reaching women

Avon Products, Inc.
1345 Avenue of the Americas
New York, NY 10105-0196
(212) 282-5000
www.avon.com
FINANCIAL HIGHLIGHTS

In millions, except per share data

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2000</th>
<th>1999</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>$5,673.7</td>
<td>$5,289.1</td>
<td>7%</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 478.4</td>
<td>$ 302.4</td>
<td>58%</td>
</tr>
<tr>
<td>Basic earnings per share:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>$ 2.04</td>
<td>$ 1.18</td>
<td>73%</td>
</tr>
<tr>
<td>Cumulative effect of accounting change</td>
<td>$(.03)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Diluted earnings per share:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>$ 2.02</td>
<td>$ 1.17</td>
<td>73%</td>
</tr>
<tr>
<td>Cumulative effect of accounting change</td>
<td>$(.03)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

2000 net income includes a tax benefit of $40.1, or $.16 per diluted share, related to a federal income tax refund. 1999 net income includes $121.9, or $.47 per share, in one-time charges.

FINANCIAL ACHIEVEMENTS

Net Sales

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>In billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1.00</td>
</tr>
<tr>
<td>1997</td>
<td>2.00</td>
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<tr>
<td>1998</td>
<td>3.00</td>
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<tr>
<td>1999</td>
<td>4.00</td>
</tr>
<tr>
<td>2000</td>
<td>5.00</td>
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</table>

Earnings Per Diluted Share from Continuing Operations

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>In dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>0.50</td>
</tr>
<tr>
<td>1997</td>
<td>1.00</td>
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<tr>
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<tr>
<td>1999</td>
<td>2.00</td>
</tr>
<tr>
<td>2000</td>
<td>2.50</td>
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</table>

Cash Flow from Continuing Operations

<table>
<thead>
<tr>
<th>Fiscal Year</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>300</td>
</tr>
<tr>
<td>1997</td>
<td>400</td>
</tr>
<tr>
<td>1998</td>
<td>500</td>
</tr>
</tbody>
</table>

Year End Closing Stock Price

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>In dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>10</td>
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<tr>
<td>1997</td>
<td>20</td>
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<tr>
<td>1998</td>
<td>30</td>
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<tr>
<td>1999</td>
<td>40</td>
</tr>
<tr>
<td>2000</td>
<td>50</td>
</tr>
</tbody>
</table>

This report is printed on recycled paper.

Design: Brandlogic Group, Ridgefield, CT
Principal photography: Jeffrey Aronson, New York, NY
Williams sisters photography: George Holz, New York, NY
Printing: Adient/Case-Hoyt, Rochester, NY

* includes VAT benefit of $0.06
† includes special charges of $(0.68)
‡ includes special charges of $(0.67)
§ includes income tax benefit of $0.16

BOARD OF DIRECTORS

1 Andrea Jung
   Chief Executive Officer

2 Brenda C. Barnes
   Former President and Chief Executive Officer, Pepsi-Cola North America, Pepsi-Cola Co.

3 Edward T. Fogarty
   Former Chairman, President and Chief Executive Officer, Tambrands, Inc.

4 Stanley C. Gault
   Non-Executive Chairman, Former Chairman and Chief Executive Officer, The Goodyear Tire and Rubber Co.

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   President and Chief Executive Officer, Pharmacia Corporation

6 Susan Kropp
   President and Chief Operating Officer

7 Maria Elena Lagomasino
   Managing Director, Chase Manhattan Bank

8 Ann S. Moore
   President, People Magazine Group, Time, Inc.

9 Paula Stern, Ph.D.
   President, The Stern Group

10 Lawrence A. Weinbach
    Chairman, President and Chief Executive Officer, Unisys Corporation

* Audit Committee Member
As a business and as a brand, Avon has embarked on a journey of renewal and great opportunity. 2000 was an exciting year for us, and I feel privileged to be leading the company and serving you—its shareholders—as our performance and prospects have gathered momentum and strength. Your Board of Directors and management team have been diligent in planning and executing against our long-term strategy, which is to revitalize our core direct-selling business while extending the Avon franchise.
Avon’s gross and operating margins have improved substantially over the past three years, due in large part to our successful Business Process Redesign efforts.

Delivering results
Avon achieved outstanding results in 2000. Sales reached a record $5.7 billion, up 7% (up 11% in local currency). We reported earnings per share of $1.99, which included a benefit of $.16 per share from a federal income tax refund and a charge of $.03 per share from an accounting change. We also incurred significant unbudgeted expenses at the close of the year of $.02 per share related to asset writedowns and executive reorganization costs. Excluding these items, earnings per share were $1.88, up 15% from $1.64 before one-time charges in 1999.

This was our twelfth consecutive year of solid growth in sales and earnings, and we were pleased that our 2000 performance was at the high end of the targets we established going into the year. Our goal for 2001 is to once again achieve double-digit growth in local currency sales and earnings per share—even as we continue to increase the level of investments to support our growth strategies.

The financial results in 2000 were due to the strength of our operations around the world. All geographic regions posted increases in sales, operating profit, units and active Representatives. Sales growth in the U.S. was a solid 5%, while all international regions reported double-digit sales increases in local currencies.

