

AVON

the company for women





THE COMPANY FOR WOMEN

OUR VISION

TO BE THE COMPANY THAT BEST UNDERSTANDS
AND SATISFIES THE PRODUCT, SERVICE AND
SELF-FULFILLMENT NEEDS OF WOMEN – GLOBALLY.

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Cover Her mail carrier, a next-door neighbor, a friend from church – Leadership representative Shellie Streetman of Hiram, Georgia has recruited them and many others into the ranks of successful Avon representatives. But she does more than just bring them into the fold. Shellie and other representatives in the Leadership Opportunity program stay in close contact with their recruits, constantly training them on new products, encouraging them with enthusiasm, and rewarding them for building a successful business.

Through Avon, Shellie can stay home with her young son and daughter and have, not only a career, but a business. Says Shellie,



“I never knew I could have so much fun making money.” Representatives like Shellie Streetman are just further proof why Avon is the company for women.

Pictured are (clockwise, from top) Angela Gustin, Shellie Streetman, Brandy Berryhill and Tabitha Alexander.



FINANCIAL HIGHLIGHTS

In millions, except per share data

Years ended December 31	1998	1997	Percent Change
Net Sales	\$5,212.7	\$5,079.4	3%
Net Income*	\$ 270.0	\$ 338.8	-20%
Earnings per Share:*†			
Basic	\$ 1.03	\$ 1.28	-20%
Diluted	\$ 1.02	\$ 1.27	-20%

At December 31

Total Debt	\$ 256.3	\$ 234.3
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* 1998 Net income includes \$122.8 million, or \$.46 per share, in one-time charges.

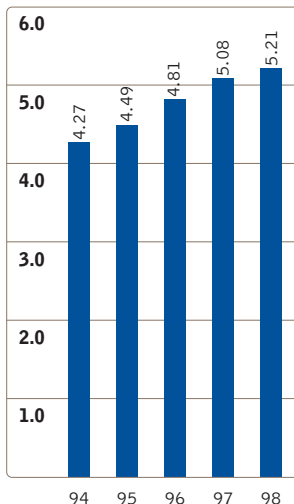
Excluding the charges, earnings per share on a diluted basis rose 17% to \$1.48.

† 1997 Earnings per share restated to reflect two-for-one stock split in September 1998.

FINANCIAL ACHIEVEMENTS

Net Sales

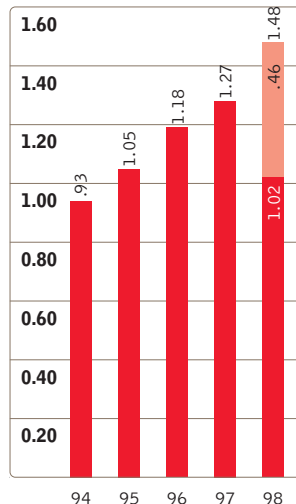
\$ In billions



Earnings Per Share from Continuing Operations – Diluted

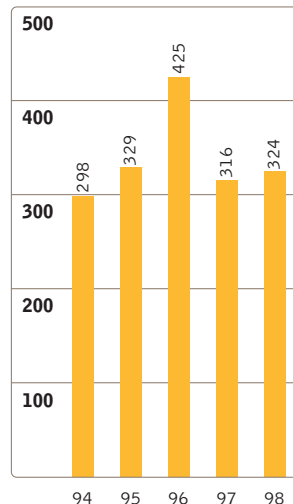
In dollars

Restated for two-for-one stock splits in 1998 and 1996



Cash Flow from Continuing Operations

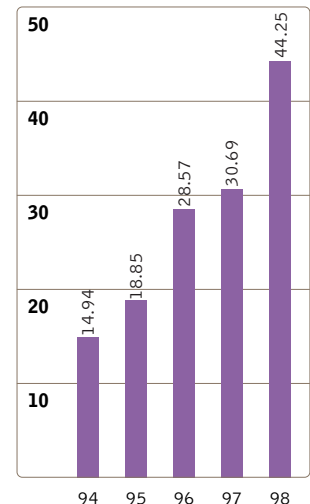
\$ In millions



Year End Closing Stock Price

In dollars

Restated for two-for-one stock splits in 1998 and 1996



- As reported
- Non-recurring charges



LETTER TO SHAREHOLDERS

Avon had a great year in 1998, in terms of financial results and, just as important, in terms of the progress that was made to position the company for the future. We are pleased to highlight the year's accomplishments in our first report to you as the new executive leadership of Avon.

BY EXECUTING OUR STRATEGIES SUCCESSFULLY, WE SEE A UNIQUE OPPORTUNITY TO CAPITALIZE ON OUR INHERENT STRENGTHS AND POSITION AVON AS THE COMPANY FOR WOMEN – SERVING THEIR PRODUCT, SERVICE AND SELF-FULFILLMENT NEEDS GLOBALLY.



