NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In millions, except share data

1 Description of the Business and Summary of Significant Accounting Policies

Business

Avon Products, Inc. ("Avon" or the "Company") is a global manufacturer and marketer of beauty and related products. The product categories include cosmetics, fragrance and toiletries; gift and decorative; apparel; and fashion jewelry and accessories. Avon's business is comprised of one industry segment, direct selling, which is conducted in the U.S., the Americas, the Pacific and Europe. Sales are made to the ultimate customers principally by Avon Representatives.

Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements include the accounts of Avon and its subsidiaries. Intercompany balances and transactions are eliminated. These statements have been prepared in conformity with generally accepted accounting principles and require management to make estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from these estimates.

Foreign Currency – The Company has operations in various countries around the world. Fluctuations in the value of foreign currencies cause U.S. dollar-translated amounts to change in comparison with previous periods. Accordingly, the Company cannot project in any meaningful way the possible effect of such fluctuations upon translated amounts or future earnings. This is due to the large number of currencies involved, the constantly changing exposure in these currencies, the complexity of intercompany relationships, the hedging activity entered into in an attempt to minimize certain of the effects of exchange rate changes where economically feasible and the fact that all foreign currencies do not react in the same manner against the U.S. dollar.

Financial statements of foreign subsidiaries operating in other than highly inflationary economies are translated at year-end exchange rates for assets and liabilities and average exchange rates prevailing during the year for income and expense accounts. Translation adjustments of these subsidiaries are recorded as a separate component of shareholders' equity.

For financial statements of subsidiaries operating in highly inflationary economies, nonmonetary assets (principally inventories and fixed assets) and the related expenses (principally cost of sales and depreciation) are translated at the respective historical exchange rates in effect when the assets were acquired or when the subsidiary was designated as operating in a highly inflationary economy. Monetary assets and liabilities are translated at year-end exchange rates. All other income and expense accounts are translated at average exchange rates prevailing during the year. Adjustments resulting from the translation of the financial statements of these subsidiaries are included in income.

Revenue Recognition – Avon recognizes revenue as shipments are made and title passes to independent Representatives, who are Avon's customers.

Cash and Equivalents – Cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are highly liquid debt instruments with an original maturity of three months or less and consist of time deposits with a number of U.S. and non-U.S. commercial banks with high credit ratings. In accordance with Avon's policy, the maximum amount invested in any one bank is limited. Avon believes it is not exposed to any significant credit risk regarding cash and equivalents.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method for substantially all U.S. inventories, except apparel, and the first-in, first-out method for all other inventories.

Depreciation – Substantially all buildings, improvements and equipment are depreciated using the straight-line method over estimated useful lives. Estimated useful lives for buildings and improvements range from 20 to 45 years and equipment ranges from 3 to 15 years.

Other Assets – Internal system development costs related to the development of major information and accounting systems are expensed as incurred.

Stock Options – Compensation cost is recognized for fixed price options using the intrinsic value method. Under this method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

Financial Instruments – Derivative financial instruments are used by the Company in the management of its interest rate and foreign currency exposures and are accounted for on an accrual basis. Gains and losses resulting from effective hedges of existing assets, liabilities or firm commitments are deferred as other assets or liabilities and recognized when the offsetting gains and losses are recognized on the related hedged items. Income and expense are recorded in the same category as that arising from the related asset or liability being hedged. Items not qualifying for hedge accounting are marked to market with the resulting gain or loss recognized in other (income) expense, net. Gains realized on termination of interest rate swap contracts are deferred and amortized over the remaining terms of the original swap agreements. Costs of interest rate cap contracts are amortized over the effective lives of the contracts if considered to be economic hedges; otherwise, they are marked to market.

Research and Development – Research and development costs are expensed as incurred and aggregated in 1997 $29.9 (1996 – $30.2; 1995 – $27.8).

Advertising – Advertising costs are expensed as incurred and aggregated in 1997 $64.5 (1996 – $69.6; 1995 – $52.8).

Income Taxes – Deferred income taxes have been provided on items recognized for financial reporting purposes in different periods than for income tax purposes at future enacted rates.

U.S. income taxes have not been provided on approximately $191.4 of undistributed income of subsidiaries that has been or is intended to be permanently reinvested outside the United States or is expected to be remitted free of U.S. income taxes. If such undistributed income was remitted, foreign withholding taxes of approximately $25.7 would be payable.

Earnings per Share – Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated to give effect to all potentially dilutive common shares that were outstanding during the year.

For each of the three years ended December 31, 1997, the number of shares used in the computation of basic and diluted earnings per share are as follows:

	1997	1996	1995
Basic EPS			
Weighted-average shares	**132.34**	133.70	136.48
Incremental shares from conversion of:			
Stock options	**1.16**	.93	.38
Diluted EPS			
Adjusted weighted-average shares	**133.50**	134.63	136.86

All share and per share data included in this report have been restated to reflect a two-for-one stock split distributed in June 1996.

Reclassifications – To conform to the 1997 presentation, certain reclassifications were made to the prior years' consolidated financial statements.

2 Accounting Changes

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards ("FAS") No. 128, "Earnings per Share". FAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and replaces the presentation of previously disclosed EPS with both basic and diluted EPS. Based upon the Company's capitalization structure, the EPS amounts calculated in accordance with FAS No. 128 approximated the Company's EPS amounts in accordance with Accounting Principles Board Opinion ("APB") No. 15, "Earnings per Share". All prior period EPS data have been restated in accordance with FAS No. 128.

Effective January 1, 1996, the Company adopted FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. There was no impact on the Company's results of operations or financial position in adopting this statement.

Also, effective January 1, 1996, the Company adopted the fair value disclosure requirements of FAS No. 123, "Accounting for Stock-Based Compensation". As permitted by the statement, the Company did not change the method of accounting for its employee stock compensation plans. See Note 8 for the fair value disclosures required under FAS No. 123.

Recent Pronouncements – In June 1997, the Financial Accounting Standards Board ("FASB") issued FAS No. 130, "Reporting Comprehensive Income". FAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. FAS No. 130 is effective for fiscal years beginning after December 15, 1997. The adoption of FAS No. 130 will have no impact on the Company's results of operations or financial position.

