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AVON

Annual
Report for
1981

"We are here to give the very best service we can to the Representative; we are her only contact when she needs help. But accounting, packaging, shipping—really everyone at the Company—must always put the Representative first. If we ever stop doing that, it will be a sad day for Avon."

Iva Weber works in Representative Service at Avon's Branch Distribution Center in Morton Grove, Illinois. She is Avon's longest-term employee, having joined the Company 46 years ago, in March 1936. Iva began working with Avon in New York when it was still known as the California Perfume Company. In 1947, she moved to Chicago, where she was one of eight people who opened what was known then as the Great Lakes Branch Office. Her feelings about Avon after all these years? "It's never dull," she says. "It's been my life."

To Our Shareholders:

Avon's consolidated net sales in 1981 reached a record $2.61 billion, an increase of 2% over 1980 sales of $2.57 billion. Although consumers faced increasingly difficult economic circumstances in the United States during the year, domestic sales improved compared with 1980. The substantial strengthening of the U.S. dollar, however, negatively affected our International performance. The number of active Representatives worldwide increased 2% to 1,280,000 at year-end.

Net earnings for the year were $219.9 million, a 9% decline from 1980 earnings of $242.1 million. Earnings per share were $3.66, compared with $4.02 in the prior year. Financial results for 1980 and 1981 reflect the adoption of SFAS 52, which concerns the accounting for the translation of foreign currency financial statements. The unfavorable impact of foreign currency fluctuations, primarily in Latin America, penalized net earnings by 61¢ per share, compared with a negative effect of 33¢ per share in 1980.

United States

Representatives' sales of cosmetics, fragrances and fashion jewelry in the United States increased 4% to $1.22 billion. The number of U.S. Representatives rose 2% to 435,000, and their average orders improved slightly, despite a decline in customer service, the average number of customers served by each Representative.

We continued to implement the program that was begun in 1980 to reduce the average size of Representatives' territories from 150 to 100 households, and the change will be completed during early 1982.

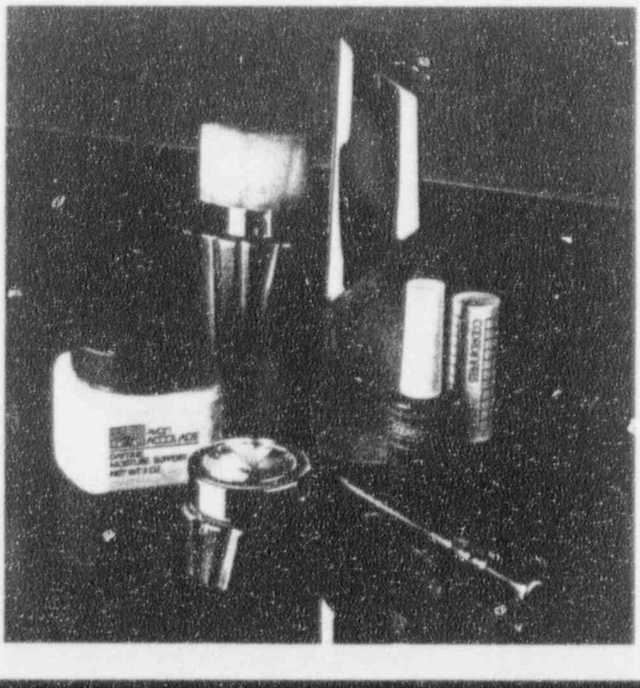
"Opportunity Unlimited," an innovative new field operations program that had been in test for some time, was further refined during 1981 in preparation for its national launch in 1982. It constitutes the most significant change in the way we operate since the two-week campaign was introduced in 1968. The program adds to Avon's field structure a new level of independent contractor, the Group Sales Leader. With Opportunity Unlimited, Group Sales Leaders will be able to increase their Avon earnings significantly by volunteering to help District Managers recruit and motivate other Representatives.

Under the Opportunity Unlimited program, every district will have about ten Group Sales Leaders, each of whom will be a member of a team consisting of 20 to 30 Representatives.

The sales results in Opportunity Unlimited's test divisions are excellent, and reflect substantial improvements in all of the most important indices of field sales performance, particularly the number of Representatives and their customer service levels. We have every confidence that these results will be replicated as we introduce Opportunity Unlimited across the country.

Another new program for Representatives that is still under study is the Higher Earnings Plan, a graduated system whereby the amount

Left: Members of the Office of the Chairman: (right to left) David W. Mitchell, Chairman of the Board and Chief Executive Officer; William R. Chaney, President; James E. Preston, Executive Vice President and President of the Avon Division. Right: These new cosmetics and fragrances contributed to the strong gain in U.S. standard line beauty product sales in 1981.



that a Representative earns on sales (usually an average of about 40% of the recommended customer price) increases as her dollar volume rises. This and other programs in various stages of testing and development are designed to enhance the earning opportunity for Representatives, making it more appealing to those who are better motivated and more effective in their sales efforts.

Product Line

A weakening economy, as well as changing trends in fashion, affected consumer-buying patterns in the United States during 1981. Consumers continued to seek greater value and product performance for their money and to make fewer impulse purchases.

Standard line beauty products and gift and decorative items enjoyed sales gains of about 10% and 5%, respectively, compared with 1980. Fashion jewelry sales, however, declined.

Contributing to the gain in standard line was the spring introduction of *Odyssey*, a striking new fragrance that achieved sales of over $20 million at retail in its first month. In the fall, we launched *Toccara*, the world's first renewable fragrance, and sales at retail in its month of introduction were over $25 million. *Fragrance Pencils*, a unique new product form, were introduced in six popular Avon scents and were one of the year's most successful products. The strong performance of our fragrance line during 1981 led to a gain in market share of this important category. In makeup, *Colortwists* offered a range of shades in lipsticks, eye shadows and blushers in an elegant slender applicator. Introduced during the third quarter, *Colortwists* is one of the most successful makeup products ever launched by Avon.

Our gift and decorative line was broadened to include more home decorative art items and collectibles, and the sales results contributed to the gain in this category. The *Chesapeake Collection* for men and the *Mother's Day Plate* were two of the year's outstanding introductions.

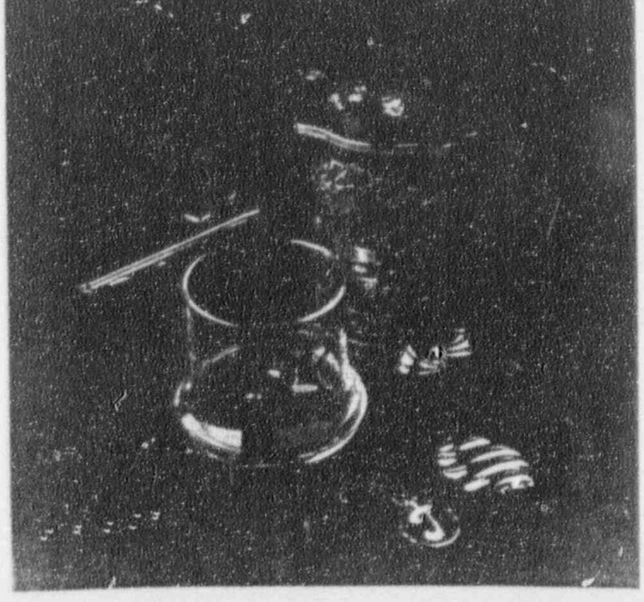
Sales of fashion jewelry softened considerably during 1981 versus the prior year, in line with industry trends. During the year we expanded the line to include personal accessories such as purses, wallets, key cases, pill boxes and pens. For the most part, these new items were well accepted, and we plan to add more fashion accessories in 1982.

International

International sales of cosmetics, fragrances and fashion jewelry rose during 1981 when measured in local currencies. But because of weaker currencies abroad and unsettled economic conditions in some of our major foreign markets, reported sales declined 3% to $1.20 billion. The number of Representatives increased 2% to 845,000.