Reflecting Avon’s standout business performance, our share price ended the year at $47.88—a twelve month increase of 45%, substantially outperforming both our peer group and the S&P 500. Total return, including dividends, was 48% for the year.

To further increase returns to shareholders in 2000, we bought back $68 million of stock, as part of our ongoing share repurchases. And on February 1, 2001, we

Susan Kropf was named President and Chief Operating Officer in January 2001.
In 2000, the strong U.S. dollar masked significantly higher sales growth in local currency terms.

Significantly Higher

In 2000, the dividend for the 11th straight year, to an annualized rate of $.76 per share.

An important measure of our success in 2000 was the very strong 9% growth in beauty sales. All beauty categories did well, with 9% growth for color cosmetics, successful new launches in hair care and global fragrance, and a standout performance from our latest skin care blockbuster, Anew Retroactive. With its patented anti-aging technology, Retroactive is priced higher than any previous Avon skin care offering, and it sold 1.5 million units on introduction, more than twice the volume of any other Anew launch.

In 2001, we expect to extend our beauty leadership with an even stronger product pipeline and further increases in our R&D budget.

With Business Process Redesign programs helping to deliver close to $150 million in savings in 2000, we were able to increase strategic spending by nearly $100 million, and still improve operating margin by 70 basis points. We expect to reap substantial BPR benefits in the future, from new and ongoing efforts, in the range of $100 million annually.

In 2000, we committed much of our strategic spending to a very visible initiative in consumer brand building – our first global advertising campaign. The fresh and lively style of the Let’s Talk campaign, supported by investments in consumer sampling and upgrades to our sales brochure, was embraced by consumers and Representatives alike. In December, we were delighted to announce that tennis stars Venus and Serena Williams will serve as role models and spokespersons for the next stage of Let’s Talk in 2001.

Strengthening the core

It is our 3.4 million independent Representatives who have helped Avon become the greatest direct selling company in history. Globally, they conduct more than 95% of our business, and we have made it our top priority to serve them better by contemporizing the direct selling channel and finding new ways to enhance their earnings and career options.

In 2000, Representatives found their sales efforts boosted by Avon’s emphasis on consumer marketing. In addition, many of our best Representatives also are taking advantage of career development opportunities now being implemented in the U.S. and internationally.

Foremost among these is Sales Leadership. In a dozen markets, experienced Representatives now can supplement their personal sales commissions with earnings from the sales of new Representatives whom they recruit and train. In the U.S., there are now more than 17,000 “upline” leadership Representatives, who have about one-third of all U.S. Representatives in their “downlines.”

Representatives in the U.S. also have been able to take up other new career-building options offered by the company:

- Beauty Advisor training. This is an extensive program for those wishing to hone their sales skills and broaden
These initiatives—and others—are driving a new sense of excitement in our core direct selling business, helping us to recruit and retain a new generation of Representatives. Our Representatives are becoming more productive and entrepreneurial, while continuing to reach and serve women everywhere in the timeless, personal Avon way.

Extending the Avon brand

Your management took a historic step in September 2000 with the announcement that, within the year, we would open Avon Centers in the stores of Sears and J.C. Penney in the U.S. to sell a totally new brand of products called beComing. To plan and launch an Avon retail brand with global potential is unprecedented in our 115-year history as a beauty company.

We are excited and energized by that decision, and we did not make it lightly. Careful field analysis and market testing back up our judgement. We set up Avon-owned Beauty Centers in major malls around the country and monitored results for a period of two years. Research showed that improving access to our products is a significant growth opportunity, and that virtually 100% of our sales were to customers who do not buy from Avon Representatives.

In 2001, Representatives in 15 of our largest markets also will have an entirely new category of products to sell. Avon is expanding the definition of beauty to include inner health as well as outward appearance. Offered through a separate brochure, the new Avon Wellness line will feature an array of women’s health and wellness products, from vitamins and dietary supplements to self-care and stress relief items. The vitamins and nutritional supplements that are the cornerstone of the line were developed for us by Roche Consumer Healthcare, and will be marketed as VitAdvance.

The number of Avon Representatives increased 14% last year to an all-time high of 3.4 million, reinforcing the company’s position as the world’s leading direct seller of beauty products.

AN ALL-TIME HIGH

AN ALL-TIME HIGH

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AN ALL-TIME HIGH

their expertise across Avon’s beauty product range. Sales increases of 30% are being achieved by Representatives who complete this training.

- Kiosk licensing. Avon is licensing Representatives to operate stand-alone kiosks selling Avon’s core beauty products in shopping malls across the U.S. In addition to increasing their personal sales, entrepreneurial Representatives also use the kiosks to recruit new Representatives to Avon.

- e-Representative Web pages. In the fourth quarter of 2000, some 16,000 U.S. Representatives opened up shop on the Internet, taking orders from their customers on personalized Web pages under the Avon umbrella, at the www.youravon.com site. On the same Web site, Representatives now can conduct much of their business with Avon, using convenient online invoicing, ordering and training tools, 24 hours a day.

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agreement with Sears and J.C. Penney, we are extending Avon to women wherever they prefer to shop.