Also, in June 1997, the FASB issued FAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". FAS No. 131 establishes standards for the way that publicly-held companies report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. FAS No. 131 is effective for fiscal years beginning after December 15, 1997. The adoption of FAS No. 131 will have no impact on the Company's results of operations or financial position.

3 Discontinued Operations

In December 1995, the Company entered into an agreement with Mallinckrodt Group, Inc. ("Mallinckrodt"), which fully settled the litigation initiated by Mallinckrodt. The settlement covers all indemnity obligations related to Avon's sale of Mallinckrodt, including environmental clean-up claims and litigation concerning Mallinckrodt's settlement of a DuPont patent claim.

The settlement payments made by Avon to Mallinckrodt, and related costs, resulted in an after-tax charge to discontinued operations in the fourth quarter of 1995, net of existing reserves, of $29.6 and a charge to both basic and diluted earnings per share of $.22. Since the Company had capital loss carryforwards, no tax benefits were recognized on the loss in 1995.

4 Inventories

Inventories at December 31 consisted of the following:

	1997	1996
Raw materials	**$147.4**	$136.7
Finished goods	**417.4**	393.3
Total	**$564.8**	$530.0

LIFO-based inventories at December 31, 1997 were $143.5; (1996 – $120.3) with the current estimated replacement cost exceeding the carrying value by approximately $15.2 (1996 – $20.0).

5 Debt and Other Financing

Debt at December 31 consisted of the following (See also Note 7 regarding financial instruments.):

	1997	1996
Maturing within one year:		
Notes payable	**$ 29.4**	$ 94.0
Current portion of long-term debt	**102.7**	3.1
Total	**$132.1**	$ 97.1
Long-term debt:		
6.55% notes, due 2007	**$100.0**	$ —
170 million 6⅛% deutsche mark notes, due 1998 (1)	**100.0**	100.0
Other, payable to 2002 with interest from 9% to 30%	**4.9**	7.6
Less current portion	**(102.7)**	(3.1)
Total	**$102.2**	$104.5

(1) The deutsche mark notes ("Notes") have been effectively converted into U.S. dollar debt through the use of a currency exchange swap contract which includes both the principal and the interest. Reflected in the carrying value of the debt was a currency swap contract (payable)/receivable at December 31, 1997 of ($5.1) (1996 – $9.7).

Annual maturities of long-term debt for each of the next five years are: 1998 – $102.7; 1999 – $1.4; 2000 – $.5; 2001 – $.2, and 2002 and beyond $100.1.

During 1997, the Company issued $100.0 of 6.55% notes, due August 1, 2007 for which the net proceeds were used to pay down commercial paper borrowings.

During 1996, the Company entered into an agreement, which expires in 2001, with various banks to amend and restate the five-year, $600.0 revolving credit and competitive advance facility agreement, which was previously entered into in 1994. Within this facility, the Company is able to borrow, on an uncommitted basis, various foreign currencies. The new agreement and the prior agreement are referred to, collectively, as the credit facility.

The credit facility is primarily to be used to finance working capital, provide support for the issuance of commercial paper and support the stock repurchase program. At the Company's option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, or federal fund rates. The credit facility has an annual facility fee of $.4. The credit facility contains a covenant for interest coverage, as defined. The Company is in compliance with this covenant.

At December 31, 1997, there were no borrowings outstanding under the credit facility. At December 31, 1996, borrowings of $29.7 were outstanding under the credit facility. The borrowings of $29.7 represented a 3.45 billion yen loan, which was paid in November 1997, used to hedge the Company's net investment in Japan. The annual interest rate was .78%.

At December 31, 1996, Avon had $34.1 outstanding under a $500.0 commercial paper program supported by the credit facility. In addition, the Company has bankers' acceptance facilities and uncommitted lines of credit available of $205.0 (1996 – $230.0) with various banks which have no compensating balances or fees. As of December 31, 1997 and 1996, there were no borrowings under the bankers' acceptance facilities and uncommitted lines.

The maximum borrowings under these combined facilities during 1997 and 1996 were $409.3 and $361.9, respectively, and the annual average borrowings during each year were approximately $274.6 and $271.3, respectively, at average annual interest rates of approximately 5.2% and 5.5%, respectively.

At December 31, 1997 and 1996, international lines of credit totaled $295.8 and $357.0, respectively, of which $29.4 and $30.2 were outstanding, respectively. The maximum borrowings under these facilities during 1997 and 1996 were $38.8 and $58.3, respectively, and the annual average borrowings during each year were $33.8 and $47.2, respectively, at average annual interest rates of approximately 9.9% and 6.3%, respectively. Such lines have no compensating balances or fees.

At December 31, 1997 and 1996, Avon also has letters of credit outstanding totaling $15.5 and $18.7, respectively, which guarantee various insurance activities. In addition, Avon has outstanding letters of credit for various trade activities.

During 1997, the Company entered into a securities lending transaction resulting in the borrowing of securities which were subsequently sold for net proceeds approximating $58.6 used to repay commercial paper borrowings. The borrowed securities are due to the lender no later than December 29, 2000, but at the Company's option can be returned at any time. The obligation is included in other non-current liabilities on the balance sheet. The effective rate on the transaction is expected to be 6.5%.

6 Income Taxes

Deferred tax assets (liabilities) resulting from temporary differences in the recognition of income and expense for tax and financial reporting purposes at December 31 consisted of the following:

	1997	1996
Deferred tax assets:		
Postretirement benefits	**$ 69.3**	$ 83.5
Accrued expenses and reserves	**44.0**	53.2
Employee benefit plans	**40.0**	46.8
Foreign operating loss carryforwards	**32.5**	30.1
Capital loss carryforwards	**21.2**	36.3
Postemployment benefits	**10.6**	10.9
All other	**17.7**	25.8
Valuation allowance	**(55.7)**	(70.0)
Total deferred tax assets	**179.6**	216.6
Deferred tax liabilities:		
Depreciation	**(35.6)**	(44.0)
Prepaid retirement plan costs	**(52.4)**	(54.6)
Capitalized interest	**(13.5)**	(15.0)
Unremitted foreign earnings	**(12.0)**	(11.6)
All other	**(9.0)**	(14.8)
Total deferred tax liabilities	**(122.5)**	(140.0)
Net deferred tax assets	**$ 57.1**	$ 76.6

Deferred tax assets (liabilities) at December 31 were classified as follows:

	1997	1996
Deferred tax assets:		
Prepaid expenses and other	**$ 76.5**	$ 67.4
Other assets	**16.1**	46.6
Total deferred tax assets	**92.6**	114.0
Deferred tax liabilities:		
Income taxes	**(4.3)**	(3.5)
Deferred income taxes	**(31.2)**	(33.9)
Total deferred tax liabilities	**(35.5)**	(37.4)
Net deferred tax assets	**$ 57.1**	$ 76.6

The valuation allowance primarily represents reserves for foreign operating loss and capital loss carryforwards. The basis used for recognition of deferred tax assets included the profitability of the operations and related deferred tax liabilities.

