Financial Highlights  
YEARS ENDED DECEMBER 31  

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>$8,150</td>
<td>$7,748</td>
<td>5%</td>
</tr>
<tr>
<td>Net income</td>
<td>$848</td>
<td>$846</td>
<td>0%</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>$1.82</td>
<td>$1.79</td>
<td>2%</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$1.81</td>
<td>$1.77</td>
<td>2%</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>$896</td>
<td>$883</td>
<td>1%</td>
</tr>
</tbody>
</table>
This lipstick is worn by women around the world. It helps drive the growth of a multi-billion dollar corporation that brings beauty and earnings to women everywhere. This lipstick empowers women to achieve their very best. It is one great product in a portfolio of world-class beauty brands that help women look beautiful and feel beautiful every day.
2005 marked my sixth year as Avon’s chief executive, and following five consecutive years of exceptional growth, it was certainly a challenging year. But equally, 2005 was a year of tremendous learning, deepened strategic understanding and thoughtful recalibration as we committed to restoring Avon to sustainable growth.

As I reflect on last year’s results, it is clear that a combination of factors pressured our performance. Externally, we faced a soft consumer environment in many developed markets, while competitors ramped up the level of competitive intensity in Avon’s developing market stronghold. Internally, we underinvested against our core Beauty category, and our growing scale in recent years added operational complexity and challenged our organizational capabilities.

That being said, throughout Avon’s history, we have always responded rapidly and decisively to changing market dynamics, and as we entered 2006, things were no different. Avon is one of a select number of companies to have survived and thrived for well over a century, including more than 50 uninterrupted years as a member of the Fortune 500. This ability to course-correct in response to changing market dynamics continues to serve us well and underpins our path going forward.

Looking ahead, we believe the fundamental equities of our business will continue to be strong and to serve us well. Beauty is a growing category globally, and Avon’s iconic brand name is recognized by consumers everywhere. With more than five million Avon Representatives, we are the world’s largest direct seller by far, and we enjoy leading market shares in many of the more than 100 countries where we do business around the globe.

As we entered 2006, we launched a comprehensive, multi-year turnaround plan to restore sustainable growth. This plan builds on our key equities and focuses on unleashing the full power of our unique brand and channel. The goal of our plan is to dramatically reduce our enterprise cost base and significantly accelerate our investment in growth through four key actions: 1) Commit to Brand Competitiveness; 2) Win with Commercial Edge; 3) Elevate Organization Effectiveness; and 4) Radically Transform the Cost Structure.

Avon is one of a select number of companies to have survived and thrived for well over a century, including more than 50 uninterrupted years as a member of the Fortune 500.
Restoring Avon to Sustainable Growth

COMMIT TO BRAND COMPETITIVENESS

WIN WITH COMMERCIAL EDGE

ELEVATE ORGANIZATION EFFECTIVENESS

RADICALLY TRANSFORM THE COST STRUCTURE

COMMIT TO BRAND COMPETITIVENESS

Beauty growth, as always, remains at the heart of our long-term strategy. Between 1999 and 2004, sales of Avon’s Beauty products grew two-to-three times faster than the industry overall. In 2005 however, Beauty sales while up slightly, underperformed the market as competitors ramped up their level of innovation and advertising, particularly in anti-aging skin care, where our premium brand *Anew* has been a market leader.

To restore sustainable growth, we are significantly increasing our investment in product innovation, strengthening and repositioning key mid-tier brands such as our mass skin care brand, *Avon Solutions*, and our flagship cosmetics line, *Avon Color*. We are underpene-trated in the market at these mid-tier price segments, and both these brands represent major untapped growth opportunities.

With the opening of Avon’s new $100 million state-of-the-art research and development facility in Suffern, New York, we are fueling a full product pipeline in 2006 and beyond. This includes, not only continued innovation in our premium *Anew* line, but the launch of a new *Avon Solutions* franchise called *Ageless Results*, with anti-aging technology now formulated at a mass price point to capitalize on growing consumer interest in this segment. We also have an exciting pipeline in color cosmetics with breakthroughs planned in the nail, lip and mascara categories.

This renewed focus on innovation will be supported by a significant acceleration in advertising, with spending planned to more than double by 2008. In 2006 alone, total company advertising will increase by 50%, with a doubling of the U.S. advertising spend, and significant increases as well in high-focus international markets, including Brazil, Russia, China and Mexico.

