



To our Shareholders

In 1886 Avon's founder, David H. McConnell wrote: "If we stop and look over the past and then into the future, we can see that the possibilities are growing greater and greater every day; that we have scarcely begun to reach the proper results from the field we have before us." These words ring as true today as they did 118 years ago.

Our Mission is to be the Global Beauty Leader

We write this letter to you at a very special moment in Avon's history. The year 2003 marked the culmination of four years of stellar growth for your company — both the high point in our 118 year history, and at the same time early days in terms of the opportunities that lie ahead.

Earnings in 2003 increased by 25% to a record \$2.78 per share. Sales in dollars and local currency rose 10%, and cash flow from operations grew to \$745 million, significantly ahead of our \$650 million target. Very exciting, Avon's stock price rose 25% and reached an all-time high. And from 2000 through 2003, Avon shareholders have enjoyed a cumulative total return of 118%, versus a 23% decline in the S&P 500. Reflecting our pride in these achievements as well as our optimism in the future, your Board of Directors in February 2004 approved a 33% increase in the dividend and recommended a two-for-one stock split, subject to shareholder approval of an increase in authorized shares of common stock.

On this strong foundation, we are now writing the next chapter in the very exciting story of Avon's transformation, building strength on strength. Our bold vision for the future capitalizes on Avon's unique competitive advantage in relationship marketing and on the personal relationships we share with women in every corner of the globe. Looking to the future, your company's continuing transformation will be guided by four important equities, which combined, form a powerful engine for growth.

Our first equity is the power of the Avon brand — always an icon — and now modernized through investments in product innovation, enhanced imagery, advertising and compelling merchandising. In 2003, we were extremely proud that for the third consecutive year, Avon was included in *Business Week* magazine's list of the world's most valuable global brands — the highest ranked beauty company on this prestigious list. Avon's beauty sales last year grew 15%, outpacing the industry as we continued to build beauty market shares.

the Women's Choice for Buying ❖ the Premier Direct Seller ❖ the Best Place to Work ❖

The record \$75 million launch of *Anew Clinical* is an example of our brand strategy in action, solidifying our lead in anti-aging skin care. We have also finalized plans for a comprehensive renovation of color and fragrance beginning in late 2004, including a very exciting alliance with renowned actress Salma Hayek, who will serve as spokesperson for both these categories. And very important, we have affirmed our continuing commitment to leadership in beauty innovation with the groundbreaking of our \$100 million state-of-the-art research and development facility in Suffern, New York — appropriately, the home of our founder. Avon's brand was further enhanced in 2003 by the growth of our health and wellness business and by the launch of *Mark*, our new brand for young women. Both are significant opportunities for Avon to reach new customers and Representatives.

Our second equity is the unmatched power of our channel and the earnings opportunity we provide to women, which helped increase the total number of active Avon Representatives 12% to 4.4 million in 2003. Our earnings opportunity is a considerable competitive advantage as we rapidly expand Avon's presence in both new and emerging markets around the world. China and its vast consumer population remains our largest long-term opportunity. Near-term, Central and Eastern Europe is on track to reach \$1 billion in sales by the end of 2004, with Russia, in particular, growing at extraordinary rates.

In the United States, Sales Leadership — Avon's multi-level marketing initiative — is further enhancing Avon's earnings opportunity by enabling women to earn through selling *and* recruiting and training others. Because of Sales Leadership, the U.S. over the past three years has added a record number of new Representatives to its sales force following a decade of flat-to-low growth. Based on this success, Sales Leadership is rolling out in 2004 in Avon's leading markets around the world to power continuing growth in our direct selling channel.

the Largest Women's Foundation ❖ the Most Admired Company ❖

Our third equity is the power of our global operating model, which we are leveraging more aggressively as we move beyond our entrepreneurial roots to become a more efficient global company. In 2003, we made substantial progress with regional integration, harmonizing our products and marketing, consolidating manufacturing and introducing integrated supply chain planning. We also developed a long-term blueprint for a true global supply chain, including a unified worldwide technology platform. This continuing evolution of Avon's operating model has helped increase Avon's operating margin to its current level of 15.2%, and will be a key factor in achieving our operating margin goal of 20% within the next three-to-five years.