Income from continuing operations before taxes and minority interest for the years ended December 31 was as follows:

	1997	1996	1995
United States	**$153.6**	$171.3	$149.7
Foreign	**381.3**	339.1	315.3
Total	**$534.9**	$510.4	$465.0

The provision for income taxes for the years ended December 31 was as follows:

	1997	1996	1995
Federal:			
Current	**$ 5.4**	$ 30.9	$ 23.3
Deferred	**21.3**	1.0	.9
	26.7	31.9	24.2
Foreign:			
Current	**169.7**	152.4	146.2
Deferred	**(7.7)**	(1.5)	(1.4)
	162.0	150.9	144.8
State and other:			
Current	**4.8**	8.8	7.5
Deferred	**4.4**	(.2)	(.1)
	9.2	8.6	7.4
Total	**$197.9**	$191.4	$176.4

The effective tax rate for the years ended December 31 was as follows:

	1997	1996	1995
Statutory federal rate	**35.0%**	35.0%	35.0%
State and local taxes, net of federal tax benefit	**1.1**	1.1	1.0
Tax-exempt operations	**(.5)**	(.7)	(.7)
Taxes on foreign income, including translation	**5.3**	6.8	7.5
Utilization of net operating loss carryforwards	**.0**	(.5)	(.1)
Other	**(3.9)**	(4.2)	(4.8)
Effective tax rate	**37.0%**	37.5%	37.9%

During 1997, the Company reached final agreement with the Internal Revenue Service with respect to its examination of the Company's income tax returns for the years 1982 through 1989. As anticipated, payments, including related interest, made under this settlement were approximately $42.4. Reserves previously had been provided by the Company related to the agreement.

In the fourth quarter of 1997, the Company recorded a benefit related to a value-added tax settlement in the United Kingdom totaling $26.5, of which $20.6 and $5.9 have been reflected in other (income) expense, net and interest income, respectively.

At December 31, 1997, Avon had foreign operating loss carryforwards of approximately $84.0. The loss carryforwards expiring between 1998 and 2005 were $53.5 and the loss carryforwards which do not expire were $30.5. Capital loss carryforwards, which expire between 1999 and 2001 and may be used to offset capital gains, if any, were approximately $60.6 at December 31, 1997.

7 Financial Instruments and Risk Management

Risk Management – The Company operates globally, with manufacturing and distribution facilities in various locations around the world. The Company may reduce its exposure to fluctuations in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The Company currently does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

The notional amount of forward exchange contracts and options is the amount of foreign currency bought or sold at maturity. The notional amount of interest rate swaps is the underlying principal amount used in determining the interest payments exchanged over the life of the swap. The notional amounts are not a direct measure of the Company's exposure through its use of derivatives.

Interest Rates – The Company periodically uses interest rate swaps to hedge portions of interest payable on its debt. In addition, the Company may periodically employ interest rate caps to reduce exposure, if any, to increases in variable interest rates.

During a substantial portion of the three-year period ended December 31, 1997, the Company utilized interest rate swaps to effectively convert variable interest on its long-term debt to a fixed interest rate. From January 1995 through July 10, 1995, due to the expiration of an interest rate swap, the interest payable on the Notes became variable at a rate of one-month LIBOR plus 1.4%. During this period, the Company had an interest rate cap in place to reduce its exposure to increases in that variable interest rate above a specified level. On July 11, 1995, the Company entered into a new interest rate swap agreement, which effectively reconverted the interest payable on the Notes to a fixed rate basis of approximately 7.2% through maturity.

Avon has three interest rate swap agreements on the Notes at December 31, 1997 and 1996, each such agreement having a notional amount of $100.0, yielding an aggregate notional amount at December 31, 1997 and 1996 of $300.0. Effective January 1995, the Company had two interest rate caps on the Notes, each with a notional amount of $100.0, one of which expired in 1996 and the other expires when the Notes mature. Subsequent to the interest rate on the Notes becoming fixed, these caps were marked to market with an insignificant mark-to-market adjustment.

In December 1995, the Company entered into an interest rate cap contract with a notional amount of $100.0, which expired in early 1997, in order to hedge a portion of the Company's anticipated short-term variable interest rate working capital debt. This cap has been marked to market with an insignificant mark-to-market adjustment.

Foreign Currencies – The Company may periodically hedge foreign currency royalties, net investments in foreign subsidiaries, firm purchase commitments and contractual foreign currency cash flows or obligations, including third-party and intercompany foreign currency transactions. The Company regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At December 31, 1997, the Company held foreign currency forward contracts with notional amounts totaling $319.1 (1996 – $203.1) and option contracts with notional amounts totaling $80.0 (1996 – $61.2) to hedge foreign currency items. These contracts all have maturities prior to December 31, 1998. During 1996, the Company also entered into certain option contracts with notional amounts totaling $46.4 and, during 1997 and 1996, foreign currency forward contracts totaling $44.2 and $99.0, respectively, which do not qualify as hedging transactions under the current accounting definitions and, accordingly, have been marked to market. The mark-to-market adjustments on these option and forward contracts at December 31, 1997 and 1996 were insignificant. The Company's risk of loss on the options in the future is limited to premiums paid, which are insignificant.