With these increases, we are also extending our advertising buys well beyond the launch of a product, focusing on media continuity as part of our brand-building strategy. During 2006, U.S. television advertising frequency will increase four fold compared to 2005. Underpinning these investments is a recently completed quantitative analysis that shows advertising delivers a greater payback for Avon than for the average consumer product company because of its ability to motivate both our consumers and our Representatives.

To restore sustainable growth, we are significantly increasing our investment in product innovation and more than doubling advertising spending by 2008.
WIN WITH COMMERCIAL EDGE

Along with our world-famous beauty brand, Avon also has one of the most compelling consumer sales channels in the world. This includes the power of the Avon sales brochure—one of the largest publications of any type in the world today—and the power of the personal relationships Avon Representatives enjoy with more than 300 million customers around the globe.

To capitalize on this winning commercial advantage, we are elevating the Avon shopping experience with enhanced brochure and merchandising excellence and more compelling consumer promotions, including exciting alliances with partners in key markets across the world.

We are also making the brochure more shoppable through stronger, individually branded stores like mark, our beauty brand for young women. Mark maintains its own distinct identity and voice within the Avon brochure as well as in a separate brochure of its own. This, along with the brand’s strong product appeal, advertising and merchandising excitement, has helped make mark, in just two short years, one of the top brands for young women in America today, and propelled the brand’s 40% sales growth in 2005.

To support our Representatives, we are significantly increasing investment in our direct selling channel and we have established a centrally managed Global Direct Selling function.

This new Global Direct Selling team will help to accelerate the worldwide rollout of Avon Sales Leadership, a multi-level marketing program that enables Representatives to earn through personal sales, and also through bonuses from the sales of other Representatives they have recruited and trained. And importantly, we’re creating the new Avon Direct Selling university to institutionalize world-class training for our sales leaders across the globe, ensuring consistency and focus across all markets.

We are thrilled that 2006 will be the year we relaunch direct selling in China, our largest growth opportunity market. As we went to press with this report, we received our license allowing us to begin recruiting and to conduct direct selling in China. We are honored that the Chinese authorities selected Avon as the first to receive a license. In 2006, we will also begin to expand our business in the world’s second largest market of women, India. And, we will continue to further our direct selling reach in other significant markets such as Russia and Brazil, capitalizing on our very strong market positions to drive continued growth.
To fully benefit from our many growth opportunities, it is imperative that our operating structure evolve to be faster and more nimble in an increasingly competitive global marketplace. We are moving very aggressively to redesign and streamline our organizational structure, targeting a very significant reduction in overhead costs through consolidation and integration of our worldwide operations. This will leverage our global scale more efficiently and also improve the speed of information flow and decision making.

At the end of 2005, to support our critical operating priorities we announced a new global operating structure that increases the number of geographic business units from four to six. China and Central & Eastern Europe now become stand-alone operating units, along with North America; Latin America; Western Europe, Middle East & Africa; and Asia Pacific.

We also renamed these geographic regions Commercial Business Units, or CBUs, reflecting the role they play in the new structure. CBUs own the “moments of truth” with our Representatives and consumers and are accountable for our key commercial strategies to deliver direct selling and merchandising excellence.

Supporting these CBUs in our new structure are two equally empowered Global Business Units, or GBUs—Brand Marketing and Global Supply Chain. These critical disciplines will be managed centrally and integrated worldwide, with enterprise-wide accountability for delivering world-class products at world-class costs.

With this new organizational structure, we are properly aligned to maximize the power of both our brand and channel, and to respond quickly and effectively to the global marketplace as we aggressively build market share and win new customers.

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In connection with this structural realignment, we also are moving rapidly to flatten the organization and reduce management layers to bring our senior leaders closer to our markets, and our markets closer to our Representatives and our consumers. When we complete this initiative during 2006, we expect to have halved the number of layers, reduced the number of management positions by 20% to 30% and created a leaner, more efficient, and more effective management team.
This effort to reduce management layers is just one of a number of enterprise-wide restructuring initiatives that will take place over the next several years to reduce complexity and cost on a global basis. We also will implement projects focused on realigning our global manufacturing base; securing additional supply chain efficiencies in the areas of procurement and distribution processes; and regionalizing, centralizing and outsourcing certain activities and transactional processes. Virtually every part of the organization will be touched by restructuring.

