

Registered number:
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Avon European Financial Services Limited
Annual Report and Financial Statements
For the year ended 31 December 2008

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Avon European Financial Services Limited
Annual Report and Financial Statements
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Avon European Financial Services Limited
Directors' Report
For the year ended 31 December 2008

The directors present their annual report and audited financial statements for the year ended 31 December 2008.

Principal activities

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

Review of business

The loss for the year was £1,262,856 (2007 profit: £128,079) and represents the net interest generated on funds deposited into the pool by participating members after taking into account the company's operating costs.

Avon European Financial Services Limited is a legal entity used to facilitate European cash pooling within the companies participating in the pooling arrangement, and hence an analysis using key performance indicators or an identification of key business risks is not necessary for an understanding of the development, performance or position of the company.

The directors consider that the year end financial position and level of business are satisfactory.

Financial risk management

The short-term lending and borrowing rates which the company offers to the pool participants are directly linked to external benchmark interest rates and this limits the company's exposure to interest rate risk.

US Dollar, Euro and Sterling currency accounts are kept separately for each participating pool member and consequently any foreign exchange risk remains with those members.

Foreign exchange hedging is managed by Avon Products Inc. on behalf of Avon European Financial Services Limited using forward currency contracts within the global treasury management programme. Avon Products Inc. provides additional treasury services by making available cash management services and by providing debt financing as required.

Future developments

No further additions to the pooling arrangement are anticipated.

Dividend

The directors do not propose the payment of a dividend (2007: £nil).

Directors

The directors who served during the year and up to the date of signing these financial statements were as follows:-

S Bosson (resigned 23 March 2009)
E Darosa (appointed 20 June 2008)
T Guazzo (appointed 20 June 2008)
S D J Ibbotson
A Judge (appointed 23 March 2009)
S Quinn (resigned 20 June 2008)
A Segatti (appointed 7 April 2008)
R Valone

Avon European Financial Services Limited
Directors' Report
For the year ended 31 December 2008 (continued)

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 regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 and 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.

Statement of disclosure of information to auditors

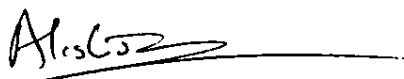
In the case of each director in office at the date the directors' report is approved, the following applies:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

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

This report was approved by the board on 22 October 2009.



A Judge
Director

**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 2008 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other 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

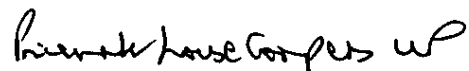
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Milton Keynes
22 October 2009

Avon European Financial Services Limited
Profit and Loss Account
for the year ended 31 December 2008

	Note	2008 £	2007 £
Administrative expenses		(8,000)	-
Other operating charges		<u>(2,054,815)</u>	<u>(57,654)</u>
Operating loss	2	(2,062,815)	(57,654)
Interest receivable and similar income	3	2,015,803	1,483,844
Interest payable and similar charges	4	<u>(1,706,955)</u>	<u>(1,243,218)</u>
(Loss)/profit on ordinary activities before taxation		<u>(1,753,967)</u>	<u>182,972</u>
Tax on (loss)/profit on ordinary activities	5	491,111	(54,893)
(Loss)/profit for the financial year	11	<u>(1,262,856)</u>	<u>128,079</u>

Continuing operations

There is no difference between the (loss)/profit on ordinary activities before taxation or the (loss)/profit for the financial years stated above and their historical cost equivalent.

All of the company's results derived from continuing operations.

Statement of total recognised gains and losses

The company has no recognised gains or losses other than the (loss)/profit for the financial years stated above, and therefore no separate statement of total gains and losses has been presented.

Avon European Financial Services Limited
Balance Sheet
as at 31 December 2008

	Note	2008 £	2007 £
Current assets			
Debtors	6	64,624,632	24,193,228
Cash at bank and in hand		32,031,378	21,726,473
		<u>96,656,010</u>	<u>45,919,701</u>
Creditors: amounts falling due within one year	7	(97,546,512)	(45,547,347)
Net current (liabilities) / assets		<u>(890,502)</u>	<u>372,354</u>
Net (liabilities) / assets		<u>(890,502)</u>	<u>372,354</u>
Capital and reserves			
Called up share capital	10	1	1
Profit and loss reserve	11	(890,503)	372,353
Total shareholders' (deficit)/funds	12	<u>(890,502)</u>	<u>372,354</u>

The financial statements on pages 4 to 9 were approved by the board on
and were signed on its behalf by:

22 October 2009



A Judge
Director

Avon European Financial Services Limited
Notes to the Financial Statements
for the year ended 31 December 2008

1 Accounting policies

Accounting convention

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 summary of the more important accounting policies, which have been applied consistently, is set out below:

Going concern

These accounts have been prepared under the going concern convention. Avon Cosmetics Limited has undertaken to support the company for the foreseeable future.

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(revised 1996) Paragraph 5(a).

Taxation

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

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. As 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.

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.

Derivative Financial Instruments

Forward currency sales are undertaken for the sole purpose of minimising exchange gains or losses on foreign currency loans. Profits or losses attributable to these instruments are recognised on the settlement of the contract. See note 8.