These forward and option contracts to purchase and sell foreign currencies, including cross-currency contracts to sell one foreign currency for another currency at December 31 are summarized below:

	1997		1996	
	Buy	**Sell**	Buy	Sell
Argentine peso	**$ —**	**$ —**	$ —	$ 15.0
Brazilian real	**—**	**—**	—	84.0
British pound	**29.1**	**56.5**	1.5	33.9
Canadian dollar	**—**	**30.8**	—	44.1
Chinese renminbi	**—**	**—**	—	10.0
French franc	**—**	**13.8**	1.0	14.4
German mark	**77.2**	**12.4**	59.5	16.2
Indonesian rupiah	**3.7**	**5.0**	—	—
Irish punt	**13.0**	**2.9**	13.6	1.6
Italian lira	**7.8**	**3.7**	12.7	1.8
Japanese yen	**12.0**	**53.3**	57.2	28.1
Malaysian ringgit	**—**	**6.0**	—	—
Mexican peso	**—**	**40.0**	—	—
Philippine peso	**—**	**15.0**	—	—
Russian ruble	**—**	**20.0**	—	—
Spanish peseta	**—**	**7.0**	—	10.1
Taiwanese dollar	**—**	**20.2**	—	—
Thai baht	**—**	**5.1**	—	—
Other currencies	**4.1**	**4.7**	.9	4.1
Total	**$146.9**	**$296.4**	$146.4	$263.3

Credit and Market Risk – The Company attempts to minimize its credit exposure to counterparties by entering into interest rate swap and cap contracts only with major international financial institutions with "A" or higher credit ratings as issued by Standard & Poor's Corporation. The Company's foreign currency and interest rate derivatives are comprised of over-the-counter forward contracts or options with major international financial institutions. Although the Company's theoretical credit risk is the replacement cost at the then estimated fair value of these instruments, management believes that the risk of incurring losses is remote and that such losses, if any, would not be material.

Non-performance of the counterparties to the balance of all the currency and interest rate swap agreements would not result in a significant write-off at December 31, 1997. In addition, there are other swap agreements in a net payable position of an insignificant amount at December 31, 1997. Each agreement provides for the right of offset between counterparties to the agreement. In addition, Avon may be exposed to market risk on its foreign exchange and interest rate swap and cap agreements as a result of changes in foreign exchange and interest rates. The market risk related to the foreign exchange agreements should be substantially offset by changes in the valuation of the underlying items being hedged.

Fair Value of Financial Instruments – For purposes of the following disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The aggregate fair value amounts presented are not intended to, and do not, represent the underlying fair value of Avon.

The methods and assumptions used to estimate fair value are as follows:

Grantor trust – The fair value of these investments, principally money market funds and equity securities, is based on the quoted market prices for issues listed on exchanges.

Debt maturing within one year and long-term debt and other financing – The fair value of all debt and other financing is estimated based on the quoted market prices for issues listed on exchanges.

Forward exchange and currency option contracts – The fair value of forward exchange and currency option contracts is estimated based on quoted market prices from banks.

Interest rate swap, currency swap and interest rate cap agreements – The fair value of interest rate swap, currency swap and interest rate cap agreements is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that Avon would expect to receive or pay to terminate the agreements.

The asset and (liability) amounts recorded in the balance sheet (carrying amount) and the estimated fair values of financial instruments at December 31 consisted of the following:

	1997		1996	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and equivalents	**$141.9**	**$141.9**	$184.5	$184.5
Grantor trust	**61.1**	**62.7**	49.4	57.2
Debt maturing within one year	**(127.0)**	**(127.6)**	(97.1)	(97.1)
Long-term debt and other financing	**(160.3)**	**(162.7)**	(114.2)	(117.2)
Currency swap contract on long-term debt	**(5.1)**	**(1.7)**	9.7	16.2
Other forward exchange and option contracts	**5.0**	**10.3**	.3	1.0
Interest rate swap receivable	**—**	**.1**	—	.1
Interest rate swaps payable	**(.7)**	**(2.2)**	(.7)	(6.4)

8 Stock Option Plans

A summary of the Company's stock option activity, weighted-average exercise price and related information for the years ended December 31 is as follows:

	1995		1996		**1997**	
	Shares (in 000's)	Weighted Average Price	Shares (in 000's)	Weighted Average Price	**Shares (in 000's)**	**Weighted Average Price**
Outstanding – beginning of year	1,064	$24.22	2,409	$28.45	**2,875**	**$32.56**
Granted	1,430	30.96	894	39.62	**1,430**	**61.35**
Exercised	(79)	17.46	(423)	24.16	**(713)**	**28.93**
Forfeited	(6)	23.20	(5)	24.93	**(57)**	**55.00**
Outstanding – end of year	2,409	$28.45	2,875	$32.56	**3,535**	**$44.58**
Options exercisable – end of year	449	$24.21	575	$26.03	**680**	**$30.53**

Exercise prices for options outstanding as of December 31, 1997 consisted of 10,000 options at a price range of $12 to $13; 2,142,000 options at a price range of $26 to $46 and 1,383,000 options at a price range of $61 to $63, with weighted-average remaining contractual lives of approximately one year, eight years and nine years, respectively.

The 1993 Stock Incentive Plan ("1993 Plan") provides for several types of equity-based incentive compensation awards. Under the 1993 Plan, the maximum number of shares that may be awarded is 7,050,000 shares, of which no more than 4,000,000 shares may be used for restricted share and stock bonus grants. Awards, when made, may also be in the form of stock options, stock appreciation rights, dividend equivalent rights or performance unit awards. Stock options granted to officers and key employees shall be at a price no less than fair market value on the date the option is granted. During 1997, 1996 and 1995, restricted shares with aggregate value and vesting and related amortization periods were granted as follows: 1997 – 18,000 shares valued at $1.2 vesting over one to three years; 1996 – 39,000 shares valued at $1.7 vesting over two to four years; and 1995 – 96,000 shares valued at $2.8 vesting over two to four years.

Effective January 1, 1997, the 1997 Long-Term Incentive Plan ("1997 LTIP") was authorized under the 1993 Plan. The 1997 LTIP provides for the grant of two forms of incentive awards, performance units for potential cash incentives and ten-year stock options. Performance units are earned over the three-year performance period (1997 – 1999), based on the degree of attainment of performance objectives. Options are awarded annually over the three-year performance period and vest in thirds over the three-year period following each option grant date. As discussed above, these options are granted at the fair market value on the date the option is granted.