There will be a significant cost to implement these initiatives, which we estimate will be in the range of $500 million over the next several years. In the fourth quarter of 2005, we recorded $56 million in restructuring costs. We also anticipate the largest impact from restructuring costs in 2006, so we view 2006 as a transition year, with business recovery planned to start in 2007.

When fully implemented, we expect the combination of all our restructuring initiatives to deliver in excess of $300 million in savings annually, and these savings are necessary to invest in the business to fuel future sales growth.

In total, we expect our restructuring initiatives to deliver over $300 million in savings annually, which will be largely reinvested in growth.
In addition to restructuring, we are elevating our focus on day-to-day operating discipline and cost controls. We see enormous cost-saving opportunities by simplifying business systems, harmonizing processes, increasing shared service centers and reducing the total number of products as part of our strategy to build bigger, better brands.

By adopting a constant turnaround mentality, we are determined to hold fixed costs flat to down even as growth accelerates. This, coupled with the benefits of restructuring will enable us to continually reinvest in our business, at greater levels than at any time in the past.

COMMITTING TO THE FUTURE

With this comprehensive turnaround plan, we are confident that we are taking the right actions and making the necessary changes to strengthen Avon for the future and return the company to sustainable growth. In recent months we have made good progress with the implementation, and I can assure you that the Avon organization is committed to doing whatever it takes to ensure that we emerge an even more formidable competitor in both beauty and direct selling.

As we look to the future, we do so with confidence in the enduring equities of our unique business model, including our personal relationships with women and the power of the Avon earnings opportunity which helps transform lives. These timeless strengths have underpinned the company’s longevity over the years, driving extraordinary competitive advantage decade after decade in an ever-changing world.

As the company for women, we also are committed to being a champion for causes that make a difference, such as our fights against breast cancer and domestic violence. The power of our relationships and our sense of social purpose will continue to set Avon apart going forward.

There’s another powerful equity that will continue to set us apart, and that’s the power of Avon’s people. And so, in closing, I want to extend some very special recognition to all those who have supported our business this year, including the millions of Avon Representatives around the world and our team of committed Avon associates who are working so hard to ensure the long-term success of our company.

I also want to recognize our exceptional Board of Directors, whose counsel and guidance is always so invaluable, but even more so this past year. In 2005, we were pleased to welcome a new member to the Avon Board: Paul Pressler, President and CEO of Gap Inc., whose extensive knowledge and unique perspective have added so much to the business since he joined us.
In addition, I want to extend some very special recognition to another member of the Avon Board: Avon’s President and Chief Operating Officer Susan J. Kropf, who has announced that she will be retiring from Avon in 2006.

During Susan’s extraordinary, 35-year career with the company, she has helped launch many of our most important and successful strategies and led strong growth in our top markets. Susan’s experience in virtually every aspect of company operations and the breadth of her business perspective have been instrumental in helping drive Avon’s growth in recent years.

With her deep commitment to the company and her strong sense of personal integrity, Susan has been a guiding light and beacon for all of us at Avon. For me personally, she has been both a trusted business partner and a loyal friend. We thank Susan for her years of dedicated service and for her many outstanding contributions, and we wish her great happiness in her well-deserved retirement.

On a final note, I also want to thank you, the Avon shareholder. We truly appreciate your understanding and support as we implement our turnaround plan and position Avon for sustainable growth. We are aggressively moving forward, and we will be relentless in our execution and focus.

As we celebrate Avon’s 120th anniversary in 2006, we know that the best way to honor the past is to master the future. You have our commitment that we will do our very best to capture the many opportunities ahead, and ensure Avon’s continuing success in the years to come.

Andrea Jung
Chairman and Chief Executive Officer

March 10, 2006
Restoring **Avon** to Sustainable Growth

**Commit to **BRAND COMPETITIVENESS

Accelerate world-class product innovation; focus on major breakthroughs in Skin Care and Color, and more than double advertising.

**Win with **COMMERCIAL EDGE

Dramatically improve our merchandising and shopping appeal and ensure that our direct-selling opportunity is second to none.

**Elevate **ORGANIZATION EFFECTIVENESS

Become a leaner, faster-moving, more empowered organization and increase training and development for our people.

