

**AVON EUROPEAN FINANCIAL SERVICES LIMITED**

**(Registered Number 4572043)**

**ANNUAL REPORT**

**&**

**FINANCIAL STATEMENTS**

**ACCOUNTING PERIOD**

**YEAR ENDED 31st DECEMBER 2005**



## **C O N T E N T S**

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# AVON EUROPEAN FINANCIAL SERVICES LTD

## DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and financial statements for the year ended 31st December 2005.

### Activities

The principal activity of the company is the pooling of cash for the European subsidiaries of Avon Products Inc.

### Review of Business

The profit for the period was £93,283 (2004 (£77,655)). The directors consider that the year end financial position and level of business are satisfactory.

### Future Developments

The company aims to increase the number of European subsidiaries involved in the cash pool.

### Dividend

The directors do not propose the payment of a dividend.

### Directors

The directors in alphabetical order were as follows:

S Bosson (Appointed 10th April 2006)  
S D J Ibbotson  
D Ling (Resigned 1st February 2006)  
S Quinn (Appointed 10th April 2006)  
A Slater (Appointed 10th April 2006)  
R Toth (Resigned 7th April 2006)  
M-A Tousignant (Resigned 7th April 2006)  
R Valone

According to the register required to be kept under Section 325 of the Companies Act 1985, no director had an interest in the shares of the company at any time during the year. As permitted by statutory instrument the register does not contain details of the interests of the directors in other group companies since the company is ultimately a wholly owned subsidiary of a company incorporated outside Great Britain.

### Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

## AVON EUROPEAN FINANCIAL SERVICES LTD

### Statement of directors' responsibilities in respect of the Annual report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

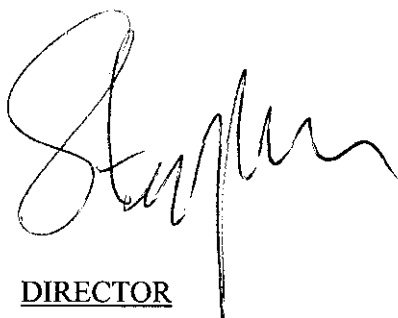
The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company, to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



DIRECTOR

# **AVON EUROPEAN FINANCIAL SERVICES LTD**

## **INDEPENDENT AUDITORS' REPORT** **TO THE MEMBERS OF AVON EUROPEAN FINANCIAL SERVICES LIMITED**

We have audited the financial statements of Avon European Financial Services Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements:

- \* give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended: and
- \* have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
Milton Keynes

13 October 2006

**AVON EUROPEAN FINANCIAL SERVICES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**for the year ended 31st December 2005**

	<u>Notes</u>	<u>2005</u> £	<u>2004</u> £
Turnover		0	0
Cost of Sales		0	0
Gross profit		<u>0</u>	<u>0</u>
Other operating charges	2	(46,087)	(44,826)
Operating loss		<u>(46,087)</u>	<u>(44,826)</u>
Interest receivable and similar income	5	755,054	682,470
Interest payable and similar charges	6	(575,705)	(526,708)
		<u>179,349</u>	<u>155,762</u>
Profit on ordinary activities before taxation		133,262	110,936
Tax on profit on ordinary activities	7	(39,979)	(33,281)
Profit for the financial year		<u>93,283</u>	<u>77,655</u>

All trading activities relate to the continuing operations of the company as defined under Financial Reporting Standard 3 "Reporting Financial Performance".

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and its historical cost equivalent.

The company has no recognised gains and losses other than the profit for the period stated above and therefore no separate statement of total recognised gains and losses has been presented.

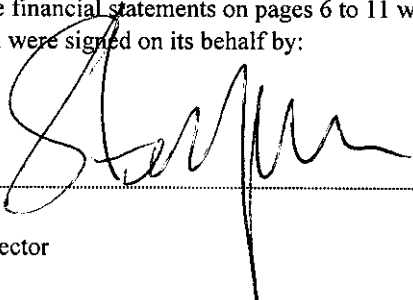
**AVON EUROPEAN FINANCIAL SERVICES LIMITED**

**BALANCE SHEET**

**as at 31st December 2005**

	<u>Notes</u>	<u>2005</u> <u>£</u>	<u>2004</u> <u>£</u>
<b><u>CURRENT ASSETS</u></b>			
Debtors	8	7,016,729	4,711,262
Cash at bank and in hand		<u>34,545,094</u>	<u>51,906,542</u>
		41,561,823	56,617,804
<b><u>CREDITORS</u></b>			
Amounts falling due within one year	9	(41,428,955)	(56,578,219)
<b>NET ASSETS</b>		<u>132,868</u>	<u>39,585</u>
<b><u>CAPITAL AND RESERVES</u></b>			
Called up share capital	10	1	1
Profit and loss account		<u>132,867</u>	<u>39,584</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	11	<u>132,868</u>	<u>39,585</u>

The financial statements on pages 6 to 11 were approved by the Board of Directors on 30<sup>th</sup> October 2006 and were signed on its behalf by:

  
.....  
Director

**NOTES (Forming part of the Financial Statements)**

**1 ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom.

**a) Going Concern**

These accounts have been prepared under the going concern convention.

