Global Beauty 04
Empowering women throughout the world
Every day, in every corner of the globe, Avon is making a difference in the lives of the more than 300 million women we serve. As one of the world’s leading beauty marketers, we offer an unparalleled portfolio of world-class brands that stand for beauty, empowerment and respect. As the world’s largest direct seller, we support women’s entrepreneurial aspirations and help make their dreams come true. As a responsible corporate citizen, we are a force for good, committed to helping women in their professional and personal lives, and, in the words of our founder, “to contributing to the well being of society and the environment in which it functions.”
As a mark representative, my goal is to encourage young women to pursue their dreams of success and to make a contribution to their community. Giving to others brings out the BEST in ourselves!

Jalin Wood
To Our Shareholders
Avon’s empowering relationships with our almost five million Avon Representatives worldwide are at the heart of our global business model and the source of our unrivaled competitive advantage wherever beauty products are sold.

On the pages of this report, you’ll meet Representatives like Jalin Wood from the United States, Elena Lepeha from Russia, Xiaoyan Wu from China and Hortensia Orozco Romero from Mexico. Each speaks a different language. Each comes from a different culture. Yet all four share the same dream of a better life, and each is making her dream come true as an Avon Representative.
Since 1999, we’ve been on a journey of transformation to strengthen our relationships with our Representatives, and to help them build their businesses and serve their customers in new, creative and ever-more relevant ways.

From 1999 through 2001, we crafted our transformation vision and strengthened our business foundation. Starting in 2002, we drove bold and speedy implementation of our growth strategies. In 2004, these efforts came to fruition as we completed our second three-year planning cycle and achieved unprecedented business success.

Across all measures, results in 2004 were impressive. Earnings per share advanced 27% to $1.77, the third year in a row in which earnings have increased by 20% or more.

Sales grew 10% in local currencies and 13% in dollars, reaching a record $7.7 billion— an increase of almost $2.5 billion since 1999 when Avon's transformation began. The sales growth was powered by an exceptional 13% increase in units and an 11% advance in total Representatives, two of the most important performance indicators of our business strength.

### Financial Highlights

<table>
<thead>
<tr>
<th>Financial Metric</th>
<th>2004</th>
<th>2003</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$7,656</td>
<td>$6,774</td>
<td>13%</td>
</tr>
<tr>
<td>Net income</td>
<td>$846</td>
<td>$665</td>
<td>27%</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>$1.79</td>
<td>$1.41</td>
<td>27%</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$1.77</td>
<td>$1.39</td>
<td>27%</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>$883</td>
<td>$745</td>
<td>18%</td>
</tr>
<tr>
<td>Year-end closing stock price (dollars)</td>
<td>$38.70</td>
<td>$33.75</td>
<td>15%</td>
</tr>
</tbody>
</table>

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Global Beauty
The exceptional performance of your company in 2004 was once again fueled by four growth strategies that are the hallmarks of Avon’s continuing transformation.

The first is our focus on Beauty, and we're very pleased that Beauty sales in 2004 continued to significantly outpace the market, growing an extraordinary 17% on top of the 15% advance in 2003.

Both our color and fragrance businesses benefited from our partnership with internationally acclaimed actress Salma Hayek, and grew 14% and 13%,

Cash flow from operations in 2004 reached a record $883 million, well ahead of 2003’s level of $745 million, and almost double the level back in 1999. This positive cash generation resulted from the financial power of our business model, and also from the implementation in 2004 of transformational new tax and cash management strategies that are lowering Avon’s effective tax rate from 35% to 31%.

Reflecting both the performance of your company and our confidence in the future, in February 2005, we approved an 18% increase in the dividend on top of last year’s 33% increase, and we also announced a new $1 billion stock repurchase program to further enhance shareholder value.
Cash flow from operations reached a record $883 million, well ahead of 2003’s level of $745 million, and almost double the level back in 1999.

respectively, as we repositioned our flagship Avon Color line and entered the prestige fragrance segment with the first introduction in our Today Tomorrow Always trilogy.

In skin care, sales grew an impressive 20% as we solidified our market leadership in the anti-aging segment and achieved an exceptional $600 million in sales for our powerful Anew franchise.

Personal care performed even more strongly, with sales growing an impressive 24%, fueled by the record launch in Europe of our new personal care line, Senses, which is planned for further roll-out starting in 2005.

Powered by these many successes, Avon’s Beauty sales reached an impressive $5.2 billion in 2004, up three points to 69% of the total portfolio versus 2003, with all four categories achieving sales of over $1 billion for the first time—a major milestone in Avon’s beauty transformation.