Charles R. Perrin

Chief Executive Officer

Andrea Jung

President and Chief Operating Officer

It certainly was not an easy year. The external environment was harsh in many parts of the world and in some of our key markets. But we were able to overcome the obstacles and deliver solid earnings growth for the tenth consecutive year.

And, while 1999 will no doubt present new and unforeseen challenges, we entered the new year with strong momentum and great confidence in the near- and long-term outlook for the company.

We are energized by the potential we see for Avon. Through disciplined, focused management and a set of clearly defined strategic priorities, we firmly believe we can leverage the company's strengths in beauty and direct selling and transform "The New Avon" into a true global power brand for the 21st century.

Superior Returns Avon's shareholders enjoyed a superior return on their investment in 1998. Total return – price appreciation plus dividends – was 47%, compared to 29% for the Standard & Poor's 500. Over the past decade Avon's investors have earned 29% compounded annually, versus 19% for the S&P 500.

In July, we announced a two-for-one stock split, reflecting our continued confidence in the business. That was the second two-for-one split in two years. Prior to 1996, Avon had not split its stock in 26 years.

We are firmly committed to creating value for our shareholders by generating consistent, profitable growth. And, to further enhance shareholder returns, we will continue to utilize a portion of our strong cash flow to repurchase Avon's shares and pay cash dividends.

In July, the Board of Directors authorized an increase of \$600 million in the company's current share repurchase program, which began in 1997. The program now totals \$1.1 billion, of which \$217 million has been spent through year-end 1998.

Avon began purchasing its shares in the open market in early 1994. Since then, a total of \$642 million has been used to purchase 32.1 million shares at an average cost of \$20 per share.

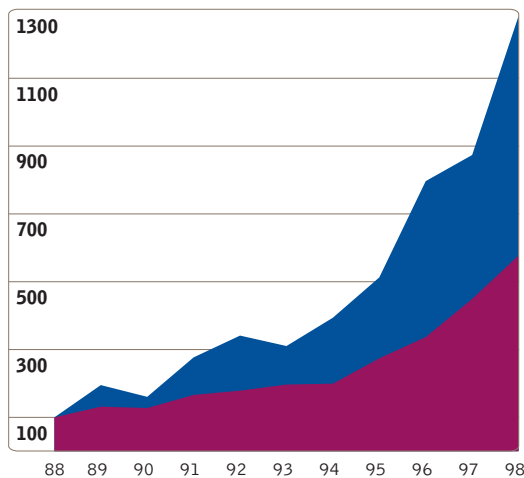
In addition, in February 1998 and February 1999, we announced dividend increases of 8% and 6%, respectively, marking the eighth and ninth consecutive years of increases. Since 1990, the quarterly rate has been increased by 188%.

**OVER THE PAST DECADE, AVON'S INVESTORS
HAVE EARNED A TOTAL RETURN OF 29%, COMPOUNDED ANNUALLY,
VERSUS 19% FOR THE STANDARD AND POOR'S 500.**

1988 – 1998 Cumulative Total Return

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

● Avon ● S&P 500



1998 Results Sales reached a record \$5.2 billion in 1998, up 3% in dollar terms, but up a much stronger 9% in local currencies. Earnings increased by 17% to \$1.48 per diluted share, before one-time charges in the first and third quarters related to our re-engineering efforts. This was the highest year-over-year increase in earnings before non-recurring items since 1991, and solidly within our stated long-term goal of 16-18% annual EPS growth.

We achieved our target by following through on the major priorities we set early in the year:

We implemented a recovery plan for Brazil that resulted in a 13% sales increase (22% in local currency terms) and nearly a doubling of operating profits to \$100 million – a record level.

We more than tripled profits in Japan from a very depressed 1997 level, with solid increases in both gross and operating margins in a very difficult economy.

We improved the operating margin of Avon U.S., our largest market, by 1.6 points to 17.1%, the highest level in recent history.

And, we freed up over \$120 million in resources company-wide through Business Process Redesign, which fueled new growth initiatives and contributed to the bottom line.

The 17% earnings per share growth in 1998 is particularly notable because of the hurdles we had to clear in order to achieve it.

First off, we had to “anniversary” a \$26.5 million pretax gain in the 1997 fourth quarter related to a VAT settlement in the U.K. that increased earnings in the base year by \$.06 per share. Excluding that year-earlier benefit, earnings before charges actually grew 22% in 1998.

Furthermore, 1998 was characterized by extreme economic volatility, with many emerging market currencies declining steeply against the U.S. dollar. Translating local currency results into dollars cost us 6% on the sales line and about 10% in earnings per share growth for the year.