**b) Cash Flow Statement**

As a wholly owned subsidiary of Avon Products Inc the Company has not prepared a cash flow statement in accordance with Financial Reporting Standard 1 Paragraph 5(a).

**c) Taxation**

The charge for taxation is based on the profit for the year adjusted for disallowable items. Full provision is made for deferred taxation.

**d) Deferred taxation**

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

**e) Foreign Currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translation are included in the determination of profit.

**CHANGE IN ACCOUNTING POLICIES**

The Company has adopted FRS 25 'Financial Instruments: disclosure and presentation' in the financial statements. However, the Company has taken advantage of the exemption not to restate its comparative figures on first implementation. The effect of the change in accounting policy to adopt the presentation requirements of FRS 25 was nil.

Financial assets and liabilities are initially recognised at cost and only derecognised once payment has been received / made in respect of the instrument.



**AVON EUROPEAN FINANCIAL SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**2 OPERATING PROFIT**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Audit remuneration	<u>10,001</u>	<u>2,500</u>

**3 STAFF COSTS**

The company has no employees.

**4 DIRECTORS REMUNERATION**

The directors received no emoluments in respect of their services to the Company.

**5 INTEREST RECEIVABLE**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Interest receivable from group undertakings	168,959	139,526
Bank interest	<u>586,095</u>	<u>542,944</u>
	<u>755,054</u>	<u>682,470</u>

**6 INTEREST PAYABLE**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Interest payable to group undertakings	567,918	519,827
Bank interest	<u>7,787</u>	<u>6,881</u>
	<u>575,705</u>	<u>526,708</u>

**AVON EUROPEAN FINANCIAL SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**7 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
<b><u>Current tax:</u></b>		
UK corporation tax on profits for the period	39,979	33,281
Tax on profit on ordinary activities	<u>39,979</u>	<u>33,281</u>
	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Profit on ordinary activities before tax	<u>133,262</u>	<u>110,936</u>
Profit on ordinary activities multiplied by standard rate in the UK 30% (2004:30%)	39,979	33,281
<b>Current tax charge for the period</b>	<b><u>39,979</u></b>	<b><u>33,281</u></b>

**8 DEBTORS**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Bank Interest Receivable	65,578	87,939
Amounts receivable from group undertakings	<u>6,951,151</u>	<u>4,623,323</u>
	<u>7,016,729</u>	<u>4,711,262</u>

**9 CREDITORS - Amounts falling due within one year**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Taxation and Social Security	39,979	33,280
Amounts due to group undertakings	41,402,058	56,454,250
Accruals	<u>(13,082)</u>	<u>90,689</u>
	<u>41,428,955</u>	<u>56,578,219</u>

**NOTES TO THE ACCOUNTS (continued)**

**10 CALLED UP SHARE CAPITAL**

	<b><u>2005</u></b>	<b><u>2004</u></b>
<b><u>Authorised</u></b>	<b><u>£</u></b>	<b><u>£</u></b>
1 ordinary share of £1 each	<u>1</u>	<u>1</u>
<b><u>Allotted and fully paid</u></b>		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

**11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Opening Shareholders funds	39,585	(38,070)
Profit for the financial year	<u>93,283</u>	<u>77,655</u>
Closing shareholders' funds	<u><u>132,868</u></u>	<u><u>39,585</u></u>

**12 CAPITAL COMMITMENTS**

There were no capital commitments at 31st December 2005 or 31st December 2004.

**13 RELATED PARTIES**

**a) ULTIMATE HOLDING COMPANY**

The ultimate holding company is Avon Products Inc., which is incorporated in New York State, United States of America. The consolidated accounts of Avon Products Inc., the parent undertaking of the largest group to incorporate these financial statements, are available on application from group headquarters at 1345 Avenue of the Americas, New York.

**b) INTERMEDIATE HOLDING COMPANY**

The immediate holding company is Avon European Holdings Ltd, which is registered in England and Wales. The accounts of Avon European Holdings Ltd, have not been consolidated as the Company is exempt under section 228 of the companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Avon Products Inc. In these circumstances, by virtue of the exemption conferred by the Financial Reporting Standard Number 8 'Related Party Disclosures', the company is not required to disclose details of transactions between the company and its intermediate and ultimate holding company.