

LETTER TO SHAREHOLDERS

We are pleased to report that 1997 was your company's ninth consecutive year of increased sales and earnings, and that Avon took concerted actions during the year to ensure continuing growth well into the next millennium.

Sales in 1997 rose to a record \$5.08 billion, a gain of 6%. In local currencies, without the effects of foreign exchange translation, sales rose at a higher rate of 10%. Surpassing the \$5 billion milestone is a noteworthy accomplishment. It took 86 years for Avon to become a \$1 billion company. Now we are growing at the rate of nearly \$1 billion every three years.

Earnings per share in 1997 increased 8% on a basic and diluted basis to \$2.56 and \$2.54, respectively. While this may be considered acceptable performance given some of the challenges we faced during the year, it is not the growth that investors have come to expect of Avon. Nor is it what we expect of ourselves. We fully intend that growth going forward will accelerate, and I'll outline our strategies later in this letter.

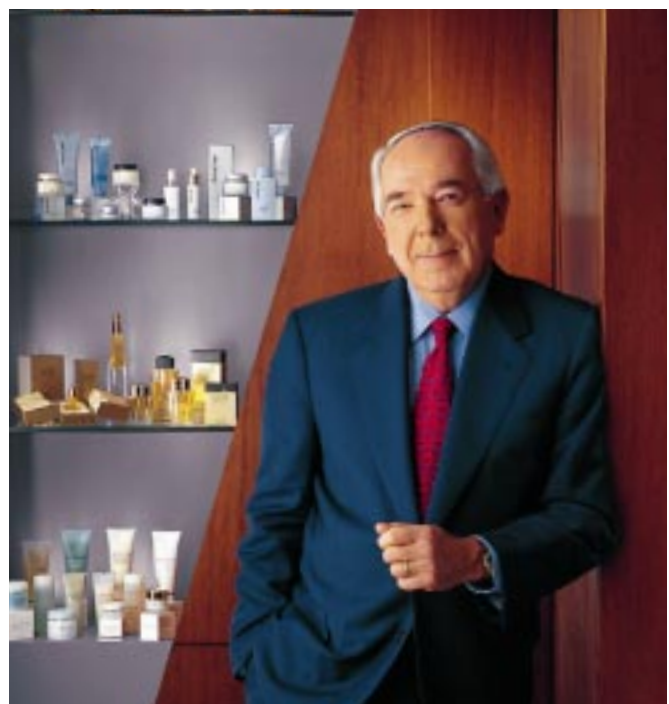
The benefit of operating a global portfolio of businesses was proven once again in 1997. Currency volatility in Asia and short-term issues in certain markets were offset by excellent performance in Latin America and significant profit gains in Europe.

Reflecting our confidence in Avon's long-term outlook, the Board of Directors in February 1998 raised the regular cash dividend by 8% to \$.34 quarterly, or \$1.36 on an annual basis, making this the eighth consecutive year of higher payouts. Since 1990, shareholders have enjoyed a total increase of 172% in the annualized cash dividend rate.

Another important use of our cash has been for share repurchases. In 1997, Avon repurchased 1.9 million shares, or about 1.4% of outstanding stock, at an average cost of \$59 per share. At year-end, we had approximately \$390 million remaining on the \$500 million share repurchase program announced in February 1997.

Avon's financial health continues to be sound. Cash flow from operations in 1997 was \$316 million, total debt at year-end was \$234 million, and cash-on-hand was \$142 million.

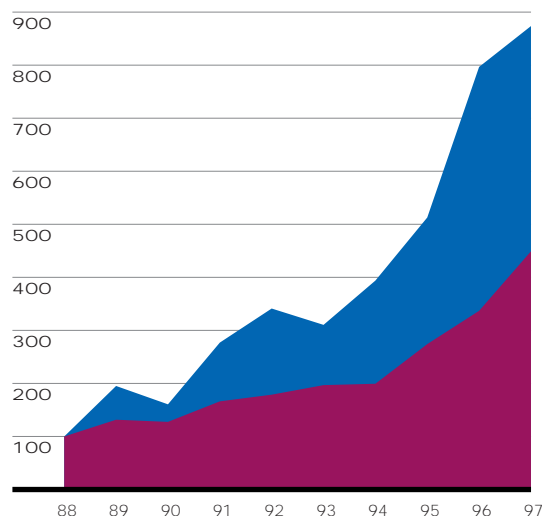
James E. Preston
Chairman and
Chief Executive Officer



1988-1997 Cumulative Total Return

Assumes \$100 invested 12/31/88, and dividends reinvested.

● Avon ● S&P 500



Successful Track Record

Avon's total return to shareholders has consistently exceeded the overall stock market since 1988.

Avon shareholders have enjoyed a 27% compound annual return, versus 18% for the S&P 500.