The beComing brand—an entirely new line—is expected to be available in approximately 200 store-in-store Avon Centers by the fall of 2001. An international expansion plan is being developed for 2002.

A strong management team
In order to speed decision making and facilitate the implementation of our strategies, we announced an executive reorganization early in 2001. Susan Kropf, one of Avon’s most experienced and respected executives, was promoted to President and Chief Operating Officer, responsible for all direct-selling operations worldwide. I look forward to working closely with Susan to build on the momentum created in 2000 and take Avon to even higher levels of achievement. We are supported by a management team of exceptional strength. Our business unit leaders around the world have an average of more than 23 years of experience with Avon.

I am also very fortunate to have the support and resources of our outstanding Board of Directors. In 2000, we welcomed one new Director—Maria Elena Lagomasino of the Chase Manhattan Corporation, who brings an informed, global perspective to the company. We also said farewell to another Director, Richard S. Barton, to whom we extend our thanks for his six years of exemplary service.

Reaching out to women
In closing, I would like to highlight a particularly noteworthy Avon achievement in 2000—one that I am personally very proud of. In October, donations from the Avon Worldwide Fund for Women’s Health—a suite of initiatives to raise money for vital women’s health issues—surpassed the $100 million milestone. The money has been raised by Avon Representatives and volunteers, and has been used to fund access to care and to find a cure for breast cancer. As we strive to serve the community of women, we will continue to stay close to their aspirations and concerns. We have set an ambitious fundraising target of $200 million for the worldwide fund by the end of 2002, and I am very confident that we will achieve that goal.

Avon is at the threshold of a new era...of becoming the Avon we all believe is possible. We will do our utmost to make those possibilities real, so our shareholders, associates and Representatives may all reap the rewards of the company’s future success.

Sincerely,

Andrea Jung
Chief Executive Officer
March 1, 2001
reaching women

They’re a community of hand and heart and mind, populating more than half the globe. They are mothers, daughters, sisters and grandmothers, drawing near to them children, partners, parents and friends. They’re entrepreneurs and teachers and homemakers and kin, practicing science and sports and the arts. They are women. And to Avon, they’re the most important people in the world. It’s a bond forged by everything from shared causes to biology, tracing back through more than a century of beauty and business opportunity. And as we stride past the threshold to the next hundred years, that natural affinity is strengthened by energetic new initiatives, a bolder vision and a wider, more diverse community of customers. In a dynamic new world, Avon continues to connect, reaching women through a vibrant image and outstanding products, personal relationships, cutting-edge technology, exciting new channels and unparalleled support for gender and family issues. When we say we’re the Company for Women...we mean it.
That was Avon’s investment in a bright new brand image and direct selling, tried-and-true. The year 2000 saw significant strategic spending on global advertising, product sampling and smart new brochures—core business investments designed to carry the momentum into 2001.

REACHING WOMEN

a bold new image

and breakthrough products. ✪ (Oh, yes. Did we mention attitude?) They’re the signature elements of today’s Avon, a marquee name taking on fresh, youthful meaning with the presentation of a spirited new face to the world and the introduction of innovative beauty products. We’re as global as Singapore and São Paulo…and as local as your front door. And the women who trust and use our products are as likely to be found practicing on tennis courts…as they are in courts of law. Just ask Grand Slam tennis stars Venus and Serena Williams.
In 2000, Avon stepped up advertising expenditures by 50% to over $90 million, and created Let’s Talk, the company’s first-ever global advertising campaign. Let’s Talk television and print ads evolve naturally out of our heritage as an organization built on one-to-one relationships with women, and feature a livelier, more energetic look, a freer, more fashionable approach…and a determination to have fun. We also strengthened our brand through strategic expenditures on updated sales brochures and an expanded product sampling program.

In 2001, Let’s Talk extends the conversation to include the remarkable Williams sisters, accomplished young sports professionals who, through their embodiment of Avon’s values of empowerment and self-fulfillment, serve as role models for women everywhere. Venus and Serena will help launch Avon Wellness, our new global line of women’s health and well-being products aimed at expanding the definition of beauty to include inner health as well as outward appearance. Scheduled for debut in 15 countries in 2001 and a full introduction in 2002, Avon Wellness features vitamins and nutritional supplements called VitAdvance that have been developed exclusively for Avon by Roche Consumer Healthcare, along with various exercise, fitness and stress-relief items.

What’s age got to do with it?
Also sharpening Avon’s surprising new image are leading-edge beauty products such as Anew Retroactive, a groundbreaking age-reversal cream introduced in 2000 and rolling out globally in 2001. Retroactive utilizes Avon’s exclusive Rejuvi-cell Complex, a patent-pending blend of ingredients formulated to enhance cellular communication and re-energize aging skin cells. In some of the most dramatic test results ever recorded by Avon researchers and independent dermatologists, after four weeks of use, 100% of a panel of women reported improved skin tone and texture, and 90% reported a diminishing of fine wrinkles. Unit sales at launch totaled twice the number associated with any other Avon skin care product introduction.
While Retroactive may slow the signs of aging, there are no signs that things are slowing down at Avon’s product development labs. Other eye-catching 2000 product launches included the release of Avon Color IV, the most comprehensive cosmetics portfolio in the company’s history, a lineup featuring such innovations as:

- Color Rich Renewable Lipstick, employing patented microcapsule technology and a special Gel-Matrix system to continually release moisturizers and keep color blooming for hours.
- True Color Eyeshadow and Powder Blush, providing enhanced adhesion and an exceptionally smooth finish thanks to Jet Mill technology, and bringing to the mass market an innovation that optimizes powder particle size to create a uniform, ultra-fine bond with the skin.
- And our Incredible Finish Foundation and Powders, combining Jet Mill technology with color, finish and enhanced reflective properties to produce an even, naturally luminous coverage.