Effective January 1, 1994, the 1994 Long-Term Incentive Plan ("1994 LTIP") was authorized under the 1993 Plan authorizing the grant of two forms of incentive awards, performance units for potential cash incentives and ten-year stock options. As of December 31, 1996, required performance goals under the 1994 LTIP were achieved and, accordingly, the cash incentives totaling $31.0 were paid in early 1997.

As of December 31, 1993, required performance goals under the prior long-term incentive plan were achieved and, accordingly, 50% of previously issued restricted shares were vested and issued in early 1994. An additional 30% of such shares vested and were issued in early 1995 while the remaining 20% vested and were issued in early 1996. During 1993, 96,180 restricted shares were issued under that plan, with an aggregate value on the date of grant of $3.5. Expense was recorded as the restricted shares vested over the periods established for each grant.

Compensation expense under all plans in 1997 was $15.6 (1996 – $14.7; 1995 – $13.7). The unamortized cost as of December 31, 1997 was $2.0 (1996 – $4.0). The accrued cost of the performance units in 1997 was $12.7 (1996 – $12.0; 1995 – $9.4).

The Company has adopted the disclosure provisions of FAS No. 123, but, as permitted by the statement, has continued to apply APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock option plans. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

If the Company had elected to recognize compensation cost for the plans based on the fair value at the grant dates, consistent with the method prescribed by FAS No. 123, net income and earnings per share would have been changed to the pro forma amounts indicated below (in millions, except for earnings per share information):

	1997	1996	1995
Pro forma net income	**$332.5**	$314.9	$255.3
Pro forma earnings per share:			
Basic	**$ 2.51**	$ 2.36	$ 1.87
Diluted	**$ 2.49**	$ 2.34	$ 1.87

Pro forma information regarding net income and earnings per share is required by FAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of FAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model which was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the expected stock price volatility. The weighted-average assumptions used for 1997 were the risk-free interest rate of approximately 6.3%; dividend yield of 2%; expected volatility of the market price of the Company's common stock of 25%; and a weighted-average expected life of the options of approximately five years. The weighted-average assumptions used for both 1996 and 1995 were the risk-free interest rate of approximately 5.5%; dividend yield of 3%; expected volatility of the market price of the Company's common stock of 20%; and a weighted-average expected life of the options of approximately three years.

9 Shareholders' Equity

Stock Split – At the 1996 Annual Meeting, the shareholders approved an amendment to the Company's Certificate of Incorporation to increase the number of shares of common stock authorized from 200 million to 400 million shares and decrease the par value per share from $.50 to $.25. Subsequently, the Company's Board of Directors ("Board") authorized a two-for-one stock split which was distributed in June 1996 to shareholders of record after the close of business on May 15, 1996.

Share Rights Plan – Avon has a 1988 Share Rights Plan under which one right has been declared as a dividend for each outstanding share of its common stock. Each right, which is redeemable at $.005 at any time at Avon's option, entitles the shareholder, among other things, to purchase one share of Avon common stock at a price equal to one-half of the then current market price, if certain events have occurred. The right is exercisable if, among other events, one party obtains a beneficial ownership of 20% or more of Avon's voting stock.

Dividends – On February 1, 1997, Avon increased the regular dividend on common shares to an annual rate of $1.26 per share, with the first quarterly dividend at the rate of $.315 per share having been paid on March 3, 1997.

On February 1, 1996, Avon increased the regular dividend on common shares to an annual rate of $1.16 per share, with the first quarterly dividend at the rate of $.29 per share having been paid on March 1, 1996.

On August 2, 1995, Avon increased the regular dividend on common shares to an annual rate of $1.10 per share, with the first quarterly dividend at the rate of $.275 per share having been paid on September 1, 1995.

Stock Repurchase Programs – During 1994, Avon's Board authorized a stock repurchase program under which Avon would buy back up to 10% of its then outstanding common stock, or approximately 14,000,000 shares. As of February 1997, when the plan ended, the cumulative number of shares repurchased was 12.7 million shares at a total cost of $424.4 which are included in Treasury Stock. Under a new repurchase program, which began in February 1997, the Company repurchased approximately 1.8 million shares at a total cost of approximately $109.3 as of December 31, 1997. Under this new program, the Company may buy back up to $500.0 of its currently outstanding common stock through open market purchases over a period of up to three to five years.

Savings Plan – In 1997, Avon contributed 43,672 (1996 – 86,186) shares of treasury stock to an employees' savings plan and recognized expense for its fair value. In addition, during 1997, the Company contributed an additional 60,000 shares, for which the expense had been accrued at December 31, 1996. The expense recognized for the plan in 1997 was $2.6 (1996 – $7.0; 1995 – $3.7).

Board of Directors Remuneration – Effective May 1, 1997, the Company discontinued the Board retirement plan, which was applicable only to non-management directors. Directors retiring after that date have had the actuarial value of their accrued retirement benefits converted to a one-time grant of common stock which is restricted as to transfer until retirement. 26,393 shares were issued to directors as a result of the discontinuance of the plan. As a replacement for such plan, effective on and after May 1, 1997, each non-management director is annually granted options to purchase 2,000 shares of common stock, at an exercise price based on the fair market price of the stock on the date of grant. The first such annual grant was made May 1, 1997 consisting of a total of 20,000 options with an exercise price of $61.63.

Also effective as of May 1, 1997, the annual retainer paid to non-management directors was changed to consist of $.025 cash plus an annual grant of shares having a value of $.025 based on the average closing market price of the stock for the ten days preceding the date of grant. These shares are also restricted as to transfer until the director retires from the Board. The first such grant was made May 1, 1997 consisting of a total of 4,260 shares.