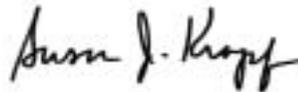
Our fourth equity is the power of our philanthropy, which continues to express our passionate commitment to corporate social responsibility and service in the communities where we do business. While most companies engage in philanthropy, Avon has broken all records in terms of corporate support in the fight against breast cancer — raising an unprecedented \$300 million by the end of 2003. But we're not stopping here. As we look ahead to the 50th anniversary of the Avon Foundation next year, our dream is to create the world's largest-ever foundation for women. This means broadening our support for causes that improve women's lives and leaving a lasting social legacy.

In closing, there is one final equity — perhaps our most important equity — and that's the power of Avon's people: our 46,000 associates and our 4.4 million Representatives around the world. This truly amazing team of committed individuals is without doubt the most important key to Avon's success. We also want to recognize Avon's valued Board of Directors for another year of committed service and outstanding leadership and guidance. And we want to acknowledge you, our Avon shareholders, for your unwavering faith in the potential of our great company. As we look forward to celebrating Avon's 120th anniversary in 2006, Avon's star is shining more brightly than ever. Our journey of transformation continues. We have bold, exciting dreams for the future, and we're on a mission to improve women's lives. For Avon, truly, the best is yet to come.



Andrea Jung
Chairman and Chief Executive Officer

March 1, 2004



Susan J. Kropp
President and Chief Operating Officer

Our Vision  To be the company that best understands and satisfies the product, service and self-fulfillment needs of women – globally.

Avon's financial story

Financial Highlights

In millions, except per share data

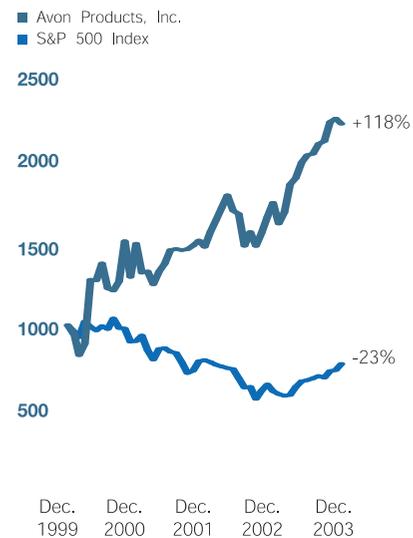
Years ended December 31	2003	2002	Change
Net sales	\$ 6,804.6	\$ 6,170.6	10%
Net income	\$ 664.8	\$ 534.6	24%
Basic earnings per share	\$ 2.82	\$ 2.26	25%
Diluted earnings per share	\$ 2.78	\$ 2.22	25%
Cash flow from continuing operations	\$ 745.3	\$ 565.4	32%
Year-end closing stock price (dollars)	\$ 67.49	\$ 53.87	25%

2003 net income includes a benefit of \$2.7 million, or \$0.01 per diluted share, for an adjustment to the special charges recorded in 2002 and 2001.

2002 net income includes \$25.2 million, or \$0.10 per diluted share, for special charges related to the Company's Business Transformation initiatives.

2000–2003 Cumulative Total Return

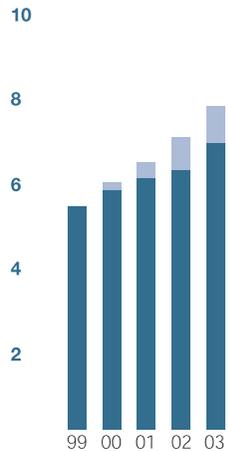
Assumes \$1,000 invested 12/31/99, and dividends reinvested.
In dollars