Beauty and beyond
Formulated with an exclusive vitamin- and protein-enriched Balancing B2 Complex, Avon’s Advance Techniques Hair Care System—a set of 22 shampoos, conditioners and treatments also released in 2000—became the broadest hair care product launch in company history.

Incanessence—a sophisticated floral scent inspired by the warmth of the sun—is Avon’s newest fragrance, and takes perfume design to the next level with a unique formulation that reveals aromatic layers in successive stages during a woman’s busy day.

And in 2000, our successful line of Beauty Plus high-quality jewelry and fashion accessories was extended into 17 global markets spanning all geographic regions. Combined worldwide sales of Avon jewelry, watches and accessories increased a solid 14% from 1999 to 2000.

A revitalized brand image and beauty products of extraordinary value—a strategic combination that’s redefining Avon as the progressive new company for women of every style, every personality, every outlook…and every birth date.
That’s how much Avon Representatives around the world earned in commissions during 2000. By providing women with a wider range of sales and career opportunities, Avon has made person-to-person selling more relevant than ever.

\[ \text{\$2.3 billion} \]

\textbf{REACHING WOMEN}

\textbf{over \textit{3,400,000} Representatives}

One awesome army of businesswomen. And together they make Avon the largest and most successful direct seller of beauty products in the world. On every business day, in 139 countries, our Representatives—an estimated 95% of whom are women—make personal contact with millions of Avon customers. They put a warm and welcome face on our products and services…and secure our reputation as the company that best understands and satisfies the needs of women everywhere. For more than a century, enterprising Representatives have been at the heart of Avon’s continuing success.
Today, and for the foreseeable future, the lion’s share of Avon’s annual revenue will be derived from direct selling, making it our most important marketing channel by far, and a keystone to the company’s business strategy. In 2000, Avon recommitted to strengthening its direct-selling channel through innovative programs like Sales Leadership, a business model designed to attract and retain Representatives, and through initiatives focused on business and beauty training.

Providing women with the chance to succeed in business as respected and independent entrepreneurs has been central to Avon’s purpose from its beginning 115 years ago. It’s no wonder, then, that Sales Leadership is designed to encourage Representatives with more and better earning opportunities…and to help Avon grow its global business by increasing the size of its Representative workforce.

We’ve added a new level of entrepreneurs to our sales structure, whose job is to recruit, train and mentor new Representatives, as well as personally sell Avon products. Under the program, Representatives experience increased opportunity for advancement and share in the success of their unit, while simultaneously developing management skills.

**Going global**

Successful Sales Leadership programs have been piloted in all geographic regions, and test markets are evaluating results with the idea of either extending the scope of their pilots or...
implementing the program full-scale. While Sales Leadership is still in its early stages, preliminary results show positive feedback from Representatives, increased productivity and a marked reduction in turnover. Some test results, in fact, have demonstrated decreases in annual turnover from highs of nearly 90% to below 50%.

To help U.S. Representatives become more confident and knowledgeable about their profession, Avon also has implemented a highly popular Beauty Advisor program, the most extensive training effort in the history of the company. Representatives enroll in a series of courses designed to upgrade their makeup and skin care consulting skills and teach them about the latest advances in beauty products. Successful graduates are certified as Beauty Advisors, whose potential for increased sales has been documented to increase by nearly 30% in pilot programs. In 2000, more than 20,000 Beauty Advisor training kits were purchased by U.S. Representatives.

In 2000, Avon also brought its entrepreneurial Licensed Beauty Centers to retail shopping malls across the country. The centers—attractive carts filled with select Avon beauty products—combine the power of direct selling with the customer access of retail to give enterprising Representativesentrée to increased earnings and recruitment opportunities.

Advanced training. Greater career opportunities. Make that 3.4 million worldwide Representatives…and growing each day.

"It can be difficult to start a business without capital, and Avon understands that. The fact that it provides a credit line to new franchise dealers is a manifestation of its “heart” as a company. The quality of Avon products plays a major role in sales. Some of my customers have tried different products, but they end up coming back to Avon."

"Avon has changed my life completely. The company’s products and prestige are very well known in Latin America, and I’ve been proud to be associated with our business for the past 15 years. I also have been well-rewarded—personally and financially."

Fe Asuque
Home base: Manila, Philippines
Age: 33
Onboard with Avon: 1997
Favorite foods: Beefsteak, fried chicken and fruits.

Esther Sanjurjo
Home base: Boulogne, Buenos Aires, Argentina
Age: 66
Onboard with Avon: 1986
Moment she’d most like to relive: The birth of her children.