In Europe, the strength of the dollar against the major European currencies had a severe impact on our results. For the year, sales were off by 17%. Although the number of Representatives declined below 1980 levels early in the year, recruiting and other programs that were implemented during 1981 contributed to better

Right: Some of the unique gift and decorative and fashion jewelry items introduced in 1981.



relative comparisons at the close of the year. Marketing programs in Europe proved to be very effective, especially in view of the sluggish economic conditions that prevailed. Customer service was maintained at the high levels achieved in 1980.

Sales in Latin America increased 6%, reflecting the impact of continuing currency devaluations in Argentina and Brazil. Representative growth continued at a satisfactory rate, and customer service levels remained the highest in the world.

In the Pacific, Canada and Africa, sales rose 10% during 1981. In Japan, by far the largest market in the Pacific region, we are continuing to emphasize recruiting, and are strengthening our field management organization by hiring additional Managers and helping them to improve their leadership and motivational skills.

Smaller countries in Africa, such as Senegal, Ivory Coast and Liberia, had mixed results for the year. In Nigeria, we have gained a great deal of knowledge about local marketing strategies, pricing, product line needs and field operations matters. Although it will require some patience to develop its potential, Nigeria, with over 80 million people, remains a very attractive market for Avon.

During 1981, we ceased Representative sales in Hong Kong, since the potential for achieving profitable operations there was too limited to warrant continuing.

Avon Representatives are presently selling in 31 countries. In 1982, we plan to begin operations in Colombia, Peru, Portugal and Taiwan. The combined populations of these four countries total 75 million.

Profit Margins

Consolidated gross profit margin narrowed compared with 1980, reflecting more competitive pricing strategies in the United States and abroad. Although careful control over expenses was exercised worldwide, the increasing cost of operations overseas also brought pressure on margins. As a result, consolidated operating profit margin was lower for the year.

Capital Expenditures

Capital expenditures totaled $114.2 million in 1981. Current plans call for spending approximately $100 million during 1982.

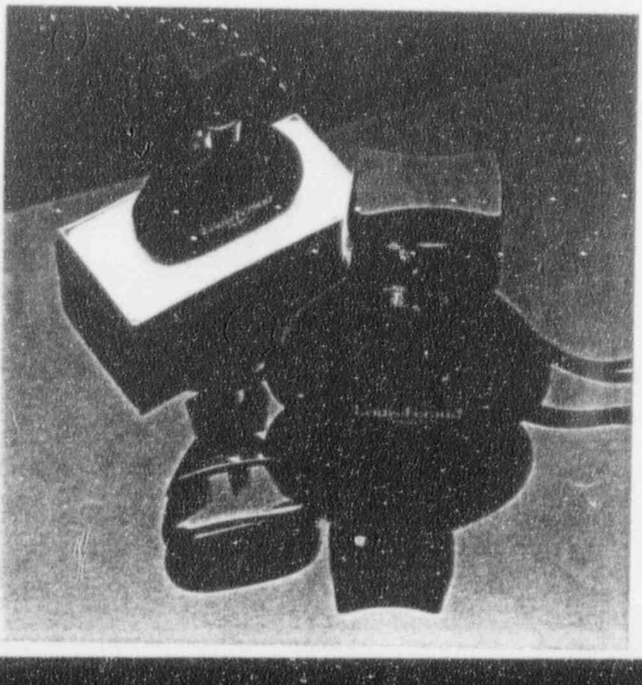
Tiffany & Co.

Although Tiffany's 1981 rate of sales growth slowed compared with its outstanding performance in 1980, sales increased to over $100 million. The designer jewelry business continued to be strong, but demand softened for silver flatware and precious gems.

Avon Fashions, Inc.

Avon Fashions continued its excellent record of the past four years. Sales exceeded $80 million, and operating profit increased substantially. This performance is attributed to a greatly improved customer response rate resulting from effective market segmentation techniques, a merchandise mix of broad appeal and an expanding customer list.

Right: Avon's first designer fragrance, Fantasque, by Louis Féraud, was introduced in Europe. Sales far exceeded those of any previous European fragrance launch.



Mallinckrodt, Inc.

For some time now, we have been seeking to broaden Avon's business beyond direct selling of beauty and fashion products by entering new markets that will supplement Avon's long-term growth potential. Because of its high growth rates, its generally non-cyclical nature and its compatibility with our existing product lines, the health care industry has been a principal focus of our effort to diversify.

On December 15, we announced the signing of an agreement with Mallinckrodt, Inc. for the merger of Mallinckrodt with Avon. This transaction has been approved by the boards of directors of both corporations, and is subject to approval by their shareholders. It is expected that the merger will be completed on March 8 of this year.

Headquartered in St. Louis, Missouri, Mallinckrodt develops, manufactures and markets medical, diagnostic and other health care products, specialty chemicals and flavors and fragrances. The company has 30 manufacturing plants here and abroad, wholly or jointly owned. Mallinckrodt's net sales in 1981 were $494.4 million, and net earnings were $39.7 million.

Mallinckrodt has enjoyed uninterrupted growth in sales and earnings from its continuing businesses for the past 18 years. Over the last 11 years, net earnings have increased more than sevenfold, while sales have more than quadrupled. This exceptionally strong and consistent record of sales and earnings growth reflects the excellent position Mallinckrodt has achieved in its key markets.

We are delighted to be joining forces with a company of Mallinckrodt's quality and reputation. Its experienced management and broad-based knowledge of health care and specialty chemicals will form a solid foundation for Avon's further expansion in these fields. This expansion will be achieved by supporting the internal development of Mallinckrodt's established businesses as well as through related acquisitions.

Management

In November, an important change in Avon's management structure was announced. An Office of the Chairman was created, consisting of David W. Mitchell, Chairman of the Board and Chief Executive Officer, William R. Chaney, President, and James E. Preston, Executive Vice President.

Separate divisions were established to manage our three business segments: the traditional Avon business, Tiffany and Avon Fashions, with the President of each division reporting to the Office of the Chairman. In addition to his post as Executive Vice President and member of the Office of the Chairman, Mr. Preston was named President of the Avon Division. Anthony D. Ostrom will continue to serve as President of the Tiffany Division, and Robert B. Fry remains President of the Avon Fashions Division.

In addition to sharing the overall management of the Company within the Office of the Chairman, Mr. Chaney will concentrate on the development of Tiffany and Avon Fashions,

Right: Avon Fashions' growing reputation for quality and fashion at attractive prices led to another record year.

and will oversee corporate planning, personnel and administration.

When the merger with Mallinckrodt has been completed, Raymond F. Bentele, President and Chief Executive Officer of Mallinckrodt, will become an Executive Vice President of Avon Products, Inc., and will join the Office of the Chairman. He will continue as President of Mallinckrodt. Mr. Bentele and Harold Thayer, Chairman of Mallinckrodt, will join Avon's Board of Directors.

We believe that this new structure will allow us to devote the necessary management time and attention to each of Avon's important business segments, and to capitalize fully on opportunities for continued growth and expansion.

Outlook for 1982

As we enter 1982, we recognize that the year will have its share of challenges, resulting in particular from the recession in the United States and the continuing economic uncertainty in some of our major markets abroad.

Nevertheless, we believe that our field operations, marketing and product programs worldwide are appropriate for the current climate, and that satisfactory results will be achieved.

Two events of great importance to Avon's long-term growth will take place during 1982. First is the national launch of Opportunity Unlimited, which will become the foundation for a strengthened and expanded field operations structure. Secondly, we will be welcoming Mallinckrodt into the Avon family, thereby adding a new dimension to our business.