2 Operating loss

	2008	2007
	£	£
This is stated after charging:		
Exchange loss	1,845,082	-
Services provided by the company's auditor - fees payable for the audit	8,000	-

The audit fee for 2007 was borne by Avon Cosmetics Limited.

The directors received no emoluments or compensation for loss of office in respect of their services to the company (2007: £nil), and there are no employees during the year (2007: none).

Avon European Financial Services Limited
Notes to the Financial Statements
for the year ended 31 December 2008 (continued)

3 Interest receivable and similar income	2008	2007
	£	£
Interest receivable from group undertakings	909,165	655,174
Bank interest	1,106,638	828,670
	<u>2,015,803</u>	<u>1,483,844</u>

4 Interest payable and similar charges	2008	2007
	£	£
Bank loans and overdrafts	35,147	24,392
Interest payable to group undertakings	1,671,808	1,218,826
	<u>1,706,955</u>	<u>1,243,218</u>

5 Tax on (loss)/profit on ordinary activities	2008	2007
	£	£
Analysis of (credit)/charge in the year		
Current tax:		
UK corporation tax on profits of the year	-	54,893
Total current tax	<u>-</u>	<u>54,893</u>
Deferred tax:		
Origination and reversal of timing differences	(491,111)	-
Total deferred tax	<u>(491,111)</u>	<u>-</u>
 Tax on (loss)/profit on ordinary activities	 <u>(491,111)</u>	 <u>54,893</u>

Factors affecting tax (credit)/charge for the year

The tax assessed for the year is equal to £Nil (2007:£54,893) which is higher (2007:higher) than the standard rate of corporation tax in the UK of 28.5% (2007:30%). The differences are explained below:

	2008	2007
	£	£
(Loss)/profit on ordinary activities before tax	<u>(1,753,967)</u>	<u>182,972</u>
Standard rate of corporation tax in the UK	28.5%	30%
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax	(499,881)	54,892
Effects of:		
Expenses not deductible for tax purposes	-	1
Origination and reversal of timing differences	491,111	-
Rate change	8,770	-
Current tax charge for the year	<u>-</u>	<u>54,893</u>

Factors that may affect future tax charges

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's (loss)/profit for this accounting year is taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

Avon European Financial Services Limited
Notes to the Financial Statements
for the year ended 31 December 2008 (continued)

6 Debtors	2008	2007
	£	£
Amounts falling due within one year:		
Bank interest receivable	59,922	96,271
Amounts owed by group undertakings and undertakings in which the company has a participating interest	64,073,599	24,096,957
Amounts falling due after more than one year:		
Deferred Taxation (see note 8)	491,111	-
	64,624,632	24,193,228

7 Creditors: amounts falling due within one year	2008	2007
	£	£
Amounts owed to group undertakings and undertakings in which the company has a participating interest	97,293,686	45,385,922
Other taxes and social security costs	102,637	161,425
Accruals and deferred income	150,189	-
	97,546,512	45,547,347

The amounts owed to group undertakings and undertakings in which the company has a participating interest are all unsecured, short term cash pools. These bear interest at the City LIBID for sterling amounts, and EONIA for all Euro amounts.

8 Derivative financial instruments

The following table provides a comparison of the carrying amount and fair value of the company's derivative financial instrument assets at 31st December 2008. All derivatives are entered into for the purpose of minimising risk from potential exchange rate fluctuations inherent in the company's assets. Fair value is the amount at which a financial instrument could be exchanged between informed and willing parties. No derivative instruments were held at 31st December 2007.

	2008	2008	2007	2007
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Forward currency purchases	--	1,954	--	--

9 Deferred taxation	2008	2007
	£	£
Loss relief	(491,111)	-
Total deferred tax asset	(491,111)	-
	2008	2007
	£	£
At 1 January	-	-
Deferred tax (credit) in profit and loss account	(491,111)	-
At 31 December	(491,111)	-

The deferred tax asset relates to relief in respect of the loss for the financial year. In accordance with group policy this loss will be utilised at the earliest opportunity, via group relief if appropriate.

Avon European Financial Services Limited
Notes to the Financial Statements
for the year ended 31 December 2008 (continued)

10 Called up share capital	2008	2007	2008	2007
	No	No	£	£
Authorised:				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	2008	2007	2008	2007
	No	No	£	£
Allotted and fully paid:				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
11 Profit and loss reserve			2008	2007
			£	£
At 1 January			372,353	244,274
(Loss)/profit for the financial year			(1,262,856)	128,079
At 31 December			(890,503)	372,353
12 Reconciliation of movement in shareholders' funds			2008	2007
			£	£
At 1 January			372,354	244,275
(Loss)/profit for the financial year			(1,262,856)	128,079
At 31 December			(890,502)	372,354

13 Capital commitments

There were no capital commitments at 31 December 2008 or 31 December 2007.

14 Related Parties, Ultimate Parent Company and Controlling Party

a) Ultimate Parent Company

The ultimate parent company and controlling party 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 and only group to incorporate these financial statements, are available on application from group headquarters at 1345 Avenue of the Americas, New York, NY 10105, USA.

b) Intermediate holding company

The intermediate holding company is Avon European Holdings Limited, which is registered in England and Wales. The accounts of Avon European Holdings Limited 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, its fellow subsidiaries and its intermediate and ultimate holding company.