A Noteworthy Year. Avon faced more challenges this year than in the recent past. Currency devaluations in Asia, profit pressures in Japan, and tighter regulatory restrictions in China all had a negative impact on performance as the year came to a close. In addition, aggressive marketing and sales programs in Brazil did not produce the expected gains, and the U.S. played catch-up throughout 1997 to recover from a Representative shortfall going into the year.

Despite these issues, your company still grew profitably in 1997. More important, these are short-term issues, and we expect that in 1998, Avon will return to higher levels of performance.

The year also was noteworthy for Avon's many accomplishments. The Americas Region continued its impressive growth, and for the first time delivered higher sales than Avon U.S. Mexico had another great year and became the first country outside the U.S. to contribute more than \$100 million in pretax income.

The Europe Region showed continued strong improvement, with local currency sales gains in almost every country, especially in the U.K. The developing markets in Central Europe and Russia once again grew rapidly and generated well over \$100 million in sales for the year. Avon also entered Croatia, Ukraine and Romania, and expanded further across Russia. Pretax profits for Europe were up more than 30% versus 1996, even excluding the benefit of a \$26.5 million VAT settlement in the U.K. in the fourth quarter of 1997.

In Asia, our markets delivered strong results in local currencies, despite severe currency devaluations. The impact of currency on pretax profits was about \$7 million in 1997. We are not expecting any dollar-denominated profit increases from Southeast Asia in 1998 due to ongoing economic volatility.

We do, however, expect to emerge from the current Asian turmoil with greater market shares than before. Our local managers are experienced in managing through periods of economic upheaval. As Mexico did following the 1994 peso devaluation, our Asian markets are leveraging their localized supply chains and implementing recruiting, promotions and other strategies for boosting market penetration and share. Our solid local currency results in 1997, achieved in spite of the economic issues, support our confidence in the long-term outlook for the region.

A more detailed discussion of 1997 operating performance by geographic region is found later in this report.

LETTER TO SHAREHOLDERS

Management For Tomorrow. In December 1997, Avon announced a senior management succession plan that I believe gives us an outstanding team of executives to lead the company to new levels of achievement.

Charles R. Perrin, who successfully led Duracell International as chairman and CEO prior to its acquisition by Gillette in 1996, was appointed vice chairman and chief operating officer of Avon. He will assume the role of chief executive officer when I step down in that capacity in mid-1998.

Charlie meets every criterion established by the Board for the selection of my successor. A proven leader, he helped Duracell expand into more than 100 global markets and made "Duracell" a household name with consumers the world over. As important, Charlie's integrity and respect for people fit well with Avon's values and principles, which are inextricably woven into the fabric of our direct selling culture.

Concurrent with Charlie's appointment, Andrea Jung, who has led the successful renovation of Avon's product lines and beauty image since joining the company in 1994, was elected the first woman president in Avon's history. She now directs all of the company's international operations, which comprise two-thirds of total sales. She will assume the title of chief operating officer from Charlie later in 1998.

In addition, Susan J. Kropf, a 27-year Avon veteran, was named president, Avon North America. She now directs Avon's operations in the U.S., Canada and Puerto Rico, a \$1.9 billion business unit.

Both Andrea and Susan were elected to the Board of Directors. Avon's Board now has six women directors, more than any other major U.S. company.

I am delighted that Charlie, Andrea and Susan will lead Avon in the very exciting era that lies ahead. I am confident that under their leadership, Avon will prosper as never before.



Strong Leadership

Avon's Board of Directors elected a highly qualified management succession team to lead the company into the next millennium. Pictured (standing) are Charles R. Perrin, Vice Chairman and COO; and Andrea Jung, President of Avon. Seated is Susan Kropf, President, Avon North America.

Accelerated Growth Targets

Since 1989, Avon has met its long-term targets for sales and earnings growth on a compound annual basis. Starting in 1998, Avon is targeting higher long-term goals.

	Previous Long-Term Targets	Actual Results 1989 – 1997	New Long-Term Targets
Sales	6 – 8%	7%	8 – 10%
EPS	13 – 15%	15%	16 – 18%

Building For The Future. Your company's financial success during the past nine years has created a foundation of strength for Avon to build on as we enter the next phase of our evolution as a global marketer.

The early 1990s were characterized by a singular focus on maximizing cash flow, reducing debt, and restoring the company's financial health after the difficulties of the 1980s.

Beginning in 1993, our priorities shifted to strategies for building the business around the world. These strategies included accelerated expansion into new markets, the renovation of our product lines and beauty image, and the introduction of new product categories to leverage our unique direct selling distribution channel.

These strategies have worked well. Since 1989, sales have risen 7% (15% in local currency) compounded annually. EPS has grown 15% on a compound annual basis. This growth compares favorably with Avon's previous long-term growth objectives of 6 – 8% for sales and 13 – 15% for EPS.