As always, our strength and confidence in the future are solidly based on our ample resources, most notably the 34,000 loyal and talented people of Avon. In this annual report, you will find profiles of 12 people who broadly represent the rich variety of skills, functions and personalities that have contributed so much to Avon's growth. We hope that you will find it of interest.

Sincerely,

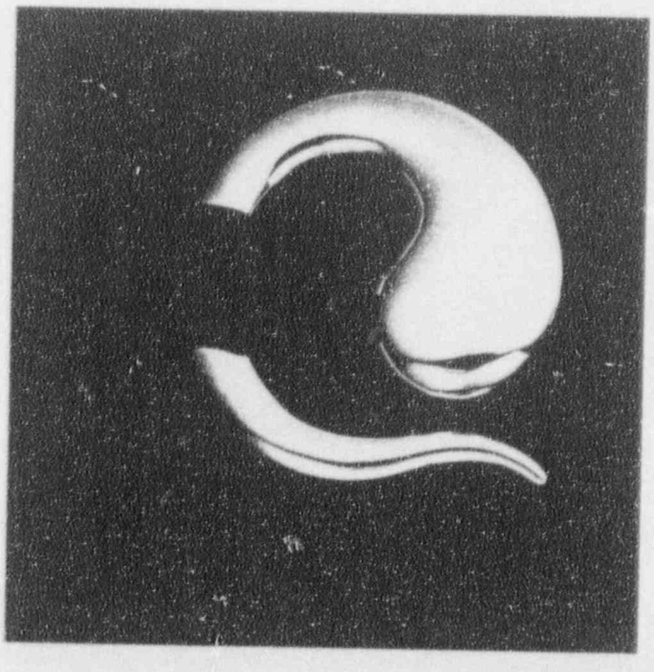
David W. Mitchell
Chairman of the Board and
Chief Executive Officer

William R. Chaney
President

James E. Preston
Executive Vice President

March 1, 1982

Right: Sales of Tiffany's designer jewelry were strong during the year. This unique belt buckle in sterling silver was designed by Elsa Peretti.



The People of Avon

Rosemary Mitchell's Avon career began 12 years ago when she became a Representative. Her youngest child was only three at the time, but she explains, "I felt as though I had been taking care of babies all my adult life, and I wanted to do something else. I guess I wanted to be liberated just a little bit, and my mother suggested Avon.

"Money was not my major concern—it was the need for something to do in addition to my responsibilities to my family," she says. "I loved being a Representative, and was good at it."

But two years later in 1970, she was offered a position as a District Manager. She accepted it, even though it meant relocating to McAllen, Texas from her home in Longview, Texas. "My husband was very supportive," she comments. "He is a CPA and told me that I had moved so often because of his career that this time we would move for mine."

Because of the size of her district—she has 300 Representatives—and the fact that 85% are Spanish-speaking, Rosemary holds three sales meetings instead of one: one in English, one bilingual and one completely in Spanish. On average, about two-thirds of the Representatives in her district attend the meetings.

"Holding three meetings is a chore, but you better believe it's productive," she says. "It's one of the most profitable days of each campaign.

"For many of my Representatives, just as it was for me, money is not the most important thing," she adds. "Knowing that they're doing their best at something and being recognized for it makes them feel good—and it makes them want to keep selling."

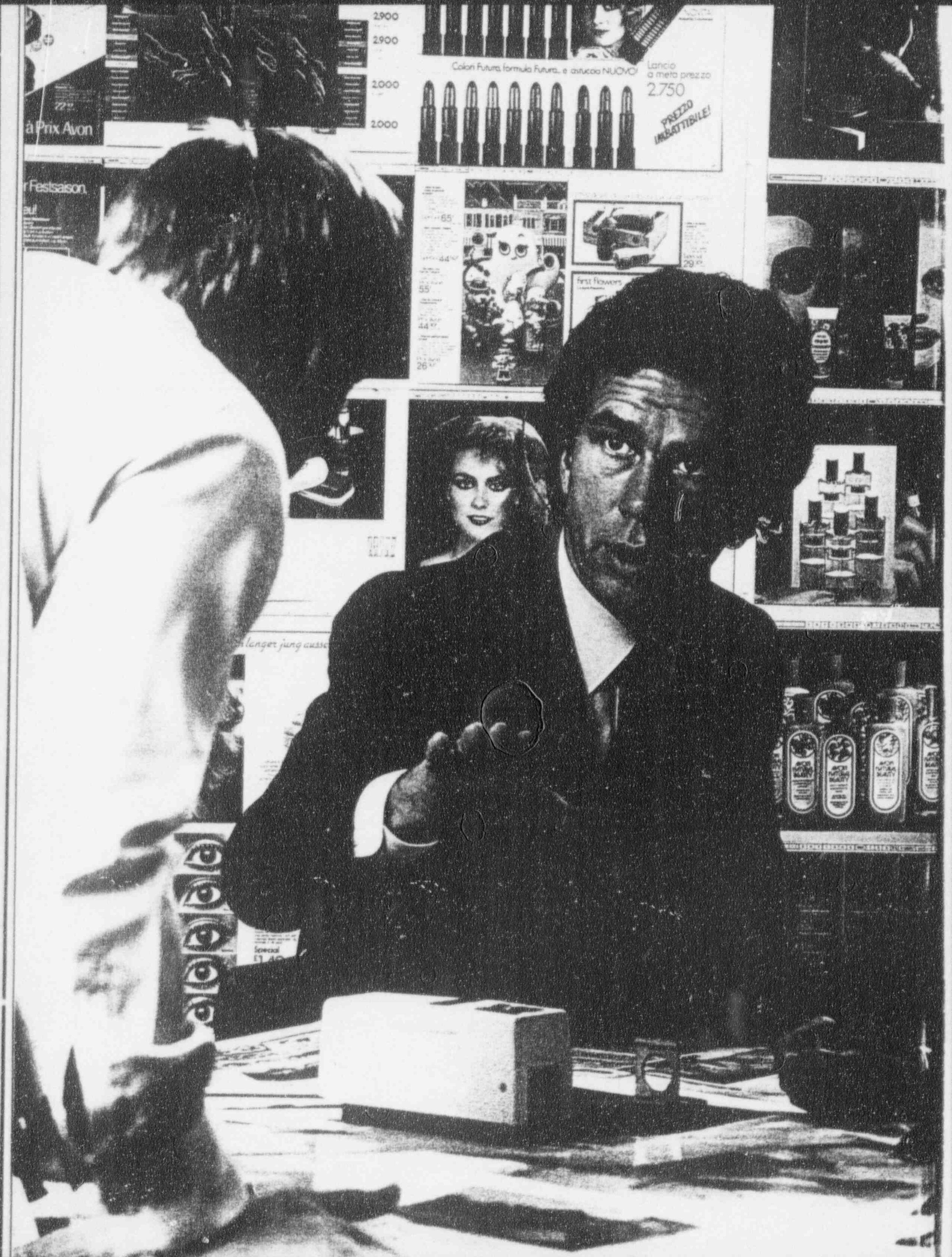
Rosemary is very proud of the fact that seven of her better Representatives have gone on to become District Managers—and that six of the seven have become members of Avon's Circle of Excellence, the top 10% of Managers in the United States.

She herself has been a Circle of Excellence member eight times, and for 1981 achieved membership once again.

"I most enjoy the people part of it," she says. "I love working with people and helping them develop themselves."

"For many of my Representatives, money is not the most important thing. Knowing that they're doing their best at something and being recognized for it makes them feel good—and it makes them want to keep selling."

Opposite page: A former Representative herself, Avon District Manager Rosemary Mitchell of McAllen, Texas enjoys appointing new Representatives.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à Prix Avon
Colori Futura, formula Futura... e astuccio NUOVO!
Lancio
a metà prezzo
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PREZZO
IMBATTIBILE!
Festsaison,
First Flowers

Opposite page: Producing almost 100 million sets of sales literature annually in eight languages is a challenge for Wilfried Wagner and his group of graphic arts specialists at Avon's European Marketing Center in London.