On top of that, we had major disruptions to our business in China and Russia in 1998. While they are relatively small markets for Avon, they were expected to continue to grow rapidly and profitably during the year, but they did not. In fact, their profits came in \$25 million below our plans, costing us about \$.06 in earnings per share.



Geographic Strength A detailed discussion of our global operating results, by region, appears later in this report. Here are the highlights:

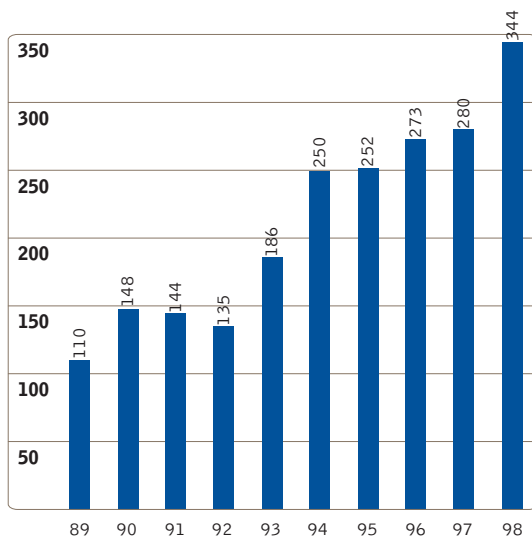
Latin America had a stellar year, with sales up 10% (19% in local currencies) and operating profits jumping 23%. Brazil and Mexico turned in record performances and Venezuela was very strong despite a tough economy. Sales increased in every major market, units in the region grew 14% and active representatives grew 19%.

Despite economic volatility in Latin America historically, including numerous currency devaluations, Avon has an enviable track record in the region. Operating profits have grown at a compound annual rate of 15% over the past decade.

In North America, sales rose a healthy 5% and operating profit was up a strong 16%, even after \$15 million of incremental investments in the U.S for new programs for sales representatives and to attract new consumers to the Avon brand. Avon U.S. achieved double-digit operating profit growth in every quarter of the year.

**DESPITE ECONOMIC VOLATILITY IN
LATIN AMERICA HISTORICALLY, INCLUDING NUMEROUS
CURRENCY DEVALUATIONS, AVON HAS AN ENVIABLE
TRACK RECORD IN THE REGION.**

Latin America Operating Profit
\$ In millions



Europe's sales were up 6% (10% in local currencies) and operating profits rose 18%, despite a sizable loss in the second half in Russia following the collapse of the ruble in August. Operating margin in Europe rose 1.3 points to 12.6%, driven by improvements of 2.5 points in Western Europe and nearly 7 points in Central Europe, which were offset by substantial margin erosion in Russia.

The Pacific region had a difficult year, as expected, with sales down 20% (3% in local currency) and operating profits down 7%. Excluding China, however, where we were forced by the government to close operations temporarily in the spring, Pacific's profits were up 5%. That was a major accomplishment considering the economic turmoil throughout Southeast Asia. Gross and operating margins improved by 1.4 and 1.5 points, respectively, fueled by Business Process Redesign (BPR) initiatives throughout the region.

Progress On BPR BPR was an important factor in improving Avon's overall profitability in 1998. The \$120-plus million in savings came from a wide range of activities in all geographic regions and contributed to a 1.7 point improvement in consolidated gross margin (to 61.3%) and a 1.5 point improvement in operating margin (to 12.2%), before one-time charges.

We are tracking well against our stated goal to free up \$400 million in resources on an annual basis by the end of 2000 and improve operating margin to 15%. BPR is also helping us work smarter by changing the way we think and operate. That's a culture shift that will produce ongoing benefits well beyond our current targeted savings.

A significant portion of the resources freed up through BPR in 1998 was reinvested in the business to contemporize Avon's direct-selling system and reach new consumers by improving access to our products and raising awareness of the Avon brand.

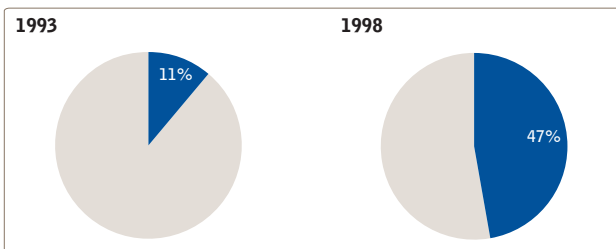
Strategies For Growth There is a lot more work to do in these areas and we intend to pick up the pace in 1999, as we begin implementing a long-range strategic plan to drive top line growth.