Global Expansion
Working hand in hand with our focus on Beauty is the equally important strategy of strengthening and expanding Avon’s geographic footprint, a powerful competitive advantage that few other companies can match.
In 2004, strong sales from our three international regions of Europe, Latin America and Asia Pacific more than offset softness in the U.S., where challenges in the toy and gift categories negatively affected results. These categories are being repositioned in 2005, and we expect the U.S. to resume profitable growth in 2006.

Avon does business in more than 120 countries on every continent, and in 2004, exciting and dynamic growth opportunities continued to emerge across the total portfolio.

In Europe, for example, Central and Eastern Europe reached the $1 billion milestone one year ahead of schedule, fueled by 70% sales growth in Russia, on top of a similar gain in 2003. Looking ahead, we expect that sales in Russia will double to $800 million by 2007.

Turkey remained another star performer in the region, growing to almost $100 million in sales and positioning itself to serve as a hub for future geographic expansion in the Middle East in 2007 and beyond.

While continuing to build on our very significant market shares throughout Latin America, we also laid the groundwork for developing a new market cluster involving existing Avon markets such as Venezuela, Colombia, Peru and Ecuador as we work to leverage operating efficiencies and unleash further growth.

In Asia Pacific, China grew by 42% in local currencies—on top of 20% growth last year—and we anticipate that this growth will accelerate when the government allows the resumption of direct selling, as anticipated, in 2005. Longer term, China remains Avon's number-one future growth opportunity, and we see $1 billion in sales potential for this single market alone.

In 2004, we also entered Vietnam and prepared for further expansion in India, our next important area of geographic “white space.”

Avon’s growth in Beauty sales consistently outperforms the market.

* Source: Euromonitor
Global Opportunity
As we expand our global footprint and drive for Beauty leadership, our third major strategy is our commitment to provide a world-class earnings opportunity for our Avon Representatives.

We continue to make progress with the world-wide rollout of Sales Leadership—our multi-level marketing model—and believe it will be a game changer as we strive to create a more compelling, more dynamic direct-selling earnings proposition for career-minded women.

But the big payoff for our Representatives—and for Avon—comes when Leadership is combined with the rigorous application of direct-selling best practices to empower our Representatives to reach more consumers with our products and to extend the benefits of the Avon brand to more women everywhere.

In 2004, we completed a comprehensive global framework that formalizes these best practices, and this framework is now being rolled-out worldwide in conjunction with the implementation of the Sales Leadership strategy.

Global Supply Chain
As our sales strategies gain traction and reach scale by 2008, we anticipate increasing productivity, including further migration to the variable compensation structure of Sales Leadership.

This is consistent with our fourth, and very critical area of strategic focus: Our commitment to reconfigure Avon's value chain, which will free up resources to fund our growth initiatives, while at the same time supporting expansion of the company's operating margin.

The ongoing transformation of Avon's supply chain is a key enabler to value chain reconfiguration. Between 2002 and 2004, improvements in supply chain effectiveness helped fund a $250 million increase in consumer investments while also helping drive a 320 basis-point improvement in operating margin.
We’ve also completed the blueprint for an integrated global supply chain strategy, supported by ERP (enterprise resource planning) technology.

In 2004, we began to implement a regional supply chain process in Latin America and Asia Pacific, modeled on our earlier success in Europe, where operating margin has advanced by 620 basis points over the most recent three-year period.

We also completed the blueprint for an integrated global supply chain platform, supported by ERP (enterprise resource planning) technology. ERP implementation began in Europe in January 2005, with other regions planned to follow in 2006 and 2007.

We anticipate that our global supply chain strategy will free up an additional $300 million by 2008 as we further reconfigure the value chain.

Looking Ahead
As we come to the end of our second three-year planning cycle and start writing the next chapter of Avon’s transformation, we have a unique vantage point from which to look back to the beginning and also forward to the next horizon. The numbers tell an exciting story.

In 1999, Avon had sales of $5.3 billion; by 2007, we expect that this figure will double to $10 billion. In 1999, operating margin was 9.8%; by 2007, this number should increase to almost 19%, and to 20% by 2008. In 1999, cash flow from operations was $449 million; by 2007, cash flow should increase to $1.5 billion.

In this next cycle, our strategies will not change; but the trajectory we have established will propel us to a true business of scale as we come of age as a global enterprise and achieve an unprecedented level of worldwide success.