"Our biggest challenge in Europe is producing—18 times a year—eight separate versions of the campaign literature, error free and on time."

Wilfried Wagner was born in Germany and spent his youth in Hamburg. Following apprenticeship and technical schooling at the Academy of Graphic Arts in Munich, he joined Avon 13 years ago as a Print Production Specialist.

As Director of Print Production for Avon Overseas Limited (AOL), Avon's European Marketing Center in London, he oversees a group of graphic arts professionals who produce 93 million campaign brochures in eight languages every year.

"When I was at school, the idea of setting common standards for print production throughout Europe was strictly a theoretical goal. Today those standards are a reality, and I'm very proud that Avon has contributed greatly to this movement.

"Our biggest challenge in Europe is producing—18 times a year—eight separate versions of the campaign literature, error free and on time," he says. "Our unique demands forced us to take the lead in encouraging our printers to adopt common standards.

"What standardization does is make us completely independent of any specific vendor. This way we can buy printing of a defined quality anywhere in Europe simply by looking at a printer's equipment list."

Wilfried is very proud of his group of specialists at AOL and puts great emphasis on team effort.

"What we have here is a team of highly skilled people who really know their particular disciplines," he says. "This is critical in dealing with printers, because we have always believed that we, as the buyer, should know as much about printing as the printers themselves."

Wilfried values the freedom his group has been given by Avon management to adopt the latest in printing technology.

"There is a lot of trust in the ability of teams like ours to keep abreast of new developments and bring them into the system.

"Our printing needs are as complex as anyone's," he adds. "And when any new technology becomes feasible, you can be sure that Avon will be among the first to adopt it."

After graduating from Tokyo Pharmaceutical College and working in advertising and the importing and exporting business, Kaede Endo spent a year with another direct-selling company before joining Avon.

"It was because of that experience that I learned to like direct selling. When I saw an ad for Avon, I answered it because I thought that working with the biggest company in the field would offer more opportunities to advance."

And advance she did. Starting as a Zone Manager ten years ago, she was later promoted to Division Manager responsible for a division on Hokkaido, Japan's northernmost island.

In October of 1980, she became the first woman to be named a Regional Sales Manager at Avon Japan. Today, "Endo-san," as she is known, is responsible for eight divisions and 169 Zone Managers who cover geographically almost half the country. Spread across the northern part of Japan, her area is lightly populated, with agriculture and fishing the principal occupations.

Endo-san sees her greatest challenge as motivating the Representative who is in the middle level. "The top producers are easy to motivate. For the ones who sell very little, there is not much you can do. But those in the middle—who do reasonably well—they are the ones you can encourage and help to do better."

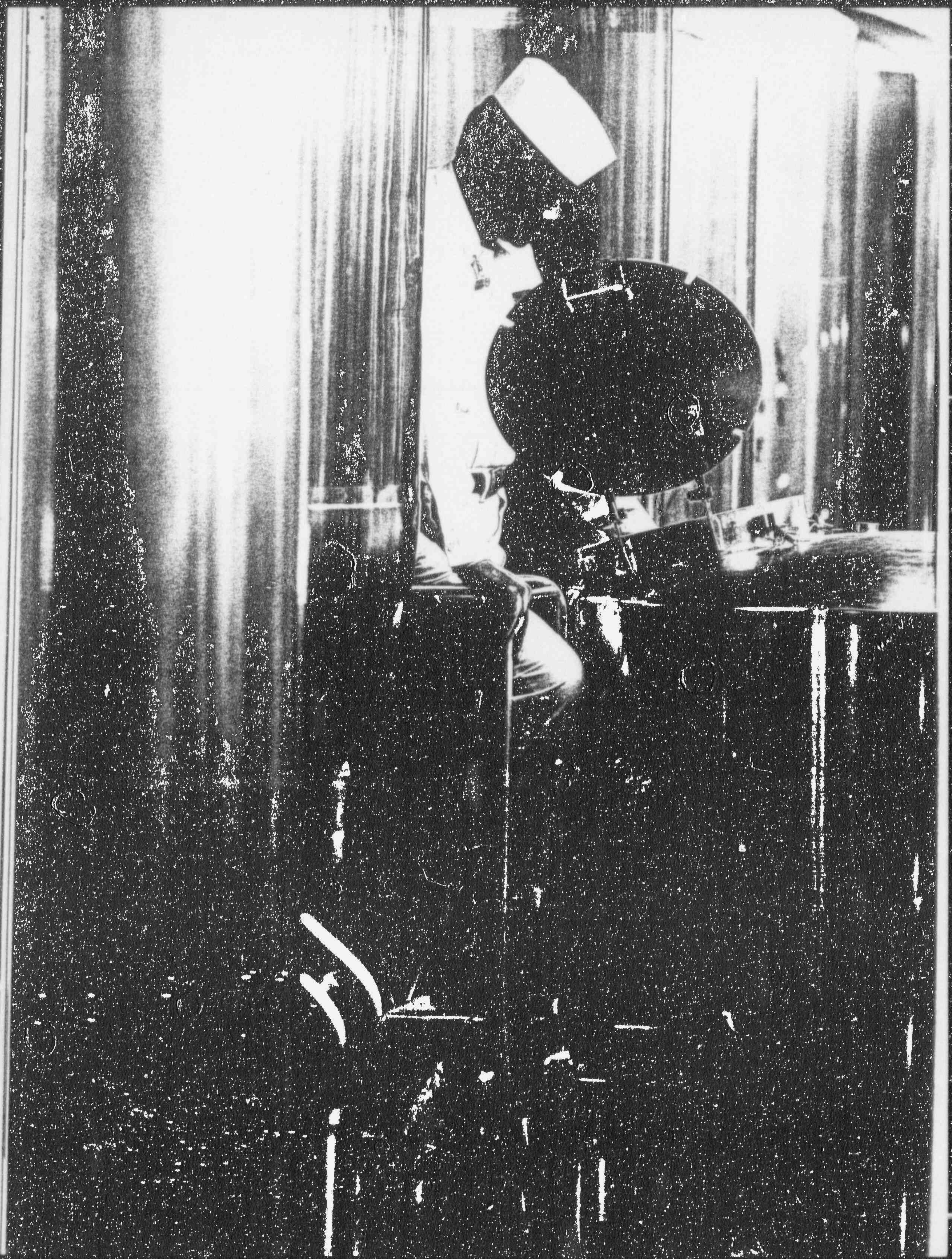
For seven years, Endo-san was Avon Japan's National Beauty Adviser, and she is keenly aware of the importance of product knowledge to Japanese Representatives.

"Japanese women are very well educated about cosmetics. They know how to apply them and what forms are most flattering. We have to make sure that Zone Managers can teach product knowledge to Representatives so they will have the confidence to sell effectively."

She views her role as a female executive of a multinational company operating in Japan as somewhat of a breakthrough. "There is still some resistance to women in management," she says. "But this is changing, and I expect that when the younger generation grows up, women will play a more active and influential role in Japanese business life."

"Japanese women are very well educated about cosmetics. We have to make sure that Zone Managers can teach product knowledge to Representatives so they will have the confidence to sell effectively."

Right: A Regional Sales Manager in Japan, Kaede Endo is responsible for eight divisions in the northern part of Japan.



Opposite page: At Avon's Springdale, Ohio manufacturing laboratory, Eli Watson works in the Processing Department where basic chemicals are mixed to make finished ingredients.

"The microbiology labs and the quality control people are all very tough—they never let anything go. I respect that because I wouldn't want anything to reach a customer that wasn't 100% right."

To Eli Watson, seeing an Avon product and knowing that he had a role in producing it is a very good feeling.