10 Employee Benefit Plans

Retirement Plans – Avon and certain subsidiaries have noncontributory retirement plans for substantially all employees. Benefits under these plans are generally based on an employee's years of service and average compensation near retirement. Plans are funded on a current basis except where funding is not required. Net retirement plan expense for the years ended December 31 was determined as follows:

	1997	1996	1995
Service cost	**$ 35.2**	$ 36.6	$ 33.4
Interest cost	**63.1**	61.4	58.5
Actual return on plan assets	**(117.3)**	(72.8)	(121.1)
Net amortization	**67.5**	21.2	66.4
Net retirement plan expense	**$ 48.5**	$ 46.4	$ 37.2

Retirement plan expense is determined using assumptions as of the beginning of the year. The weighted-average assumptions used to determine the data for the years ended December 31 are as follows:

	1997	1996	1995
Discount rate	**7.4%**	7.3%	8.2%
Rate of compensation increase	**4.7**	4.5	4.8
Rate of return on assets	**9.2**	9.3	9.3

The funded status of retirement plans at December 31, using assumptions as of the end of the year, consisted of the following:

	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1997	1996	**1997**	1996
Plan assets at fair value (primarily listed stocks and bonds)	**$753.7**	$657.5	**$ 31.8**	$ 33.2
Present value of projected benefit obligation:				
Accumulated benefit obligation				
Vested	**(508.4)**	(496.8)	**(143.5)**	(151.1)
Nonvested	**(82.0)**	(73.1)	**(33.3)**	(24.8)
Projected compensation increases	**(90.4)**	(91.8)	**(32.3)**	(37.0)
Projected benefit obligation	**(680.8)**	(661.7)	**(209.1)**	(212.9)
Plan assets in excess of (less than) projected benefit obligation	**72.9**	(4.2)	**(177.3)**	(179.7)
Unrecognized net loss	**67.3**	111.5	**32.0**	25.2
Unrecognized prior service cost	**(12.4)**	16.5	**5.2**	8.1
Unrecognized transition (gain) loss	**(12.6)**	(21.3)	**9.6**	9.1
Adjustment for additional liability	**—**	—	**(18.1)**	(11.2)
Prepaid (accrued) retirement plan cost	**$115.2**	$102.5	**$(148.6)**	$(148.5)

At December 31, 1997 and 1996, the weighted-average discount rates used in determining the projected benefit obligations were 7.0% and 7.6%, respectively.

Prepaid retirement plan cost shown above is included in Other Assets. The accrued retirement plan cost shown above is primarily included in Employee Benefit Plans.

Effective July 1998, the defined benefit retirement plan covering U.S.-based employees will be converted to a cash balance plan with benefits determined by compensation credits related to age and service and interest credits based on individual account balances and prevailing interest rates. Additional amendments include an increased company matching contribution to the savings plan and a ten year transitional benefit arrangement for certain employees covered under the existing defined benefit retirement plan.

Supplemental Executive Retirement and Life Insurance Plans – Avon has a Supplemental Executive Retirement Plan ("SERP") which is a defined benefit plan under which Avon will pay supplemental pension benefits to key executives in addition to amounts received under Avon's retirement plan. The annual cost of this plan has been included in the determination of the net retirement plan expense shown above and in 1997 amounted to $5.5 (1996 – $5.5; 1995 – $4.4). Such benefits will be paid from Avon's assets. The accumulated benefit obligation under this plan at December 31, 1997 was $22.8 (1996 – $21.8) and is primarily included in Employee Benefit Plans.

Avon also maintains a Supplemental Life Insurance Plan ("SLIP") under which additional death benefits ranging from $.35 to $2.0 are provided to certain active and retired officers. Avon has acquired corporate-owned life insurance policies to provide partial funding of the benefits. The cash surrender value of these policies at December 31, 1997 was $20.6 (1996 – $29.3) and is held in a grantor trust. During 1997, certain retirees elected to receive a cash distribution from the SLIP approximating $10.0, which was funded by corporate-owned life insurance policies.

Avon has established a grantor trust to provide funding for the benefits payable under the SERP and SLIP. The trust is irrevocable and assets contributed to the trust can only be used to pay such benefits with certain exceptions. The assets held in the trust at December 31, 1997, amounted to $81.7 (1996 – $78.7), consisting of a money market fund, a managed portfolio of equity securities and corporate-owned life insurance policies. These assets are included in Other Assets.

Postretirement Benefits – Avon provides health care, in excess of Medicare coverage, and life insurance benefits for the majority of employees who retire under Avon's retirement plans in the United States and certain foreign countries. The cost of such health care benefits is shared by Avon and its retirees.

Net postretirement benefit cost for the years ended December 31 included the following components:

	1997	1996	1995
Service cost	**$ 3.0**	$ 3.3	$ 4.0
Interest cost	**13.0**	14.0	16.3
Total postretirement benefit cost	**$16.0**	$17.3	$20.3

The assumptions used to determine the data for the years ended December 31 are as follows:

	1997	1996	1995
Discount rate	**7.7%**	7.2%	8.5%
Rate of assumed compensation increases	**4.5**	4.5	4.5

The accumulated postretirement benefits obligation at December 31, which is unfunded, for the U.S. plan and certain foreign plans for which the obligation was not significant, consisted of the following:

	1997	1996
Retirees	**$136.6**	$139.2
Other fully eligible participants	**3.8**	3.7
Other active participants	**56.7**	53.1
Unrealized gain	**6.2**	10.8
Accumulated postretirement benefits obligation	**$203.3**	$206.8

At December 31, 1997 and 1996, the weighted-average discount rates used in determining the accumulated benefits obligation were 7.2% and 7.7%, respectively.

For 1997, the assumed rate of future increases in the per capita cost of health care benefits (the health care cost trend rate) was 9.0% for pre-65 claims (8.5% for post-65 claims) and will gradually decrease each year thereafter to 5.0% in 2005 and beyond. Increasing the health care cost trend rate by one percentage point would have increased the accumulated postretirement benefits obligation at December 31, 1997 by $23.2 and would have increased the 1997 annual postretirement benefits expense by $2.4.

Postemployment Benefits – Avon provides postemployment benefits which include salary continuation, severance benefits, disability benefits and continuation of health care benefits and life insurance coverage to former employees after employment but before retirement. At December 31, 1997, the accrued cost for postemployment benefits was $35.0 (1996 – $32.2) and is included in Employee Benefit Plans.