**Radically **TRANSFORM THE COST STRUCTURE

Realign total cost structure and leverage assets more strategically to fuel bigger investments and drive revenue growth.
This Lipstick Is Worn By Women in Over 100 Countries

Avon is an iconic beauty brand with powerful name recognition across the globe. Women everywhere love the combination of sophisticated technology and affordable prices, and rely on our world-class brands to enhance their appearance and help them to feel confident and self assured.
As a world-class direct seller of beauty products, Avon offers women everywhere the unique earnings opportunity to sell our respected brands. And today, Representatives are positioned to raise their performance to new levels with our Sales Leadership program. Now more than ever, by recruiting, training and mentoring new Representatives, Avon Representatives can increase their earnings so they can achieve their entrepreneurial goals.
The Avon brand reaches women all over the world with color cosmetics and a whole lot more. That’s why our portfolio also includes leading beauty brands in fragrance, skin care and personal care, as well as complementary products such as fashion jewelry, apparel and wellness to help women appreciate beauty in every way.
This Lipstick Has Millions Invested In It

Because our aim is to offer women superior products at the best price, we're investing in research and development and consumer and strategic initiatives to achieve that goal. This year, we opened our $100-million state-of-the-art R&D facility in Suffern, New York to develop, test and bring first-in-class products to market. These innovative new products are supported by an advertising budget that is projected to more than double by 2008.
Every day Avon works to make a difference in the lives of women around the world through global philanthropy, led by the U.S. Avon Foundation that in 2005 marked its 50th anniversary. Having raised and awarded more than $450 million worldwide for women’s health and empowerment causes, including breast cancer and domestic violence, Avon and the Avon Foundation continue to advance women’s issues across the globe.
2005 RESULTS BY GEOGRAPHIC REGION

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<tr>
<th>Region</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>14.5</td>
<td>16.0</td>
<td>18.0</td>
<td>19.5</td>
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</tr>
<tr>
<td>Europe</td>
<td>11.0</td>
<td>12.0</td>
<td>13.0</td>
<td>14.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.5</td>
<td>4.0</td>
<td>4.5</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>5.0</td>
<td>5.5</td>
<td>6.0</td>
<td>6.5</td>
<td>7.0</td>
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TOTAL REVENUE

BUSINESS UNIT OPERATING PROFIT

SOURCE OF NET SALES BY CATEGORY

<table>
<thead>
<tr>
<th>Category</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
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<tbody>
<tr>
<td>Beauty</td>
<td>21%</td>
<td>35%</td>
<td>31%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Beauty Plus</td>
<td>62%</td>
<td>40%</td>
<td>60%</td>
<td>43%</td>
<td>69%</td>
</tr>
<tr>
<td>Beyond Beauty</td>
<td>17%</td>
<td>10%</td>
<td>10%</td>
<td>40%</td>
<td>69%</td>
</tr>
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</table>

TOTAL REVENUE BY GEOGRAPHIC REGION

OPERATING PROFIT BY GEOGRAPHIC REGION

CASH FLOW FROM OPERATIONS

CAPITAL EXPENDITURES

SHARE REPURCHASES

DIVIDENDS PAID PER COMMON SHARE

Financial Section
BOARD OF DIRECTORS

1. Andrea Jung
   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 & 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
   Chief Executive Officer,
   Asset Management Advisors, LLC

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

9. Paul S. Pressler
   President and Chief Executive Officer,
   Gap Inc.

10. Paula Stern, Ph.D.
    Chairwoman,
    The Stern Group, Inc.

11. Lawrence A. Weinbach
    Partner,
    Yankee Hill Capital Management LLC

BOARD COMMITTEES

Presiding Director
Stanley C. Gault

Audit Committee
Lawrence A. Weinbach, Chair
W. Don Cornwell
Edward T. Fogarty
Maria Elena Lagomasino

Compensation Committee
Ann S. Moore, Chair
Stanley C. Gault
Fred Hassan
Maria Elena Lagomasino

Finance and Strategic Planning Committee
Edward T. Fogarty, Chair
W. Don Cornwell
Paul S. Pressler
Paula Stern, Ph.D.

Nominating and Corporate Governance Committee
Stanley C. Gault, Chair
Fred Hassan
Ann S. Moore
Paula Stern, Ph.D.