"There's real satisfaction in seeing an Avon lotion or shampoo in someone's home and thinking 'I might have made that.' "

A processor at Avon's manufacturing laboratory in Springdale, Ohio, Eli joined the company in 1965. After working as a materials handler for a year, he joined the Processing Department where basic chemicals are mixed to make finished ingredients.

"When you're in the Processing Department, you have to watch what you're doing—you're under a great deal of pressure," he says. "If you put 500 pounds of an ingredient into the wrong batch, you've got a problem.

"But it is really satisfying to combine ingredients and watch them mix and change. You can look and tell right away if it's right."

Eli was one of the original employees when the Springdale facility was opened in 1965. "Just watching this place grow and knowing that I was one of the first here makes me feel good."

He has a high regard for Avon's quality standards. "The microbiology labs and the quality control people are all very tough—they never let anything go. I respect that because I wouldn't want anything to reach a customer that wasn't 100% right.

"I like knowing that I work for the largest cosmetics company in the world," he says. "Our business has to keep growing because we're meeting human needs. People may stop buying cars, but I don't think they'll ever stop buying cosmetics."

Eight years away from retirement, Eli already knows how he will spend his time. "I love fishing in Michigan and working on old cars.

"I have a 1947 Cadillac and a 1951 Packard that I restored to perfect condition. In fact, I could get in the Packard this afternoon and drive to California and back," he says with obvious pride.

"Avon is a wonderful place to work," he adds. "I've been here for 17 years and have never been laid off. That's something to be appreciated if you stop and think about it."

Eugenio López started working with Avon Mexico 23 years ago when he was 17 years old and just out of high school.

"I began in Finance and later worked in practically every department of the Company," he says. "And each time I did something new, I thought *that* was the best!"

Today, he is one of two Group Sales Managers for Mexico, Avon's largest foreign market.

"Being in field sales is like a bonus, a premium for having worked with Avon for so long," he says. "I love the variety that one has in the field, but most of all, I enjoy the contact with my 14 Division Managers and the Zone Managers.

"The most important thing in life is to enjoy your work," he says. "If you do, you transmit good feelings to others, and this is essential to effective direct selling."

Eugenio has very definite ideas about managing people. "To be able to manage people, you have to really like them and be highly motivated yourself. It's the same all over the world."

He is proud of Avon's success in Mexico and believes that the challenge in the years ahead will be to attract even better Representatives.

"Avon's coverage in Mexico is excellent," he comments. "We are in every small town and village, as well as in the big cities.

"Because our market coverage is so good, in the future we will have to pay more attention to the quality of people and not the quantity. We need to increase Avon's appeal to better Representatives and higher income customers."

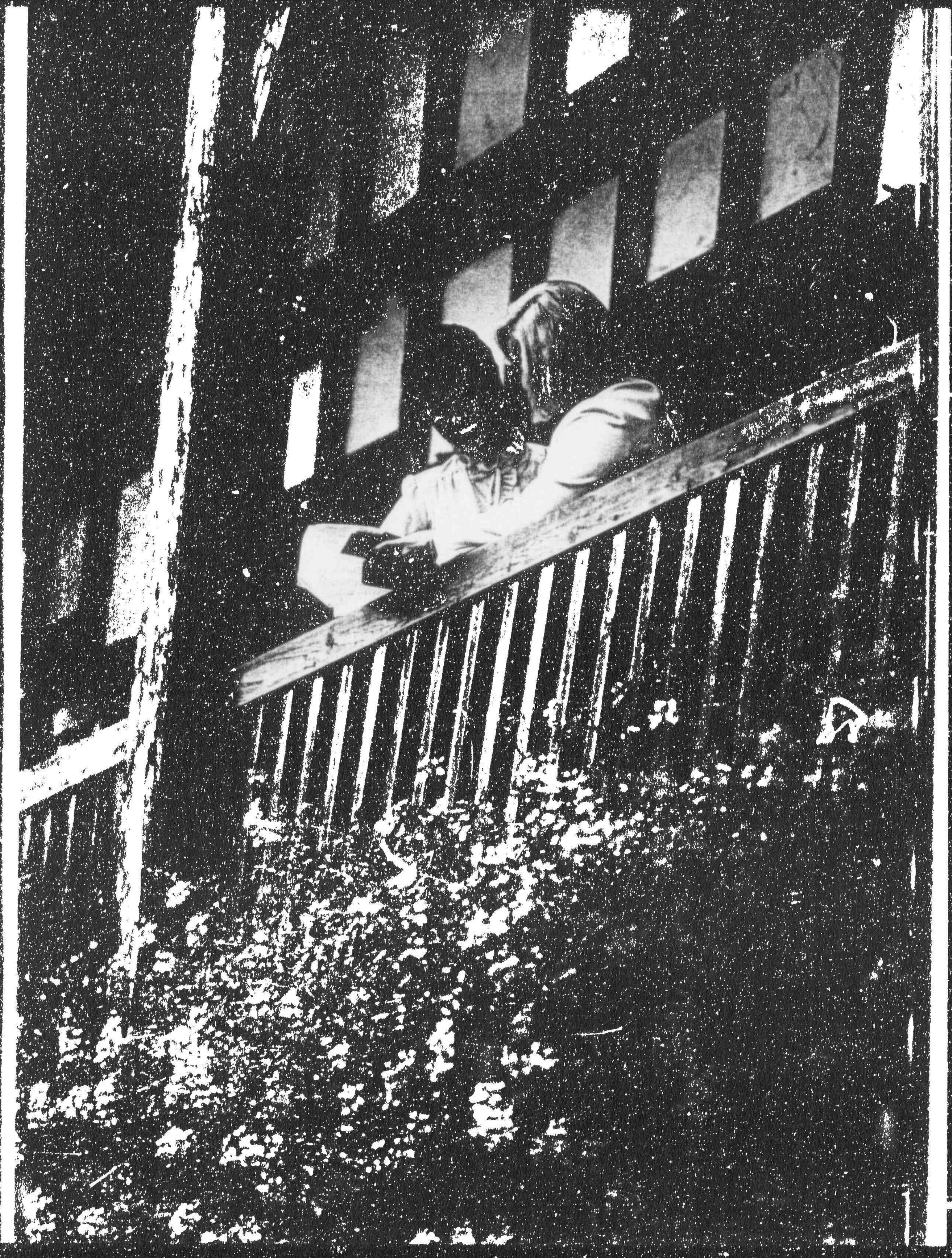
He points out that 65% of Mexico's population is under 25 years of age. "We are a very young people and a very young country. As the younger generation's buying power increases, we will have many opportunities to create new products that are attractive to them.

"When I started at Avon Mexico, there were 30 people in total, and today, there are about 2,000. It was a very small family, and now it is a very big one. But despite its growth, we still maintain our close feelings for one another. It's a very friendly environment.

"I've done everything at Avon: gone to school, met my wife, got married, had children. I have been very lucky," he concludes.

"In the future we will have to pay more attention to the quality of people and not the quantity. We need to increase Avon's appeal to better Representatives and higher income customers."

Right: Eugenio López is one of two Group Sales Managers in Mexico, Avon's largest market outside the United States. Here he meets with Division Managers in the city of Puebla.



Opposite page: Former Representative Yvette Marechal is today a Zone Manager responsible for the largest zone in France.

"Becoming a member of the Circle of Excellence and going to New York two years in a row was a dream I thought would never happen— but it came true, and I hope to do it again."

A native of Marseilles, Yvette Marechal joined Avon in 1977 as a Zone Manager after being a Representative for six years.

Her zone is the largest in France, covering an area 225 miles long and 50 miles wide. Known as "Les Landes," the region is essentially rural, and is famous for its splendid pine forests and its goose liver pâté.