Net Sales—Constant vs. Actual U.S. Dollars

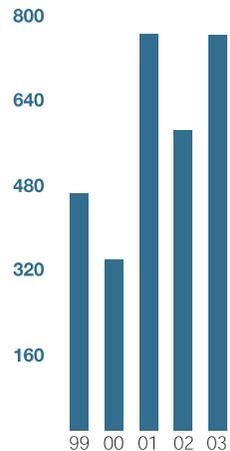
\$ In billions Base year = 1999

■ Net Sales, Constant U.S. Dollars (excludes currency translation)
 ■ Net Sales, Actual U.S. Dollars

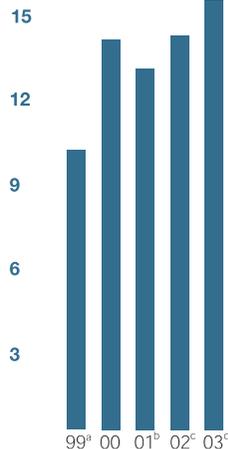


Cash Flow from Operations

\$ In millions



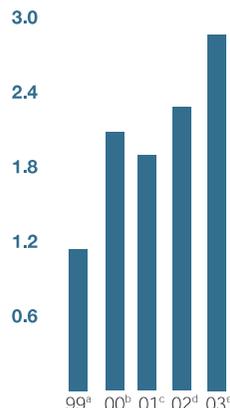
Operating Margin %



^a 1999 includes special charges of (3.3 points)
^b 2001 includes special charges, Sears settlement of (1.3 points)
^c 2002 includes special charges of (.6 point)
^d 2003 includes a benefit from an adjustment to the 2001 and 2002 special charges of .1 point

Earnings per Diluted Share from Continuing Operations

In dollars



^a 1999 includes special charges of (\$.52)
^b 2000 includes net gain of \$.14, primarily from an income tax refund
^c 2001 includes net loss of (\$.24) from special charges, Sears settlement, Argentina tax settlement; see pages 31-32
^d 2002 includes special charges of (\$.10); see page 32
^e 2003 includes a benefit of \$.01 for an adjustment to the 2001 and 2002 special charges; see pages 31-32

Avon's financial performance, as reflected in the accompanying charts, highlights the company's sustained ability to deliver solid results over the long-term. And as you'll read in the feature pages that follow, we believe that our strategies will continue to transform the company and unleash an era of breakout growth.

Unleashing
 Growth

Biggest
skin care
launch
ever

Building Powerful Brands 3

Anew Clinical Line and Wrinkle Corrector, Avon Double Impact Lipcolor, Avon Solutions Cellu-sculpt Anti-Cellulite Slimming Treatment and the fragrance *Treselle* were big sellers in 2003 as women responded to the continuing transformation of the Avon brand. *Anew Clinical Line and Wrinkle Corrector*, for example, became our best skin care launch ever, with sales of more than \$75 million. Breakthrough anti-aging technology and proof-positive results delivered outstanding consumer value, even at a higher price point than earlier Avon skin care innovations.

Another winner was *Avon Solutions Cellu-sculpt Anti-Cellulite Slimming Treatment*, with its breakthrough formula for attacking cellulite and slimming thighs. *Cellu-sculpt* had sales of more than \$65 million in its first year. In the fragrance category, *Treselle* posted launch sales of \$52 million and became Avon's most successful fragrance introduction ever. "Super-hit" products like these boosted beauty sales by 15% in 2003, and we're looking to unleash even more growth in beauty brands in the years to come.

We're taking our world-renowned beauty image . . . adding exciting product innovation and marketing . . . supported with higher investment in R&D, product packaging and brochure upgrades . . . to drive stronger sales and profit margins for our highest-potential global beauty offerings.



“Pennies do not
come from heaven
—they have to
be earned here
on earth.”

—Margaret Thatcher



Boosting Representative Productivity

We're also continuing the transformation of our direct selling channel by recruiting more Avon Representatives, and by helping them increase their earnings and productivity. Our key strategy is Sales Leadership, a multi-level earnings path for career-minded Representatives that has revitalized our U.S. direct selling channel. Today, almost two-thirds of our U.S. sales force is recruited by Leadership Representatives, who earn bonuses on the sales of those they recruit, train and motivate.