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Favorite foods: Beefsteak, fried chicken and fruits.
With “click-here” efficiency and no care for the clock, youravon.com brings Representatives into their customers’ homes in a new and exciting way…complementing the personal touch that is Avon’s hallmark.

an online marketplace

and entrepreneurs with a great big “e.” ☇ Hear that clicking? That’s the sound of cyber-success. We’re talking about the Internet, of course, and the extraordinary advantage it can deliver to Avon and its Representatives as a sales and business tool. Consumers make online purchases based on brands they know—and from companies that provide them with a variety of access channels. Avon has the brand, of course. And it has the bandwidth. But it also comes with the added advantage of a smiling face—your friendly e-Representative.
Over the past several years, women by the tens of millions have logged onto the World Wide Web, giving them access to a virtual universe of information, products and services…and providing businesses with a phenomenal new channel to connect with customers. Online sales are expected to grow threefold over the next few years, reaching $100 billion in 2002. An estimated $4 billion of those sales will be beauty and health items, and 52% of all online customers will be women. In September 2000, Avon revolutionized its direct sales approach, plugging its U.S. Representatives into a dynamic online marketing tool called youravon.com and empowering them with the technology of the Web.

**e-Representatives.** Add the global reach and technological advantage of the Internet to direct sales and customer relationships, and Avon’s formula for Representative success increases exponentially. Customized Representative Web sites and digital brochures mean anytime assistance with account, order and customer information…and anywhere access to Avon’s full line of products.

**One more way to connect**

Using their own personalized, consumer-facing Web sites, e-Representatives provide their family of customers with 24 x 7 access to Avon products. At the same time, e-Representatives have the advantage of business-to-business capabilities that connect them seamlessly to Avon’s order and fulfillment systems. While their customers benefit from the speed, convenience and delivery flexibility of online ordering, Avon e-Representatives are able to promote special products, target specific groups of customers, place and track orders online, and capitalize on e-mail to share product information, selling tips and marketing incentives. Self-paced online training also is available, as is up-to-the-minute news about the company.
By the end of 2000, more than 16,000 excited U.S. Avon Representatives had added an “e” to their titles. Our goal is to significantly expand Representative online ordering in 2001, and to help make it happen, Avon has partnered with Gateway, Inc. to provide Representatives with extremely affordable desktop computers and Internet access to build their own customized home pages. Everything in the process is fast and simple—for beginners and experts alike.

**Digits and dollars**

By managing their businesses online, Representatives are able to improve service to their customers, enhance their own productivity, provide a truly personalized Internet shopping experience and reduce the cost of doing business. While it’s early to quantify potential cost savings, Avon expects decreased call center volumes, reduced telecommunications costs and lower paper and printing expenses to result in significant efficiencies for the company—perhaps saving as much as $10 million annually by the end of 2002.

High-touch customer relationships enhanced by high-tech contact. Shopping encounters tailored to the needs of customers. Enhanced productivity and an exciting new channel to attract more Representatives. Significant operational cost savings and a 21st century commitment to Avon’s fundamental direct-sales strategy. It’s a formula that puts Avon online, and in line… to capitalize on the personal and commercial power of the Internet.

**Dawn Parrino**, an Avon Leadership Representative and a Certified Beauty Advisor on New York’s Staten Island, revels in her multiple personas as a regular Avon lady and an e-Representative. “It’s convenient for me and for my customers,” she says. “Through youravon.com, I can reach my sister in Virginia and other friends and family out of state without ever leaving the comfort of my own home! I like the freedom and flexibility that having my own Web page offers.”

**let’s talk about you**

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Incremental sales, that is. Studies show retail purchases at Avon Beauty Centers in shopping malls across the United States were made almost exclusively by new customers—women who have had no previous association with personal Avon Representatives. In fact, Representatives’ sales have been known to increase in areas where Avon has operated Beauty Centers.

REACHING WOMEN

When only a shopping mall will do. While direct selling continues to be the engine of Avon’s success, it represents only a small fraction of the $155 billion global beauty market. Internationally, Avon is no stranger to retail sales, having managed successful retail operations in geographies as far-flung as China and Venezuela. In the United States alone, there are roughly 20 million women who say they like Avon quality and would be buying Avon products and services…except for one thing: They do their shopping in retail malls.
Well, we listened. And in 2000—after an extensive two-year test in which our beauty products were sold in company-owned mall kiosks without any adverse effect on Representative sales—Avon announced that, as the first of several planned phases, it would open Avon Centers in Sears and J.C. Penney stores in the United States. Presented as innovative stores-within-stores, Avon Centers will introduce an entirely new brand of products called beComing, offerings representing a fuller, more complete vision that integrates lifestyle, beauty and fashion.

**Avon beComing**

beComing Luminous with moisturizers, toners and lotions; beComing Radiant with makeup and lip colors; and beComing Mom with oils, creams and baby skin care products. Found exclusively at Avon Centers in Sears and J.C. Penney department stores, beComing is a unique retail concept that frames beauty in the broader perspective of what’s important in women’s lives.