11 Geographic Information

Sales and pretax income by geographic area are presented on page 29. Identifiable assets by geographic area at December 31 were as follows:

	1997	1996	1995
United States	**$ 528.9**	$ 470.2	$ 449.2
International			
Americas	**583.5**	548.8	498.4
Pacific	**378.4**	383.5	375.5
Europe	**363.5**	377.4	339.7
Total International	**1,325.4**	1,309.7	1,213.6
Corporate and other*	**418.6**	442.5	390.0
Total	**$2,272.9**	$2,222.4	$2,052.8

* Includes Cash Equivalents in 1997 of $60.0 (1996 – $87.9; 1995 – $60.5).

Foreign Exchange – Financial statement translation of subsidiaries operating in highly inflationary economies and foreign currency transactions resulted in losses in 1997 netting to $2.2 (1996 – $3.1; 1995 – $6.9), which are included in Other (income) expense, net and Income taxes. In addition, cost of sales and expenses include the unfavorable impact of the translation of inventories and prepaid expenses at historical rates in countries with highly inflationary economies in 1997 of $6.0 (1996 – $12.6; 1995 – $4.7).

12 Leases and Commitments

Minimum rental commitments under noncancellable operating leases, primarily for equipment and office facilities at December 31, 1997, consisted of the following:

Year	
1998	**$ 60.9**
1999	**45.4**
2000	**35.0**
2001	**26.3**
2002	**19.2**
Later years	**208.5**
Sublease rental income	**(8.5)**
Total	**$386.8**

Rent expense related to continuing operations in 1997 was $88.2 (1996 – $89.7; 1995 – $78.0). Various construction and information systems projects were in progress at December 31, 1997 with an estimated cost to complete of approximately $107.0.

13 Contingencies

Various lawsuits and claims (asserted and unasserted), arising in the ordinary course of business or related to businesses previously sold, are pending or threatened against Avon.

In 1991, a class action lawsuit was initiated against Avon on behalf of certain classes of holders of Avon's Preferred Equity-Redemption Cumulative Stock ("PERCS"). This lawsuit alleges various contract and securities law claims relating to the PERCS (which were fully redeemed that year). Avon has rejected the assertions in this case, believes it has meritorious defenses to the claims and is vigorously contesting this lawsuit.

In the opinion of Avon's management, based on its review of the information available at this time, the difference, if any, between the total cost of resolving such contingencies and reserves recorded by Avon at December 31, 1997 should not have a material adverse impact on Avon's consolidated financial position, results of operations or cash flows.

14 Subsequent Event

On February 5, 1998, Avon's Board approved an increase in the quarterly cash dividend to $.34 per share from $.315. The first dividend at the new rate will be paid on March 2, 1998 to shareholders of record on February 17, 1998. On an annualized basis, the new dividend rate will be $1.36 per share.

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of Avon Products, Inc. have been prepared by management in conformity with generally accepted accounting principles and necessarily include amounts that are based on judgments and estimates. The audit report of Coopers & Lybrand L.L.P., independent accountants, on these financial statements is the result of their audits of these consolidated financial statements, which were performed in accordance with generally accepted auditing standards.

Avon maintains an internal control structure and related systems, policies and procedures designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with appropriate authorization and accounting records may be relied upon for the preparation of financial information. Avon also maintains an internal audit department that evaluates and formally reports to management on the adequacy and effectiveness of controls, policies and procedures.

The audit committee of the board of directors, comprised solely of outside directors, has an oversight role in the area of financial reporting and internal controls. This committee meets several times during the year with management, Coopers & Lybrand L.L.P. and the internal auditors to monitor the proper discharge of each of their respective responsibilities. Coopers & Lybrand L.L.P. and the internal auditors have free access to management and to the audit committee to discuss the results of their activities and the adequacy of controls.

It is management's opinion that Avon's policies and procedures, reinforced by the internal control structure, provide reasonable assurance that operations are managed in a responsible and professional manner with a commitment to the highest standard of business conduct.

James E. Preston
Chairman of the Board and
Chief Executive Officer

Robert J. Corti
Senior Vice President,
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Avon Products, Inc.

We have audited the accompanying consolidated balance sheet of Avon Products, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of Avon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avon Products, Inc. and subsidiaries at December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

Coopers + Lybrand L.L.P.

New York, New York
February 5, 1998

ELEVEN-YEAR REVIEW

In millions, except per share and employee data	**1997**	1996	1995	1994
Income data				
Net sales	**$5,079.4**	$ 4,814.2	$ 4,492.1	$ 4,266.5
Interest expense	**41.8**	40.0	41.3	50.8
Income from continuing operations before taxes, minority interest and cumulative effect of accounting changes	**534.9**	510.4	465.0	433.8
Income from continuing operations before minority interest and cumulative effect of accounting changes	**337.0**	319.0	288.6	270.3
Income from continuing operations	**338.8**	317.9	286.1	264.8
Income (loss) from discontinued operations, net	**—**	—	(29.6)	(23.8)
Cumulative effect of accounting changes, net	**—**	—	—	(45.2)(1)
Net income (loss)	**338.8**	317.9	256.5	195.8
Earnings (loss) per share – basic(4) (5)				
Continuing operations	**$ 2.56**	$ 2.38	$ 2.10	$ 1.88
Discontinued operations	**—**	—	(.22)	(.17)
Cumulative effect of accounting changes	**—**	—	—	(.32)
Net income (loss)	**2.56**	2.38	1.88	1.39
Earnings (loss) per share – diluted(4) (5)				
Continuing operations	**$ 2.54**	$ 2.36	$ 2.09	$ 1.87
Discontinued operations	**—**	—	(.22)	(.17)
Cumulative effect of accounting changes	**—**	—	—	(.32)
Net income (loss)	**2.54**	2.36	1.87	1.38
Cash dividends per share				
Common	**$ 1.26**	$ 1.16	$ 1.05	$ .95
Preferred	**—**	—	—	—
Balance sheet data				
Working capital	**$ (11.9)**	$ (41.7)	$ (30.3)	$ 9.3
Capital expenditures	**169.4**	103.6	72.7	99.9
Property, plant and equipment, net	**611.0**	566.6	537.8	528.4
Total assets	**2,272.9**	2,222.4	2,052.8	1,978.3
Debt maturing within one year	**132.1**	97.1	47.3	61.2
Long-term debt	**102.2**	104.5	114.2	116.5
Total debt	**234.3**	201.6	161.5	177.7
Shareholders' equity	**285.0**	241.7	192.7	185.6
Number of employees				
United States	**8,100**	7,800	8,000	7,900
International	**26,900**	25,900	23,800	22,500
Total employees	**35,000**	33,700	31,800	30,400

(1) Effective January 1, 1994, Avon adopted Statement of Financial Accounting Standards ("FAS") No. 112, "Employers' Accounting for Postemployment Benefits", for all applicable operations, and FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", for its foreign benefit plans. In addition, effective January 1, 1994, Avon changed its method of accounting for internal systems development costs. These development costs are being expensed as incurred, rather than deferred and amortized over future periods. Effective January 1, 1993, Avon adopted FAS No. 106, for its U.S. retiree health care and life insurance benefit plans and FAS No. 109, "Accounting for Income Taxes". Effective January 1, 1988, Avon adopted FAS No. 96, "Accounting for Income Taxes".