We're now working to replicate the U.S success in international markets. In 2003, we established a global Leadership framework based on key learnings from the U.S. experience, along with "best practices" developed by Avon markets for prospecting, recruiting and training. This year, we're fine-tuning the global Leadership template for rollout to more than a dozen major markets, including Brazil, Mexico and the U.K., with more to come in 2005. We're also working to help our Representatives stay longer, sell more and earn more. Leadership, Beauty Advisors, e-enabled Representatives and other career paths give our Representatives flexible options for growing their businesses. We're also investing aggressively in training, service, technology and brand-building to further support the business goals of our Representatives.

Avon Representatives are the lifeblood of the company, and the higher their sales and earnings, the higher Avon's sales and earnings.

“
Pleasure in
the job puts
perfection
in the work.”

–Aristotle

Transforming Our Business Processes

The fuel for building powerful brands and boosting Representative productivity is the power of our Business Transformation initiatives, especially our “next-generation” supply chain strategy.

Avon sells millions and millions of products all over the world through our Avon Representatives, and the links of our global supply chain are complex. Our goal is to simplify supply chain processes and speed-up how we create, develop, market and ship products.

In 2003, we completed a global blueprint for ensuring that supply chain efficiencies are included from the very start of the product development and marketing processes. This means that supply chain functions such as demand forecasting, sourcing, manufacturing, order fulfillment and logistics are closely linked with marketing functions like product design, product development and merchandising. In 2004, we'll be launching the global blueprint in our regions to guide implementation, and to help our regional supply chains tie in to the global framework. We'll also be supporting this next-generation supply chain with evolving plans for a new worldwide technology platform that will further unleash the efficiency and productivity of our global operations.

We expect the benefits to be significant. Not only will we have lower costs; our Representatives and their customers will enjoy improved and speedier customer service.



Reaching New Customers ❖

Our plans to unleash growth include introducing Avon to new customer segments. Enter *Mark*, an exciting Avon global brand launched in the U.S. in August 2003 for the next generation of women who are making their “marks” in the world. Honors for *Mark* so far include “Best New Brand of the Year” by *CosmoGirl* magazine and a “Beauty Award for Product Innovation” from *Cosmopolitan* magazine. *Women’s Wear Daily/Beauty Biz* magazine also cited *Mark* as “Best Executed Launch Strategy of the Year.”

Mark is the only beauty brand that gives young women “lip gloss with an earnings opportunity.” *Mark* offers innovative, customizable products and a direct selling experience that offers more earnings potential than other available jobs. Avon is also reaching new customers around the world with our health and wellness business, which grew 20% in 2003 and generated sales of approximately \$250 million. Health and wellness now is reaching scale, and we’re looking for further growth by offering new products and services that address women’s appreciation of inner and outer beauty.

The Hispanic marketplace is another fast-growing new customer opportunity, especially in the U.S. We offer a customized Spanish language brochure, supported by special events and promotions created for Hispanic women. In addition, the Avon earnings opportunity has great appeal for Hispanic women.

“The world is
the sum total
of our vital
possibilities.”

– José Ortega y Gasset

Expanding in High-Potential Markets ❖

High-potential markets will continue to be dynamic opportunities for unleashing long-term growth.

In China, for example, where government regulations require us to sell from fixed-access locations, sales in 2003 grew 20% to \$157 million. Our market penetration in China is vast, with over 5,500 Beauty Boutiques across the country – at least one in every province. These stores are supplemented by 1,600 Beauty Counters in malls, shopping centers and hypermarkets in major cities. We expect these fixed locations to become the hubs of a new direct selling business model when the government, as expected, re-allows direct selling.

Russia is one of Avon's fastest growing markets, with sales in 2003 soaring 70% to \$241 million. Our research shows that Avon is Russia's number-one beauty brand, and we now have 197,000 active Avon Representatives serving Russian women.