**Beauty…applied to life**

beComing Radiant, for example, will be a premium line of color cosmetics, and will include lipstick, nail lacquer and eye makeup. It will be joined by beComing Luminous, an advanced line of skin care products for face and body, and beComing Sensational, featuring a signature fragrance, fine jewelry and fashion accessories. beComing Active takes its mark as a family of personal items, sun care products and vitamins for today’s active woman, and beComing Mom will be sold as a specialized line of products and services for mother and baby.
**Avon China** has successfully introduced retail Beauty Boutiques, where a full range of cosmetics, fragrances, jewelry, health food and intimate apparel are sold. Avon helps dealers select boutique locations, and provides marketing and advertising material as well as special discounts on initial inventory. By the end of 2000, some 2,000 Avon Beauty Boutiques were in operation across China, and plans call for over 1,000 more in 2001.

**beComing Centered** will be offered as an array of aromatherapeutic bath, body and environmental products, while women looking for information about lifestyle and health-related topics can turn to our new **beComing Aware** series. Customers interested in **beComing Connected** also will be able to avail themselves of personalized computer beauty profiles and online links to Avon Representatives and women’s networks.

The **beComing** brand is expected to be launched in approximately 200 store-in-store Avon Centers by the end of 2001, and an international expansion is planned for 2002. By 2005, **beComing** is projected to generate $200-$300 million in annual revenue in the United States alone.

**In Venezuela,** retail stores have been an important addition to Avon’s marketing mix, making inroads into new customer segments as they continue to serve Representatives. Franchisees hold personal stakes in each outlet, and are supported by Avon-sponsored merchandising and brochure promotions, standard product discounts and software to help them manage their billing and inventory.

**The retail touch**

Avon Centers–intimate and attractive 400 to 600 square-foot environments in which customers are served by Lifestyle Consultants—will add significantly to the company’s retail presence in other worldwide markets, where retail and direct selling have a history of mutual growth and prosperity. In the United States in particular, our carefully orchestrated expansion into retail sales is expected to open Avon to an entirely new customer segment—women who prefer to do their shopping in stores and malls.

With its extended reach into retail sales, Avon continues to thoughtfully transform itself into the company for women of every age and lifestyle—touching new customers as it creatively preserves and strengthens the core direct-selling business that has carried it to more than a century of success.
That’s the fundraising mark the Avon Worldwide Fund for Women’s Health expects to reach by 2002. Avon is one of the world’s largest corporate supporters of global programs related to breast cancer and other women’s health issues.

REACHING WOMEN

unprecedented commitment to health and the empowerment of women. 3-Day Walks. Kiss Goodbye to Breast Cancer. The Pink Mile. If you know Avon, you know these are just a few of the dozens of women’s support programs we sponsor around the world. And if you don’t know Avon…it’s time that you did. Women are our principal customers. But they’re also our paramount concern. As a business, Avon is committed to women of every age and culture, not only as consumers…but as people.
We care deeply about women’s health, their financial well-being and the issues that are important to them. And we believe in giving back to them, and to the communities where they live and work. As a measure of that commitment, the Avon Worldwide Fund for Women’s Health—a set of initiatives to raise money for and increase awareness of women’s health issues—supports a range of programs in 30 countries. In Japan, for instance, it provides funding for elder care, and in Germany a separate initiative helps fund an association offering emotional and financial support to mothers in need.

In 2000, donations to global causes from the Avon Worldwide Fund for Women’s Health surpassed $100 million, and we’re well on our way to reaching $200 million by the end of 2002.

The battle against breast cancer

The largest contributor to the Worldwide Fund is the company’s U.S. Avon Breast Cancer Crusade, which supports breast cancer research and education and community-based programs for medically underserved women. Through fundraising and awareness campaigns such as the sale of unique “pink ribbon” products, Avon Breast Cancer 3-Day walking events and The Pink Mile—a line painted on New York’s fashionable Fifth Avenue in the color symbolizing the international battle against breast cancer—the 2000 U.S. Avon Breast Cancer Crusade was able to donate a record-setting $15.3 million to help fund breast cancer research and breast health programs at leading medical centers.

Sister programs such as Avon U.K.’s high-profile “Kiss Goodbye to Breast Cancer” campaign and Argentina’s “Un Lazo por la Vida” (A Ribbon for Life) are just two of the many worldwide Avon-sponsored initiatives also linked to the Crusade.

The Avon Running Global Women’s Circuit helps to promote good cardiovascular health through physical fitness. It has the distinction of
being the world’s sole international circuit of women-only, 10-kilometer runs and 5-kilometer walks. The first running events in the Circuit were held in 1998, although the program’s precursor—the former Avon International Running Circuit—is credited with helping to establish the women’s marathon as an Olympic event during the 1984 Games. The mission of the Avon Running Global Women’s Circuit is to “get women to the starting line of fitness,” and during 2000, runners participating in events in 12 countries around the world got ready, got set…and went.

Encouraging achievement
A separate initiative, the Avon Women of Enterprise program, celebrates the entrepreneurial spirit and economic accomplishments of women. Annual awards are presented to Avon Representatives whose achievements set them apart as trailblazers and role models of empowerment. In a first in 2000, a Women of Enterprise program was implemented by Avon Poland. In Mexico, the Avon-sponsored Zazil Award recognizes women who excel in a variety of professions, and in Australia, Avon’s Spirit of Achievement Award honors women for outstanding contributions in the fields of art, science, sports, business, the environment and community affairs.