She drives an average of 2,500 miles per month in her blue Renault, visiting her 204 Representatives. She loves the activity but says, "My zone is so big that I cannot always do all the things I want to do."

Mme. Marechal became a Representative after her children had grown up because she wanted to meet people and develop interests outside her home.

"I was just another bored woman in my village," she says. "But when I became a Representative, it changed everything for me."

Now as a Zone Manager, she views appointing new Representatives as her favorite part of the job. "I like to sell the Company," she says, "convincing others that Avon offers an opportunity to do what I did."

Popular with her Representatives and admired by them, Mme. Marechal enjoys holding sales meetings. "Although many have to travel great distances, usually about 60 of my Representatives come to the meeting. This is a great compliment to me, and I enjoy very much being with them."

She believes strongly in the motivating effect of group competition and she encourages it. "Representatives respond best when they are winning as a team, not as individuals," she says. "They like to measure their own efforts against those of other teams."

Mme. Marechal has clearly been successful in motivating her group of Representatives. In 1978 and 1979, she was a member of the Circle of Excellence, which ranked her among the top 10% of Zone Managers in France.

"Becoming a member of the Circle of Excellence and going to New York two years in a row was a dream I thought would never happen—but it came true, and I hope to do it again."

Walter Biel was one of the original employees when Avon began operations in Chile in 1978. A native of Santiago, he studied chemical engineering at the University of Santiago and later obtained his graduate degree in business. Prior to joining Avon, he was the chief engineer for the largest textile plant in Chile.

As Director of Branch Operations, one of Walter's primary responsibilities is the delivery of orders to Chile's 8,000 Avon Representatives, no later than seven days from the time they are received.

A country of 11 million people, Chile is 3,000 miles long and only 200 miles wide at its broadest point. "Maintaining a turnaround time of less than seven days in a country this large and with the difficult geography we have in Chile is a real challenge," he says. "We may have to use ferry boats to reach islands off the coast, and half-track vehicles in some areas too rough for our vans to reach—but we rarely miss our deadline."

In Chile, Representatives' orders are gathered at central collection points and flown to Santiago where the orders are processed and filled.

"Every campaign is a challenge," he says. "And everyone works to make each one a success. There is a very strong team spirit here."

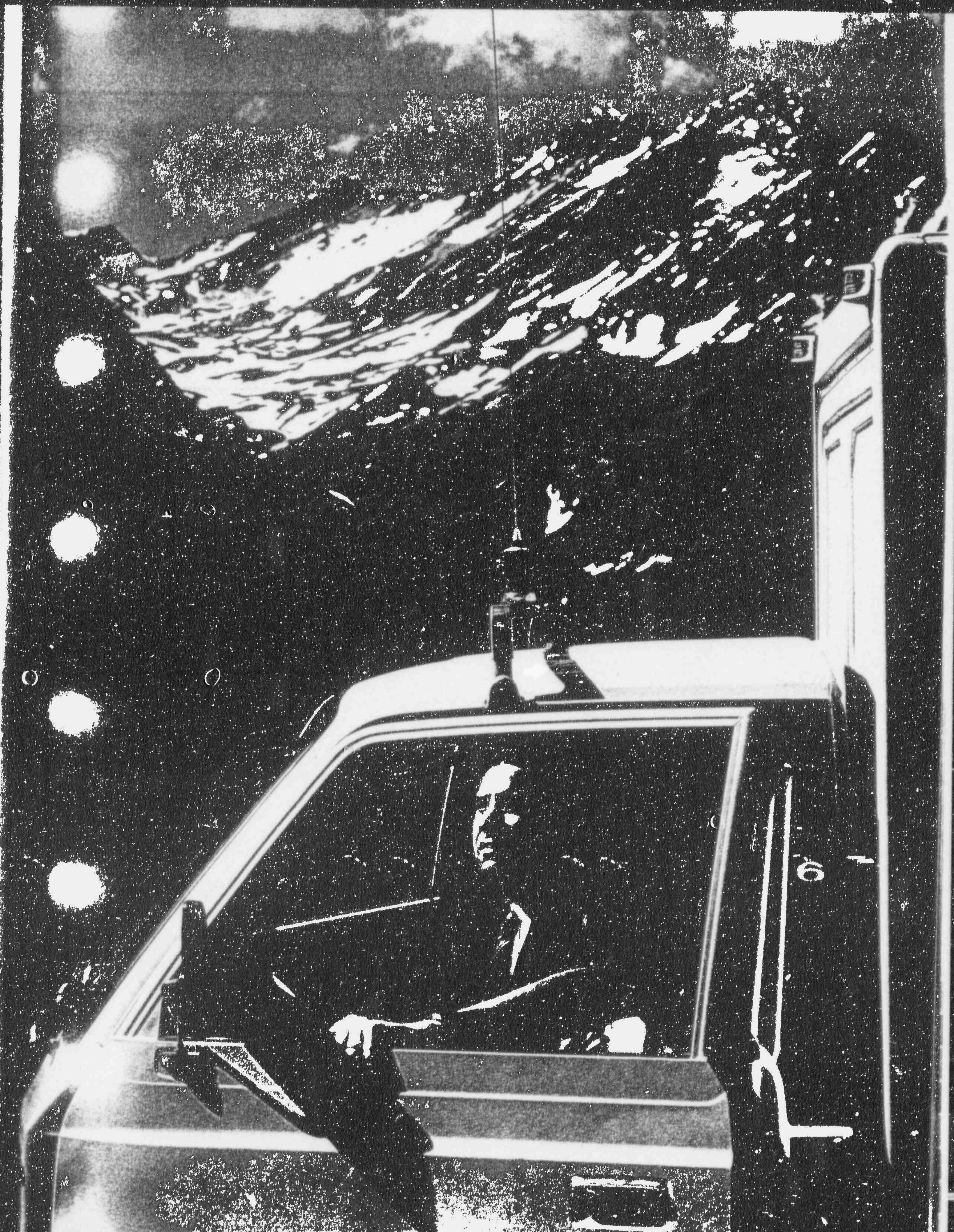
In four years, Chile has become one of the fastest growing and most successful of Avon's International markets. "The reasons why Avon has done so well here are, first, our door-to-door selling system; second, the quality of our products; and third, the Avon Guarantee. The Guarantee appeals to both Representatives and customers because it means that there's no risk in selling or buying Avon products.

"Avon can look forward to many years of excellent growth in Chile," he adds. "Right now, we sell primarily in bigger towns, but we are working on achieving greater coverage in rural areas. As we become better known and introduce techniques that have worked well in other markets, our business will continue to grow.

"We make the effort, and the Company provides the system. That's how we succeed."

"Maintaining a turnaround time of less than seven days in a country this large and with the difficult geography we have in Chile is a real challenge—but we rarely miss our deadline."

Right: Chile's difficult geography makes planning delivery schedules and routes a challenge for Walter Biel, Director of Branch Operations.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Opposite page: Connie Waters buys almost 40% of the apparel sold by Avon Fashions. Here she helps prepare a model for catalog photography.

"In every catalog, we offer a good range of fashion basics, but we're not afraid to try new concepts with color and style. We do fun things that can really take off and make your season a big success."

Connie Waters was born in Detroit and raised in Lansing, Michigan. After graduating from Michigan State University, she went to New York as a management trainee with a major retailer and catalog house, where she later became its Assistant Fashion Director. She then spent a year at a leading Fifth Avenue department store before joining Avon last year.

As one of two Product Managers for sportswear, Connie purchases nearly 40% of the apparel that Avon Fashions sells.

"One of the reasons that I joined Avon Fashions is that it has really captured a corner of the market that no one else has—namely the young, contemporary working woman," she says. "We offer fashions with up-to-the minute flair and good quality, at affordable prices."