Our growth potential in Russia is as vast as the country itself. We plan to expand beyond our current base to embrace new customers in Eastern Siberia and the Far East. To meet the growing consumer demand, we've started construction of a new manufacturing plant near Moscow that will serve both Russia and the markets of Eastern Europe, beginning in late 2004. Other high-potential markets include Turkey, a strategic gateway for further new market expansion, and Vietnam, which we plan to enter in 2004.



“The price of
greatness is
responsibility.”

– Sir Winston Churchill



Corporate Social Responsibility and Business Ethics

Over a century ago, Avon's founder established principles to guide our company, including "to meet fully the obligations of corporate citizenship by contributing to the well-being of society and the environment in which it functions." Today, this and other founding principles continue to define our character as a company known for exemplary corporate citizenship.

For example, our Avon Foundation since 1955 has supported education and empowerment programs that improve the lives of women and their families. The Foundation also has, through its Avon Breast Cancer Crusade, awarded over \$300 million – more than any other company – to breast cancer organizations worldwide for education and early detection programs, and for finding a cure for this deadly disease. As another example, we are establishing a Corporate Social Responsibility Council, chaired by our chief executive officer, to address important social responsibility topics, and to ensure that Avon's actions always align with our principles.

In addition, Avon is committed to ethical business behavior. Our Code of Business Conduct and Ethics ensures that all Avon associates act according to the highest standards of integrity and corporate responsibility. We're also honored to have appeared for four straight years on the *Business Ethics* magazine annual list of "The Best 100 Corporate Citizens," and to be included among *Fortune* magazine's survey of "America's Most Admired Companies."

AVON North America

	\$ Millions	Change from 2002	Operating Margin
Net Sales	\$2,526.8	3%	
Operating Profit	\$ 425.9	(4%)	16.5%

Global Review



The North America region, which primarily includes the U.S., Canada, Puerto Rico and the Dominican Republic, posted a 3% sales increase and a 4% decline in operating profit in 2003.

The U.S., which accounts for some 90% of the region's sales in dollars, generated a 3% sales gain, 3% growth in active Representatives and a 9% advance in beauty sales, driven by skin care and personal care. *Mark*, the company's new brand for young women, contributed 1% of the U.S. sales growth. Sales Leadership continued to fuel U.S. recruiting, as the number of active Representatives grew to nearly 480,000. In addition, the number of Leadership "upline" Representatives advanced 55% to 39,000, indicating the importance of Sales Leadership in the continuing transformation of U.S. direct selling.

The U.S. also progressed with plans to increase Representative training and support, including a new reporting system due to launch in early 2004 that will enable upline Leadership Representatives to help their downline Representatives increase their sales and order activity in real-time.

U.S. operating profit in 2003 was flat with prior-year, and operating margin declined by 70 basis points to 18.6%, versus the record 19.3% margin in 2002. The operating margin decline resulted from higher incremental investments for the launch of *Mark* and increased advertising, higher-than-anticipated customer service expenses in the fourth quarter, and higher pension expenses.

The region continued to make progress with Business Transformation, including the closure of a manufacturing facility and increased product line harmonization across the U.S, Canada, Puerto Rico and the Dominican Republic.

Brian C. Connolly, Executive Vice President and President, North America

AVON Europe

	\$ Millions	Change from 2002	Operating Margin
Net Sales	\$1,607.2	31%	
Operating Profit	\$ 313.4	50%	19.4%



The Europe region once again delivered robust results, powered by accelerating gains in sales and operating profit and region-wide initiatives in sales, marketing and supply chain transformation.

Sales grew 31% for the year, and sales in local currencies rose 19%, driven by 14% growth in units and a 20% increase in active Representatives. The markets of Central and Eastern Europe were significant contributors, with sales and operating profit gains of 38% and 52%, respectively. By year-end, sales in those markets totaled \$752 million, and are expected to near \$1 billion in 2004, one year ahead of schedule.