In addition, the Avon Products Foundation continues a half-century tradition of funding programs and organizations that promote economic opportunity and physical and emotional well-being for women and girls. Grants, employee volunteers and product and equipment donations available from the Foundation help bring to life Avon’s vision of being the company that best understands and satisfies the product, service and self-fulfillment needs of women globally.

For more than 100 years, women have brought out the best in Avon. And with our products and support programs, we have tried to bring out our best for them. It’s part of our heritage…and why we strive to be the company for women.
The North America Region, which includes the U.S., Canada and Puerto Rico, posted a solid 5% sales increase on unit growth of 5%, and a 2% increase in active Representatives. Operating profit growth of 2% was tempered by significant strategic investments in the U.S. and higher expenses in Puerto Rico related to facilities consolidation.

In the U.S., Beauty sales increased 7%, reflecting double-digit gains in color cosmetics and skin care, as well as growth in fragrance and personal care. Among the major product successes of the year was the launch of Anew Retroactive, the best-ever skin care introduction in Avon’s history. The Avon Color brand also got a significant boost from the highly successful introduction of Nailwear and Glazewear during the year. And, Avon’s well-known Skin-So-Soft brand enjoyed its highest-ever year-over-year sales increase in 2000.

Sales in the Beauty Plus category also registered increases, with excellent growth in accessories and watches, partially offset by a decline in apparel.

U.S. operating profit rose 4% in 2000, despite significant investments in e-commerce and advertising as well as one-time costs associated with the writedown of company-owned Beauty Centers in shopping malls.

A major strategic initiative in the U.S. in 2000 was the September launch of the youravon.com Web site. The new VWeb site greatly expands the use of the Internet as a tool for offering better service to Representatives and customers. Youravon.com enables e-Representatives to use personalized VWeb pages to communicate with their customers, receive and process orders for products, check product availability and shipping status, create and send customer invoices, make payments to Avon, and manage other aspects of their Avon business online. In addition, consumers can now browse the entire Avon sales brochure online with point-and-click convenience. Over 16,000 U.S. Representatives signed up to become e-Representatives in the first segment of a phased launch of youravon.com, with further expansion expected in 2001.

Also in 2000, Avon U.S. continued to improve the career opportunities it offers to Representatives. Initiatives included the expansion of Sales Leadership, a form of tiered marketing that enables Representatives to earn money from their personal sales plus the sales of new Representatives they have recruited and trained. Nearly one-third of U.S. Representatives have been recruited to Avon through Sales Leadership.

Other successful initiatives included the launch of an extensive beauty training program called Beauty Advisors, as well as the licensing of Representatives to sell Avon’s Beauty products in kiosks in shopping malls.

Plans also were put in place during the year for the 2001 launch of an entirely new retail product line called beComing, to be sold in selected Sears and J.C. Penney stores. In addition, Avon U.S. will launch a new women’s health and well-being business including vitamins and nutritional supplements developed exclusively for Avon by Roche Consumer Health.

### North America

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<th></th>
<th>2000 In millions</th>
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<tr>
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The Europe Region’s operating performance in 2000 was characterized by exceptionally strong results in Central and Eastern markets, largely offset by declines in Western Europe and the U.K., where foreign currency translation had a negative impact on reported results. Overall sales in the region increased 1%, but rose a much stronger 13% in local currencies. Operating profit increased 3% after a significant negative effect from currency translation.

Central/Eastern Europe once again produced outstanding results, continuing the trend of the past several years. Major markets in the area, including Poland, Hungary and Ukraine, all generated strong double-digit gains in sales, units, active Representatives and operating profit, as well as solid margin improvement.

Avon’s CFT market share in Central Europe increased nearly two points in 2000. Results in Central/Eastern Europe were aided by consumer-focused marketing initiatives and Avon’s overall high image rating. Sales also benefited from a redesigned sales campaign cycle designed to deliver products to the consumer more quickly. In addition, Sales Leadership programs to enhance earnings opportunities for career-minded Representatives expanded in key markets such as Poland and Hungary, with positive results.

Avon Russia rebounded strongly in 2000, reversing a downturn in 1999 that followed the 1998 Russian economic crisis. Local currency sales nearly doubled, driven by a more than 60% growth in units and a nearly 30% increase in active Representatives. Russia also returned to profitability following an operating loss in 1999.

Europe’s largest market, the U.K., posted a 7% local currency sales increase on 7% unit growth, and further increased its Beauty market share, following a major share gain in 1999. Operating profit declined by double digits, however, largely due to currency translation and the implementation of a new high-speed shipping line that caused an initial decline in productivity.

Europe continued its drive to improve efficiency in 2000. Avon Poland expanded its manufacturing capacity and produced over 85 million CFT units, with further expansion to 150 million units planned for 2001. Previously, outdated facilities in Ireland and France were closed, and French distribution operations were transferred to Germany. The region also has introduced a cluster-style marketing management structure for Italy, Germany and France, which should generate future savings to fund investments in advertising and promotions.

Among the marketing highlights for the year, the introduction of Avon Color IV was the biggest color cosmetics launch ever in Europe and resulted in a 20% increase in sales and units. In addition, sales of personal care products increased nearly 15%.