The average Avon Fashions customer is between 18 and 35 years of age. Approximately 60% of the customer base works full-time; half are married and have children. "These women are bank tellers, receptionists and secretaries—not executive women, but not blue collar either," she says. "They are looking for quality as well as the latest trends.

"Many of our customers use our catalogs as they would a fashion magazine," she adds. "And they look forward to each new issue."

Connie believes that catalog operations like Avon Fashions are "really the wave of the future. The catalog comes to the home and the customer can shop at her leisure, without the hassle of parking, crowded stores and impersonal service. It's a great time-saving convenience.

"In every catalog, we offer a good range of fashion basics that sell year after year," she adds. "But we're not afraid to try new concepts with color and style. We take a chance every season and do fun things that can really take off and make your season a big success.

"Every single order is treated with a great sense of responsibility," she says. "We jump hoops around here to make sure customers will want to shop with us again.

"You never know what's going to be a hit," she says. "That's what makes this business so exciting!"

Born and raised in Denver, Colorado, Donna Brooks attended Tennessee State University and California State University at Hayward.

"In school, I majored in elementary education. My father, who was a very strong figure in my life, had wanted me to teach. But I realized that I really wanted to pursue a career in business instead. So prior to leaving school, I studied different industries, and the cosmetics field appealed to me the most," she says.

After completing her education, she joined another direct seller of cosmetics in the Denver area, and was later transferred to Atlanta. "I recruited and trained the largest sales force the company had in Georgia," she says. "But I wanted to be with number one, and everyone knows that in the cosmetics business, Avon is it!"

Hired as a District Manager by Avon in 1974, she was assigned to an inner-city market in Atlanta. In 1977, after a brief period as an Operations Supervisor at the Atlanta Branch—and time off to have her second daughter—Donna was offered a promotion to Division Manager covering North Florida.

"I love a challenge, and that certainly was one. I was to be the first black female Division Manager at the Atlanta Branch—and the area that I was offered in North Florida was not your most progressive when it came to racial attitudes. But I had studied the market and the growth potential, and I felt it was worth it, so I accepted."

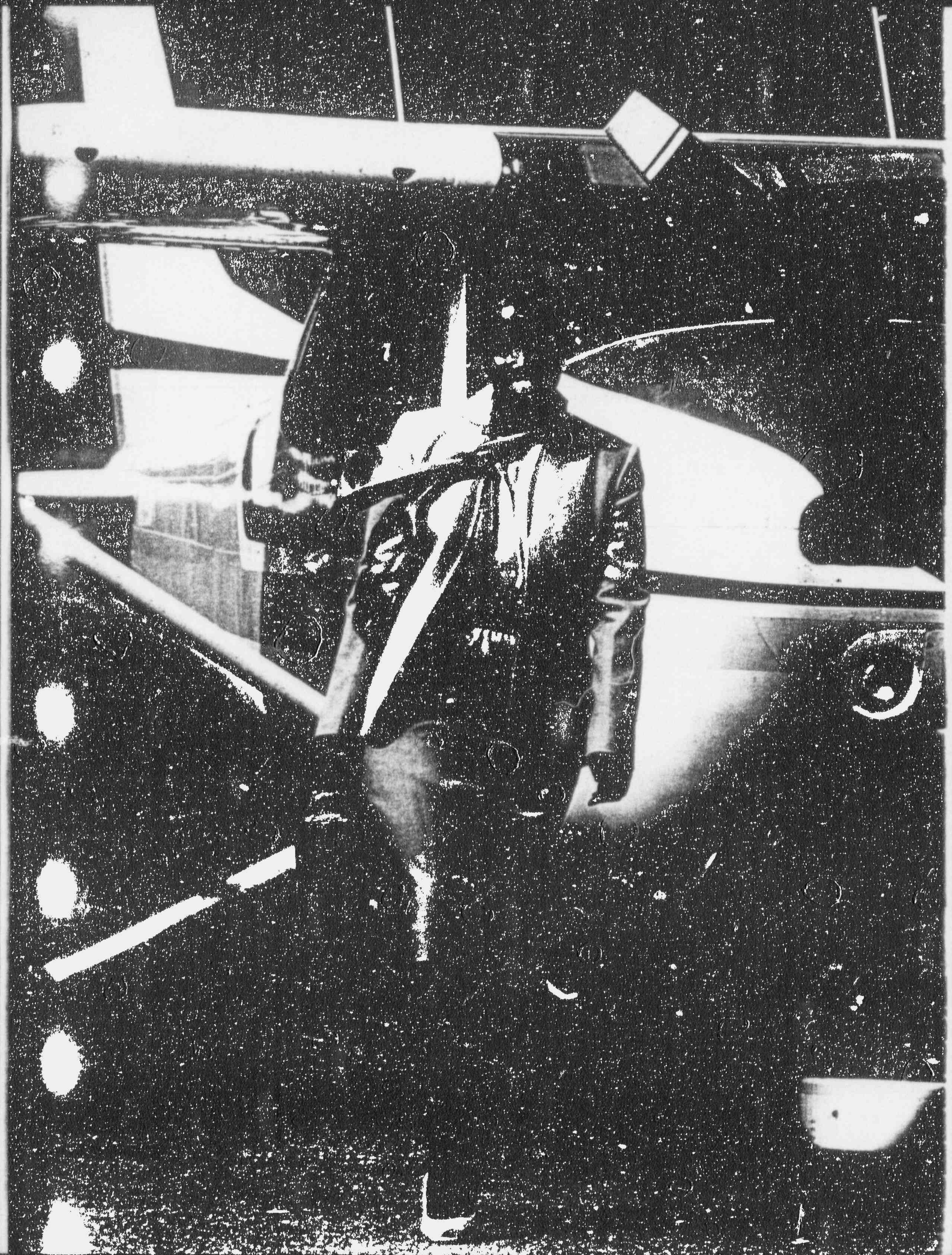
Donna's division was later expanded to include parts of southern Georgia. Today, it extends from north of Savannah, Georgia to south of Jacksonville, Florida.