We will also come of age as a philanthropic organization as we continue our financial support for the breast cancer cause around the world and elevate our fight against domestic violence to a second initiative of scale.
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Looking forward to the opportunities ahead, we find ourselves at an exciting and unprecedented moment in Avon’s history. We begin this new chapter with the wind at our back and extraordinary optimism for what the future might hold. The foundation is in place and the momentum is strong.

As we move forward with this next phase of growth, we do so in partnership with our 48,000 committed Avon associates around the world, and guided by the wisdom and support of Avon’s outstanding Board of Directors, whose extraordinary service to our company and shareholders is greatly appreciated.

Most important, we move forward in partnership with our valued Avon Representatives across the globe. They are truly our inspiration as they motivate us to continually strive to do better and reach higher.

Avon Representative Elena Lepeha wrote that “Avon helped make the dreams of this ordinary Siberian woman come true.” To Elena, Jalin, Xiaoyan and Hortensia—all the millions of other Representatives just like them—we want to reaffirm our purpose, our pride and our commitment to open new doors of opportunity that empower women throughout the world.

Andrea Jung
Chairman and Chief Executive Officer

Susan J. Kropf
President and Chief Operating Officer

March 1, 2005
# Business Transformation Report Card

## What we did...

### 2002 - 2004

<table>
<thead>
<tr>
<th></th>
<th>TARGETS</th>
<th>ACHIEVEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual sales growth in local currencies</td>
<td>10%+</td>
<td>10%</td>
</tr>
<tr>
<td>Incremental consumer and strategic investment</td>
<td>$150-200M</td>
<td>$250M</td>
</tr>
<tr>
<td>Operating margin - end of period</td>
<td>16.5%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Annual cash flow from operations</td>
<td>$600-800M</td>
<td>$883M</td>
</tr>
<tr>
<td>Average annual capital expenditures</td>
<td>$225M</td>
<td>$180M</td>
</tr>
<tr>
<td>Annual EPS growth</td>
<td>10%+</td>
<td>24%</td>
</tr>
</tbody>
</table>

## What we will do...

### 2005 - 2007

<table>
<thead>
<tr>
<th></th>
<th>TARGETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual revenue growth in local currencies</td>
<td>10%+</td>
</tr>
<tr>
<td>Incremental consumer and strategic investment</td>
<td>$200M</td>
</tr>
<tr>
<td>Operating margin - end of period</td>
<td>18.5%-19%</td>
</tr>
<tr>
<td>Annual cash flow from operations</td>
<td>$1-1.5B</td>
</tr>
<tr>
<td>Average annual capital expenditures</td>
<td>$250M</td>
</tr>
<tr>
<td>Annual EPS growth</td>
<td>10%+</td>
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</table>
"I have so much respect for the 4.9 million AVON Representatives worldwide. I would like them to know that their determination and hard work are an inspiration, and that I’m very happy to be part of the family."

Women all over the world embrace the high-tech innovation and affordable value of Avon’s beauty products. That’s why our beauty sales have strongly outpaced the overall market for three years running, and why we are the leader in many of the world’s fastest-growing beauty markets. The Avon brand is known for its unique attitude—a brand that communicates a positive message not only about how women look on the outside but also about the beauty that lies within. Our new global advertising campaign with Academy Award-nominated actress Salma Hayek eloquently expresses this brand message and reflects the universal appeal, inclusiveness and aspiration of the Avon brand.
Global Brand
Global Opportunity
As the world’s premier direct seller, Avon is creating a dynamic earnings opportunity for women that has no boundaries. And who better to spread the word about this opportunity than those who experience its success everyday. This is the driving force behind our Sales Leadership strategy. Advancing now in many global markets, Sales Leadership empowers Representatives to greatly increase their earnings by recruiting, training and mentoring new Representatives. Sales Leadership is a game changer for Avon because it offers women the most compelling direct-selling earnings opportunity in the industry. Moreover, combined with the rigorous application of direct-selling best practices, we anticipate that Sales Leadership will deliver increasing benefits as it gains traction around the world.

**Quote translation:** “Avon is a company that allows you to succeed if you are willing to work hard. Avon helped make the dreams of this ordinary Siberian girl come true.” – Elena Lopeha, Russia
Global Expansion
Avon’s global growth strategy is a proven one that still has huge, untapped potential. In the past four years alone, we’ve begun operations in 11 new markets, on top of the 23 entered during the 1990s. Our innovative products, renowned brand image and exciting direct-selling earnings opportunity are very appealing to women, giving us a powerful competitive advantage, especially in the world’s high-growth geographies. In Russia, China and Turkey alone—already three of our most successful markets—we’re looking for an incremental increase of almost $1 billion in revenue by 2007. Beyond that, even more growth beckons in exciting new geographies such as India, Southeast Asia, the Andean region in South America, the Middle East and Africa.