(2) In 1992, Avon began the restructuring of its worldwide manufacturing and distribution facilities and recorded a provision of $96.0 ($64.4 after tax, or $.45 per share). Income from continuing operations in 1993 increased 4% from $228.6, or $1.59 per share, excluding the 1992 restructuring charge.

(3) The following nonrecurring transactions were recorded during 1987: a pretax gain of $191.0 ($121.1 after tax, or $.86 per share) resulting from the sale of subsidiary stock and a special provision for restructuring of $47.5 ($29.4 after tax, or $.21 per share).

(4) A two-for-one stock split was distributed in June 1996. All per share data in this report, unless indicated, have been restated to reflect the split.

1993	1992	1991	1990	1989	1988	1987
$ 3,844.1	$ 3,660.5	$ 3,441.0	$ 3,291.6	$ 2,998.3	$ 2,835.2	$ 2,506.2
45.2	43.7	75.4	77.5	118.0	112.9	77.5
394.6	290.0[2]	352.9	305.6	252.9	208.3	359.6[3]
243.8	169.4[2]	209.3	180.3	134.1	121.1	224.8[3]
236.9	164.2[2]	204.8	174.1	126.5	112.3	222.8[3]
2.7	10.8	(69.1)	21.2	(71.9)	(536.8)	(63.7)
(107.5)[1]	—	—	—	—	20.0[1]	—
132.1	175.0[2]	135.7	195.3	54.6	(404.5)	159.1[3]
$ 1.64	$ 1.14	$ 1.30[6]	$ 1.22	$ .82[7]	$ .76[7]	$ 1.58
.02	.08	(.48)	.18	(.65)	(4.31)	(.45)
(.74)	—	—	—	—	.16	—
.92	1.22	.82[6]	1.40	.17[7]	(3.39)[7]	1.13
$ 1.64	$ 1.14[2]	$ 1.43[6]	$ 1.16	$ .81[7]	$ .76[7]	$ 1.57[3]
.02	.07	(.48)	.14	(.64)	(4.31)	(.45)
(.74)	—	—	—	—	.16	—
.92	1.21[2]	.95[6]	1.30	.17[7]	(3.39)[7]	1.12[3]
$ .85	$ .75	$ 2.20[8]	$ .50	$ .50	$ .75	$ 1.00
—	—	.505	1.00	1.00	.50	—
$ 23.1	$ (99.5)	$ (135.3)	$ 71.6	$ 56.3	$ 51.0	$ 122.2
58.1	62.7	61.2	36.3	33.3	46.0	45.9
476.2	476.7	468.5	467.2	472.5	529.1	561.3
1,918.7	1,692.6	1,693.3	2,010.1	1,994.1	2,362.6	2,419.6
70.4	37.3	143.8	207.1	151.7	205.6	62.8
123.7	177.7	208.1	334.8	673.2	917.9	801.8
194.1	215.0	351.9	541.9	824.9	1,123.5	864.6
314.0	310.5	251.6	393.4	228.3	239.3	758.6
8,000	8,700	9,200	9,500	9,400	9,700	10,500
21,500	20,700	20,900	20,300	19,900	18,400	18,100
29,500	29,400	30,100	29,800	29,300	28,100	28,600

(5) Effective for the year ended December 31, 1997, the Company adopted FAS No. 128, "Earnings per Share". FAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and replaces the presentation of previously disclosed EPS with both basic and diluted EPS. Based upon the Company's capitalization structure, the EPS amounts calculated in accordance with FAS No. 128 approximated the Company's EPS amounts in accordance with Accounting Principles Board Opinion No. 15, "Earnings per Share". All prior period EPS data have been restated in accordance with FAS No. 128.

(6) For 1991, in management's opinion, per share amounts assuming dilution, even though the result is antidilutive, provide the most meaningful comparison of per share data because they show the full effect of the conversion of 36 preferred shares into approximately 25.92 common shares on June 3, 1991.

(7) In 1989 and 1988, the calculation of earnings per share assuming dilution is antidilutive and accordingly, earnings per share have not been adjusted for the conversion of preferred shares into additional common shares.

(8) Includes special dividend of $1.50 paid in 1991.

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Neil D. Scancarella
Group Vice President,
Chief Scientific Officer

Marcia L. Worthing
Senior Vice President,
Human Resources and
Corporate Affairs

INTERNATIONAL ADVISORY COUNCIL

Avon's International Advisory Council, a worldwide group of business leaders, meets semiannually to discuss key issues facing the company's major world markets. James E. Preston represents Avon on the Advisory Council. The other members are as follows:

Germany
Mr. Klaus-Peter Müller
Member of the Board of Managing
Directors Commerzbank

Hong Kong
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Director and Chief Executive
Officer, The Bank of East Asia, Limited

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England
Sir Colin Southgate
Chairman, The EMI Group

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Form 10-K
Any shareholder may obtain a copy of the company's 1997 annual report (Form 10-K) by writing to:
Shareholder Relations
Avon Products, Inc
1345 Avenue of the Americas
New York, NY 10105-0196

For the latest earnings and dividend information, please call 1-888-AVP-FACT

Professional Investors
Please call Carol Murray-Negron
Vice President, Investor Relations
at (212) 282-5320

Shareholder Services
Please call Marilyn Reynolds,
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For information about becoming an Avon Representative or purchasing Avon products, please call 1-800-FOR-AVON.

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