Russia — Avon's fastest growing market — posted sales of \$241 million in 2003, a dramatic increase of 70%. Avon is the number-one beauty brand in Russia, and in 2003 continued expanding across the country and opening new distribution centers to provide greater access to products. Russia also broke ground for a manufacturing facility that will open in late 2004 to support the rapid beauty growth in Russia and Avon's markets in Eastern Europe.

Also noteworthy in 2003 was the buy-out of Avon's joint-venture partner in Turkey, which increased the region's sales by \$47 million and added two points to unit growth. Turkey has sales potential of at least \$75 million in 2004 alone, and is a strategic gateway to the markets of the Middle East and Central Asia.

Operating margin in Europe in 2003 advanced 250 basis points to 19.4%, driven by gross margin improvement in nearly all markets in Central and Eastern Europe and continuing Business Transformation benefits in the region, including lower product costs and supply chain improvements.

Robert Toth, Executive Vice President, International
John F. Owen, Senior Vice President, Europe, Middle East and Africa

AVON Latin America

	\$ Millions	Change from 2002	Operating Margin
Net Sales	\$1,747.2	6%	
Operating Profit	\$ 406.3	12%	23.2%

Despite challenging economic and political circumstances in some markets and the impact of foreign currency exchange, the Latin America region posted profitable growth in 2003.

Local currency sales and operating profit rose 15% and 21%, respectively, with most major markets delivering double-digit local currency sales gains, including Venezuela, Argentina, Mexico and Brazil. The sales growth was driven by healthy increases in the number of active Representatives in most major markets, along with strategies for building the Avon brand, boosting market penetration, and increasing Representative orders. As a result, local currency sales of beauty products for the region climbed 18%.

Active Representatives across the region rose 12% year-over-year, with significant increases in Argentina and Venezuela. In addition, Mexico and Brazil — the region's two largest markets — posted healthy Representative growth and launched pilots for implementing a Sales Leadership opportunity based on the global framework that is being rolled-out to Avon markets. Early indications in Mexico and Brazil are promising and indicate the potential for enhanced Representative earnings and incremental order growth as the program advances in 2004.

Operating margin in Latin America expanded by 140 basis points to 23.2%, as major markets such as Mexico, Argentina, and Venezuela benefited from improved product mix and cost savings from supply chain initiatives related to the company's Business Transformation program. Avon Mexico, for example, generated an operating margin improvement of 350 basis points due to the move to a lower-cost distribution center in Celaya and the related sale of a property in Mexico City. In addition, the planned move to Celaya in 2004 of Avon Mexico's manufacturing operations should generate further efficiency benefits for both the market and the region.

Amílcar Melendez, Senior Vice President, Latin America



AVON Asia Pacific

	\$ Millions	Change from 2002	Operating Margin
Net Sales	\$ 923.4	11%	
Operating Profit	\$ 156.6	17%	16.7%



The Asia Pacific Region had another solid year in 2003, with almost all major markets delivering healthy growth. Sales in dollar terms rose 11%, and excluding the impact of foreign currency exchange, were up 7%. The overall sales growth was driven by an 11% increase in active Representatives and 2% growth in units.

China posted sales of \$157 million, up 20% and in line with our growth goal. Avon China sells in over 5,500 Beauty Boutiques and 1,600 Beauty Counters. China plans to add 500 Beauty Boutiques annually as we continue to penetrate this market and prepare for the resumption of direct selling at a later time. The outbreak of SARS impacted results in China and Taiwan in the second quarter. For the full-year, SARS reduced the region's net sales and unit growth by two percentage points; however, there was no significant impact from SARS in the second half of the year.

Japan, the region's largest market, continued its recovery and the revitalization of its direct selling model. Sales increased significantly mainly due to foreign exchange and growth in active Representatives, driven largely by an increase in direct mailings to consumers.

The region's overall operating profit increased 17% in dollars and 13% in local currency terms as higher gross margin resulted in almost 100 basis points of operating margin expansion. Solid contributions in gross margin from most major markets, along with supply chain savings related to the company's Business Transformation initiatives, helped drive the gains.

Bennett R. Gallina, Senior Vice President, Asia Pacific