund	64,553	60,265
American Century Growth Fund	51,092	49,302
Columbia Acorn International Fund	32,863	-

During the years ended December 31, 2004, the Plan's investments (including investments bought, sold, and held closing the year) appreciated in value as follows:

<i>(in thousands of dollars)</i>		<b>2004</b>
Mutual funds	\$	16,229
Common stock of Avon		39,380
Common/collective trusts		6,318
		<hr/>
	\$	61,927
		<hr/>

**4. Non Participant-Directed Investments**

Information about the net assets available for benefits at December 31, 2004 and 2003 and the significant components of the changes in net assets available for benefits relating to the non participant-directed investments for the year ended December 31, 2004:

**Avon Personal Savings Account Plan  
Notes to Financial Statements  
December 31, 2004 and 2003**

<i>(in thousands of dollars)</i>		<b>2004</b>	<b>2003</b>
<b>Net assets</b>			
Avon common stock	\$	186,749	\$ 176,804
Cash and cash equivalents		-	710
Due from broker		-	405
		<hr/>	<hr/>
	\$	186,749	\$ 177,919
		<hr/>	<hr/>

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**Changes in net assets**

Employer contributions	\$ 14,430
Dividends and interest	2,803
Net appreciation in the fair value of investments	26,426
Benefits paid to participants	(24,970)
Transfers to participant-directed investments	(10,190)
Other transfers	490
Administrative expenses	(159)
	<hr/>
	\$ 8,830
	<hr/>

**5. Plan Termination**

Avon intends to continue the Plan indefinitely, but reserves the right to amend, suspend, or discontinue the Plan in whole, or in part, at any time by action of the Board of Directors of Avon. Upon termination of the Plan, a participant would receive the full value of his or her share in the funds, including all employer's contributions.

The operation of the Plan, including the obligation of the employer to make matching contributions, is expressly conditioned upon continued qualification of the Plan and any amendments under the Code, the continued deductibility under Section 404 of the Code of the employer's contributions and upon continued exemption of the trust under Section 501(a) of the Code.

**6. Tax Status**

The Plan obtained its latest determination letter on April 19, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan Administrator and the Plan's tax counsel believe that the Plan is currently designed and to the best of their knowledge being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

10

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## **Avon Personal Savings Account Plan**

### **Notes to Financial Statements**

### **December 31, 2004 and 2003**

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**7. Related Party Transactions**

Certain Plan assets are invested in shares of mutual funds that are managed by JPMorgan Chase Bank, the trustee as defined by the Plan and therefore those transactions qualify as party-in-interest transactions.

The Plan invests in Avon common stock which is exempt from the party-in-interest transaction prohibition of ERISA. Participant loans are also considered party-in-interest transactions.

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**Avon Personal Savings Account Plan**  
**Schedule H, Line 4(i) ☐ Schedule of Assets (Held at End of Year)**  
**December 31, 2004**

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(a) (b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment	(d) Cost	(e) Current value
* Avon Products, Inc.	Common stock	\$ 132,906,000	\$ 280,886,000
	Total common stocks	<u>132,906,000</u>	<u>280,886,000</u>
American Century Growth Fund	Mutual funds	**	51,091,952
American Century Ultra Fund	Mutual funds	**	2,447,820
Columbia Acorn International Fund	Mutual funds	**	32,862,974
Fidelity Diversified International Fund	Mutual funds	**	21,749,319
Fidelity Freedom 2010 Fund	Mutual funds	**	1,384,965
Fidelity Freedom 2020 Fund	Mutual funds	**	719,629
Fidelity Freedom 2030 Fund	Mutual funds	**	725,041
Fidelity Freedom 2040 Fund	Mutual funds	**	560,064
Fidelity Freedom Income Fund	Mutual funds	**	934,581
Neuberger & Berman Socially Responsive Trust	Mutual funds	**	4,627,818
PIMCO Total Return Fund	Mutual funds	**	25,456,500
Royce Total Return Fund	Mutual funds	**	4,685,312
RS Diversified Growth Fund	Mutual funds	**	4,288,182
T. Rowe Price Equity Income Fund	Mutual funds	**	10,909,950
T. Rowe Price Mid-Cap Fund	Mutual funds	**	8,556,075
Tweedy, Browne Global Value Fund	Mutual funds	**	4,753,735
	Total mutual funds		<u>175,753,917</u>
* JPMorgan Fleming Stable Value Fund	Common/Collective trust	**	120,423,615
Northern Trust S&P 500 Index	Common/Collective trust	**	64,553,136
	Total common/collective trusts		<u>184,976,751</u>