The strategic plan is still being finalized, but key elements are already clear:

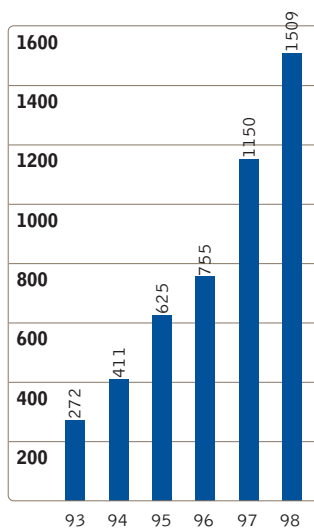
For one, we will re-commit ourselves to beauty leadership, which means creating a consistent, aspirational image for the Avon brand around the world. We intend to increase beauty and related products as a percentage of our total sales by

A WORLD-CLASS GLOBAL PRODUCT LINE WILL HELP CREATE A CONSISTENT, ASPIRATIONAL IMAGE FOR THE AVON BRAND AROUND THE WORLD.

Core Global Brands as a Percentage of CFT Sales



Sales of Core Global Brands
\$ In millions



continuing to develop first-to-market, state-of-the-art global brands that provide real, discernable benefits to meet women’s beauty needs. And we intend to significantly increase our position in the personal care category, which is a relatively untapped market for us now.

Equally important, we know we must make our direct-selling system more relevant to today’s women. That means providing meaningful career opportunities as well as harnessing technology to make Avon more “user friendly” for our nearly three million independent representatives around the world who are the lifeblood of our business.

By executing our strategies successfully, we see a unique opportunity to capitalize on our inherent strengths and position Avon as *the* company for women – serving their product, service and self-fulfillment needs globally.

True To Our Values Exciting, positive change is in the air throughout Avon. We have felt it all year long in the more than 20 markets we visited to meet personally with local managements, employees and representatives. But even as Avon changes its face, the company’s heart and soul is still embodied in its vision and its values.

As we begin executing our growth strategies globally, we will continue to be guided by our commitment to serve the needs of women and by our abiding respect for the individual in all our business dealings.

Those principles are an important part of the legacy of Jim Preston, who will retire from Avon in May, after 35 years of dedicated service, the last 10 as chairman and chief executive officer.

It is hard to overstate the role Jim has played in Avon’s past success. He led the company through a massive restructuring in the early 1990s that restored Avon’s financial health and put us back on course to become the preeminent direct-selling company in the world. And, all the while, he personified the values and ethical conduct that define Avon today.

His are large shoes to fill. But we're confident that with the support of our global management team we can take Avon to even greater heights in the future and build on the tremendous foundation Jim so skillfully helped put in place.

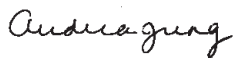
We'd also like to acknowledge Charles Locke and George Grune, both of whom have retired from the Avon Board. Charley, who retired in January, was a director for 12 years, and George, who retires in May, has been a director for eight years. Both of them served with distinction and their contributions to the Board and the company are greatly appreciated.

And, to our 34,000 associates around the world and our 2.8 million independent representatives, we express our heartfelt thanks for your hard work in 1998 and, even more, for supporting us through the leadership transition over the past year.

We are very excited about Avon's future prospects and we truly believe the best is yet to come for this great company.



Charles R. Perrin
Chief Executive Officer



Andrea Jung
President and Chief Operating Officer

February 28, 1999

MESSAGE FROM JIM PRESTON

Management succession is one of the most important responsibilities of CEOs and Boards of Directors. If done well, a succession plan puts in place the next generation of executives who can build on the company's past success and provide visionary leadership for the future.

We have just such a team heading Avon now. Charlie Perrin and Andrea Jung have a clear view of the future potential of Avon, they have a firm hand on the reins of the company, and they have earned the respect and support of Avon people around the world.

They, along with Avon's other senior executives and the company's high-quality support staff and country general managers, represent the strongest management cadre I can ever remember at Avon (and that's really going back some!).

On a personal note, it's been a privilege to serve as CEO for the past decade. It certainly has been the most stimulating and challenging 10 years I've ever spent, and I'll carry with me a lifetime of memories of the wonderful people I've worked with during my career at Avon.

Avon is unique in many ways, but more than anything, the company is defined by the one-on-one relationships it has with its representatives and customers. It is a people-oriented culture that puts a high premium on human values. I consider myself very fortunate to have spent nearly my entire business career in such an environment.

I'm often asked what I think my legacy will be and I answer that I won't know for another few years. Because it's not what I've done during my time here that counts, it's Avon's future success that will be the true measure of my contribution.

I can say this: The company is in great hands and I think the future has never looked brighter for Avon's associates, representatives and shareholders.



James E. Preston
Chairman of the Board of Directors