*Quote translation:* “Not only have I been able to improve my family’s financial situation, Avon has helped me shape my future career and find ways to continue improving myself.” – Xiaoyan Wu, China
Global Supply Chain
Providing our Representatives and customers with quality products in a timely and efficient manner is key to Avon’s success. A regionalized approach to product supply, piloted in Europe and rolling out in our other regions, has helped to improve service while delivering nearly $200 million in cost savings since 2002. In 2004, we began a new phase of the strategy, designing the blueprint for integrated global processes supported by technologies such as Enterprise Resource Planning. With phased implementation of this global strategy now underway, we anticipate an additional $300 million in savings by 2008. This supply chain strategy is one of many ways we are working across borders and functions to improve service, drive top-line growth, enhance efficiencies, and significantly increase margin in the years to come.

**Quote translation:** “Being an Avon Representative helps me reach out to other people. Avon brings people closer together and helps build strong relationships.” – Hortensia Orozco Romero, Mexico
Global Difference

The goal of the Avon Foundation is to continue to make a genuine difference in women's lives by removing barriers to health and empowerment, and fighting for an end to breast cancer and domestic violence.

Kathleen Wallis
President
Avon Foundation
For 119 years, Avon has made a difference in women's lives by creating economic opportunities that now provide them with more than $3 billion in earnings each year. Another way we are making an important difference is through the Avon Breast Cancer Crusade, which since 1992 has raised and disbursed more than $350 million in 50 countries for access to care and finding a cure—by far the largest corporate effort of any type in support of this cause. Leading our philanthropic efforts is the Avon Foundation, which has been improving the lives of women since 1955. In addition to breast cancer, the Foundation supports a range of women's empowerment causes as well as emergency relief efforts. In 2004, the Foundation launched the new Speak Out Against Domestic Violence partnership with actress Salma Hayek. The Foundation's ultimate goal is to become the world's largest women's foundation, continuing to advance women's issues in the U.S. and worldwide.

To make a donation to the Avon Foundation or to learn more, visit avonfoundation.org.
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1. Brian C. Connolly
   Executive Vice President and President, North America

2. Robert J. Corti
   Executive Vice President and Chief Financial Officer

3. Elizabeth A. Smith
   Executive Vice President and Brand President

4. Robert Toth
   Executive Vice President and President, International

5. Lucien Alziari
   Senior Vice President, Human Resources

6. Gina R. Boswell
   Senior Vice President, Corporate Strategy and Business Development

7. Harriet Edelman
   Senior Vice President, Business Transformation and Chief Information Officer

8. Bennett R. Gallina
   Senior Vice President and President, Asia Pacific

9. Nancy Glaser
   Senior Vice President, Global Communications

10. John Kitchener
    Senior Vice President, Global Supply Chain

11. Gilbert L. Klemann, II
    Senior Vice President and General Counsel

12. Dennis Ling
    Senior Vice President, Global Finance and Treasurer

13. Amilcar Melendez
    Senior Vice President and President, Latin America

14. John F. Owen
    Senior Vice President and President, EMEA
Board Committees

PRESIDING DIRECTOR
Stanley C. Gault

AUDIT COMMITTEE
W. Don Cornwell
Edward T. Fogarty
Lawrence A. Weinbach

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE
Stanley C. Gault
Fred Hassan
Maria Elena Lagomasino
Ann S. Moore
Paula Stern, Ph.D.

FINANCE AND STRATEGIC PLANNING COMMITTEE
W. Don Cornwell
Edward T. Fogarty
Paula Stern, Ph.D.

COMPENSATION COMMITTEE
Stanley C. Gault
Fred Hassan
Maria Elena Lagomasino
Ann S. Moore

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   Chairman and Chief Executive Officer

2 W. Don Cornwell
   Chairman and Chief Executive Officer,
   Granite Broadcasting Corporation

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

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

5 Fred Hassan
   Chairman and Chief Executive Officer,
   Schering-Plough Corporation

6 Susan J. Kropf
   President and Chief Operating Officer

7 Maria Elena Lagomasino
   Chairman and Chief Executive Officer,
   JP Morgan Private Bank

8 Ann S. Moore
   Chairman and Chief Executive Officer,
   Time, Inc.

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

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   Chairman of the Board,
   Unisys Corporation