Also in 2000, Avon successfully launched a women’s health and well-being product line in Spain and solidified its partnering strategy with Quelle, a major catalog showroom retailer in Germany.
Despite difficult economic conditions in some countries, the Pacific Region posted solid sales and profit growth in 2000, with all major markets showing increases in local currency sales and higher dollar operating profits. Sales in local currencies grew 13% in the region, driven by strong unit growth of 18% and a 31% jump in the number of active Representatives. Avon also established a presence in two new markets—Singapore and South Korea—during the year.

In Japan, Avon’s largest Pacific market, economic recovery proved elusive. However, after two years of declines, Avon Japan grew local currency sales by 5%, which was well ahead of expectations. Growth was driven by a 10% increase in orders and units. Japan’s operating profit climbed 24% for the year.

Contributing to Japan’s results were several highly successful promotions, including the distribution of over 30 million flyers supported by newspaper ads. These consumer initiatives resulted in significant new customer growth. Japan’s Avon Lady shops increased to 14,200, with sales up 17%. Japan’s Internet initiatives are also expanding. The Representative Web site, www.order.avon.co.jp, now accounts for about 4% of sales and transactions and is resulting in significant order-entry cost savings. The consumer Web site, www.avon.co.jp, is being promoted to drive traffic and is now featured in five Japanese virtual malls.

Other Pacific Region markets also did well in the face of economic challenges. Avon Philippines focused on strengthening field fundamentals to expand consumer reach in an environment of slower consumer spending and political uncertainty. Local currency sales grew an impressive 21%, powered by unit growth of 18% and a 51% increase in active Representatives. Operating profit for the year grew 6% over 1999, after a negative foreign exchange impact of about 13%.

Taiwan’s economy began strong in 2000, recovering from the devastating earthquake of September 1999. However, new challenges arose during the year, including a decline in consumer confidence and competition from health food direct-sellers entering the CFT market. Despite the uncertain environment, Avon Taiwan posted a local currency sales increase for the year of 8%, on unit growth of 7%.

China’s economy continued strong, as prospects for World Trade Organization entry encouraged the private sector to be more competitive. Despite increased competition, China’s sales rose 44% over 1999, reflecting the company’s continued aggressive retail expansion and increased export sales. Avon China estimated that it increased market share in all Beauty categories, especially fragrance. Importantly, Avon China operated at a profit in 2000, following three years of losses.

For the fifth consecutive year, Avon Australia generated a solid increase in local currency sales, reflecting double-digit unit growth. Australia’s operating profit also rose by double digits.

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<th>PACIFIC</th>
<th>2000</th>
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<tr>
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Latin America had an excellent year in 2000, driven by growth in nearly all countries and a particularly strong performance in Mexico and Brazil, the region’s two largest markets, as well as Venezuela.

Sales grew 12%, or 15% in local currency while operating profit was up 13% in dollars, despite a continued weak economy in Argentina. Active Representatives grew 10%, with increases in every major market. Nearly all markets also posted unit gains, except Brazil, which was down slightly from the exceptionally high level in 1999, when the company was driving for market share following the maxi-devaluation of the Brazilian real.

Avon Brazil delivered sales growth of 14% and an operating profit increase of 17% in 2000. CFT sales rose 15% in local currency, with particularly strong results in the color cosmetics segment. Additionally, Business Process Redesign programs continued to generate funds to support aggressive business-building investments in marketing. Also noteworthy was Brazil’s working capital management, including a reduction in inventories despite rapid sales growth.

Avon Mexico posted a sales increase of 18% on unit growth of 10% and an 8% increase in active Representatives. Mexico grew operating profit by a very strong 18%, even after absorbing startup costs for a new state-of-the-art distribution center in Celaya, which handles about 50% of Mexico’s orders. Mexico also increased sales of Beauty Plus products such as lingerie and jewelry/watches.

Avon Argentina delivered a modest sales increase, despite a severe economic recession prevalent in the country throughout the year. Units rose 6% and active Representatives increased 11%. Argentina’s results were aided by a highly successful customer growth and advertising program under the Let’s Talk umbrella, involving aggressive recruiting and promotion to mobilize Representatives and associates. Argentina’s operating profit declined in the single digits primarily due to the increase in promotional expenses necessitated by the weak economy and higher miscellaneous taxes.

Avon Venezuela posted solid gains in sales, units and operating profit over 1999, despite the floods that negatively affected Avon’s operations early in the year. Similarly, Avon Chile overcame catastrophic rainfalls in the third quarter, and posted solid sales and dollar operating profit gains for the year. Both Chile and Venezuela maintained their very strong market shares.

Central America had another outstanding year, increasing local currency sales and dollar operating profit by 16% and 18%, respectively. Central America continues as one of Avon’s fastest-growing and highest-margin markets in the world, having successfully implemented a cluster-style management structure to improve efficiencies and leverage management talent.

Further driving efficiency in the region, several smaller markets also completed the transition to a cluster approach. Peru and Bolivia now share a common product line and brochure with Chile, and Uruguay and Paraguay are clustered with Argentina.

### LATIN AMERICA

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### Latin America

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