With a strong foundation now firmly in place, Avon today is entering a new evolutionary phase that will accelerate top- and bottom-line growth. We have set targets to increase sales by 8 – 10%, compounded annually, and we have targeted long-term EPS growth of 16 – 18%. Importantly, increases in operating margins will drive the higher earnings growth, reflecting a strong emphasis on quality of earnings.

We will meet these ambitious goals by leveraging our strengths in direct selling and further capitalizing on our newly renovated product line. For example, our flagship global brands – which now account for 39% of the company's total CFT sales – will increase to 70% of CFT sales by the year 2000.

But to accelerate growth, we need to dramatically increase investments in advertising, promotion and access strategies to bring Avon to more women around the world. We know we have the products women want. Our challenge is to get those products into the hands of new customers.

That's why the company is implementing a business process redesign (BPR) program that will enable Avon to free up funds for reinvestment in long-term customer growth.

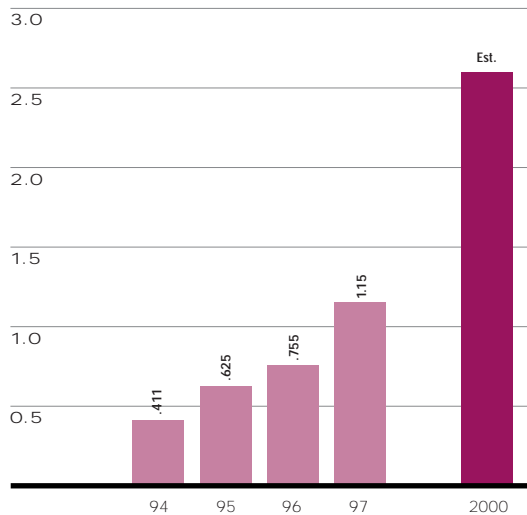
By the end of the year 2000, we expect to realize annual savings of \$400 million through a combination of improved gross margins and lower expenses. We intend to invest half of those savings – an incremental \$200 million a year – in customer growth programs. We expect that the balance of the savings will flow to the bottom line and help boost operating margins to 15% from today's 11% level.

This company-wide effort is well under way. We anticipate incurring one-time costs to facilitate implementation totaling \$150 – 200 million pretax, mostly in non-cash charges. About half of the charges will be recorded in the first quarter of 1998, with the balance in 1999. More information about Avon's BPR program is found elsewhere in this report.

To further enhance Avon's financial returns, we have introduced *Avon Value Added (AVA)*, a performance measure that will help operating managers generate profit growth that exceeds Avon's cost of capital. AVA will help the company use its assets more efficiently, generate higher operating margins and increase value for shareholders on a long-term basis.

Sales of Global Brands

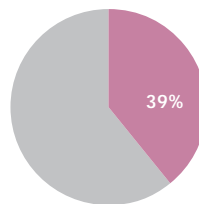
\$ In billions



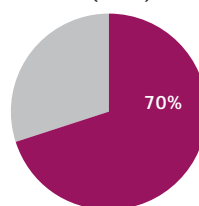
Avon's global brands are driving beauty growth around the world.

Global Brands as a Percentage of CFT Sales

1997



2000 (Est.)



Corporate Responsibility. As a company committed to serving women, Avon is proud of its many programs that enhance women's lives. For example, the Avon Worldwide Fund For Women's Health has raised over \$50 million since 1992 to support women's health initiatives around the world. The Fund includes Avon's Breast Cancer Awareness Crusade in the U.S., which has provided more than \$25 million to grassroots early detection and education programs in 48 states and Puerto Rico.

In addition, the Avon Foundation expanded its support beyond the U.S. to underwrite women's health programs in Russia on behalf of Magee Womancare International. Also, the Foundation, in conjunction with Reach and Teach USA, established the Avon Entrepreneurial Centre for Women in South Africa to bring literacy and business skills to women students. In the U.S., the Foundation provided over 400 scholarships for women students.

Avon is fortunate to have an outstanding and committed Board of Directors. We welcome to the Board Paula Stern, Ph.D., president of the Stern Group, an international economic and trade advisory firm based in Washington, D.C., who was elected in May. Dr. Stern's extensive background in international business and economics will be very valuable to Avon as we continue to expand globally.

We also wish to acknowledge two Board members who retired in 1997: Cecily C. Selby, Ph.D., and Joseph A. Rice. Both served Avon with distinction for many years, and we thank them for their contributions.

Also retiring from Avon's Board in 1997 was Edward J. Robinson, formerly president and chief operating officer. Ed made significant contributions to the company's success since joining as chief financial officer in 1989. We wish him well in his future undertakings.

Lastly, we thank our 35,000 associates and 2.6 million Representatives worldwide. Your commitment and integrity have built an enviable reputation for Avon, and your hard work has prepared the company to meet the challenges ahead.

James E. Preston
Chairman and Chief Executive Officer

February 27, 1998