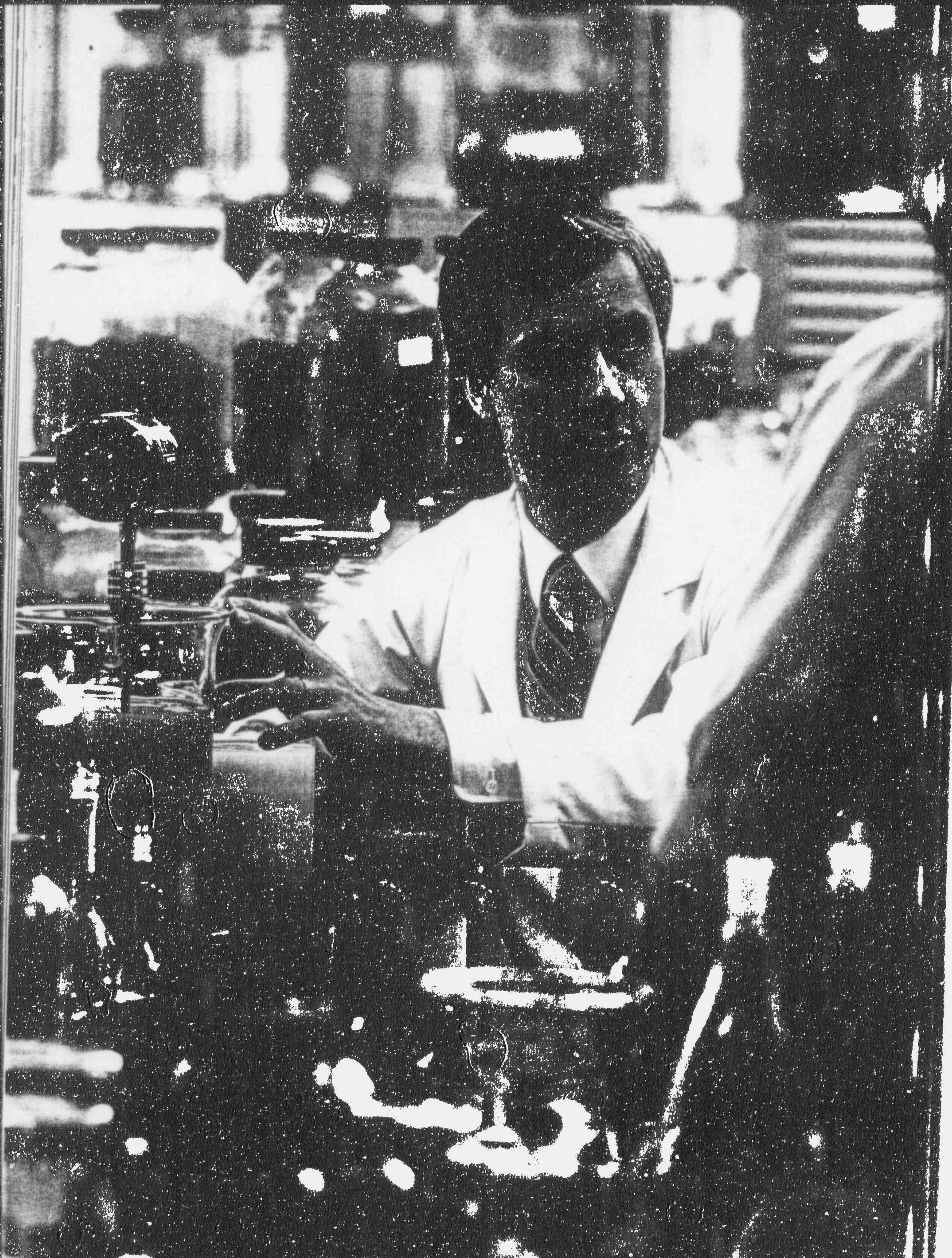
"I have real Avon country," she notes. "It's very rural, mostly farmers growing peppers, onions, peanuts and soybeans. And there are coastal areas where you find shrimpers and fish camps. I even have Representatives who visit their customers by boat."

Consistently among the top Division Managers in sales performance at the Atlanta Branch, she says, "In 1978, I led the Branch with over a $2 million sales increase. I haven't been number one since then—but I'm going to do it again!"

"I have real Avon country. It's very rural, mostly farmers growing peppers, onions, peanuts and soybeans. And there are coastal areas where you find shrimpers and fish camps."

Right: Because of the size of her division, Atlanta Division Manager Donna Brooks often uses air taxis to maintain her schedule of meetings with her District Managers.





Opposite page: At Avon's Research Center in Suffern, New York, Dr. Paul Fehn provides scientific support to the Company's product development and manufacturing operations.

"What we do has a tremendous impact on the amount of enthusiasm a Representative generates when she's selling to a customer. Her confidence in our products has a very positive effect on how well she sells."

A native of East Orange, New Jersey, Paul Fehn graduated from Washington and Lee University in Virginia. After working with three pharmaceutical firms in research pharmacology and with a management consulting firm as a specialist in the health care field, he joined Avon in 1977 as Manager of Scientific Regulatory Affairs. Along the way, he also obtained his MS and PhD degrees in human biology and an MBA degree in management and marketing.

Today, as Director of Product Safety Support at Avon's Research Center in Suffern, New York, Paul puts to good use his practical experience and extensive academic training.

"My departments are charged with totally supporting, in a scientific sense, product development and manufacturing at Avon," he explains. "One of our key responsibilities is to prepare the processing standard for each new Avon product—in effect the 'recipe' to be used in producing that product throughout the world. We also ensure that proper microbiological controls are applied in all our manufacturing systems, so that the highest levels of product purity can be maintained."

Although the functions that his departments perform are largely scientific in nature, Paul does not see his role as isolated from the mainstream of Avon's business.

"If a laboratory is not getting the desired result when mixing chemicals, we'll talk them through the problem on the phone," he says. "It is imperative that we have these daily dialogues in the interest of getting our products out to the Branches for delivery to Representatives.

"Because of the critical time factor in the way we sell," he adds, "any production delays can be costly in lost sales and lower morale.

"Our role is to assure that we provide the Avon Representative and her customers with the highest quality products that perform properly and are totally safe," he adds.

"What we do has a tremendous impact on the amount of enthusiasm a Representative generates when she's selling to a customer. Her confidence in our products has a very positive effect on how well she sells."

Angela Cummings was born in Austria and came to the United States when she was very young with her mother and father, a German diplomat and scientist.

Returning to Europe when she was 14, she completed the equivalent of high school and then entered the world-renowned Zeichenakademie in Hanau, West Germany, near Frankfurt. There she studied jewelry design, gemology and goldsmithing.

"To me the Tiffany name had always represented the very highest standards of quality and fine design," she says. "When I finished school, I made up my mind that that was where I was going to work."

In what sounds like a fairy tale, Angela returned to New York with her portfolio of designs, showed it to Walter Hoving, who was then Chairman of Tiffany—and was hired on the spot.

"I just knew it was going to happen," she says. "I never really thought of it as luck. It was just meant to be, if that's possible."

Hired to work as designer Donald Claflin's assistant, after five years Angela developed her own collection and became a designer in her own right.

Despite Angela's classical training, her jewelry designs are anything but traditional, drawing from a wide range of sources for inspiration. "Ideas just come to me," she says. "I can be inspired by anything I see. It's very unpredictable. I'm constantly looking for shapes and colors—probably more than most people do."

Noted for her versatility, unique sense of color and bold execution, Angela has taken her craft into many new directions, often combining materials in totally new ways. She has also revived old techniques—such as damascene, the ancient art of inlaying precious metal in iron—and given them new life.

"What is wonderful about Tiffany is that they never worry about whether the market will accept a design. They believe that people will always accept it if it's beautiful—and they always do," she says.

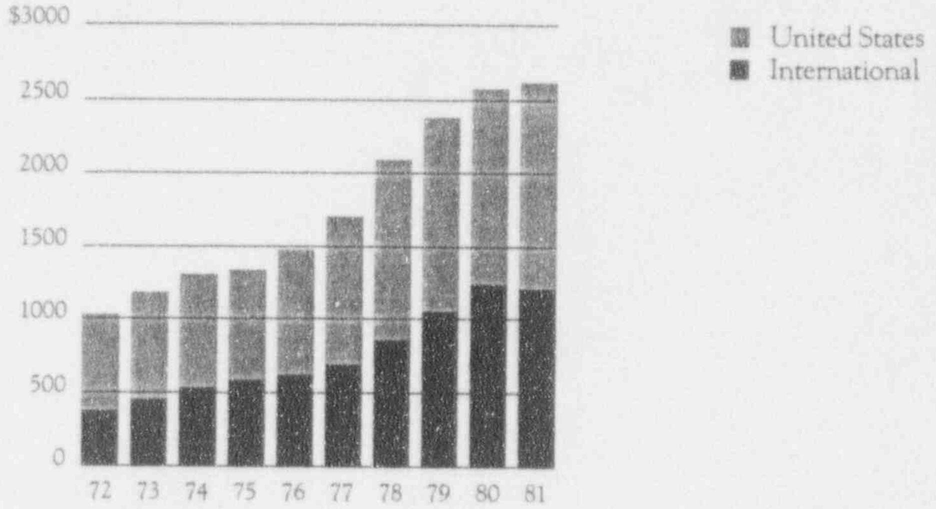
"To me designing is like play," she adds. "I'm doing what I really want and love to do."

"What is wonderful about Tiffany is that they never worry about whether the market will accept a design. They believe that people will always accept it if it's beautiful—and they always do."

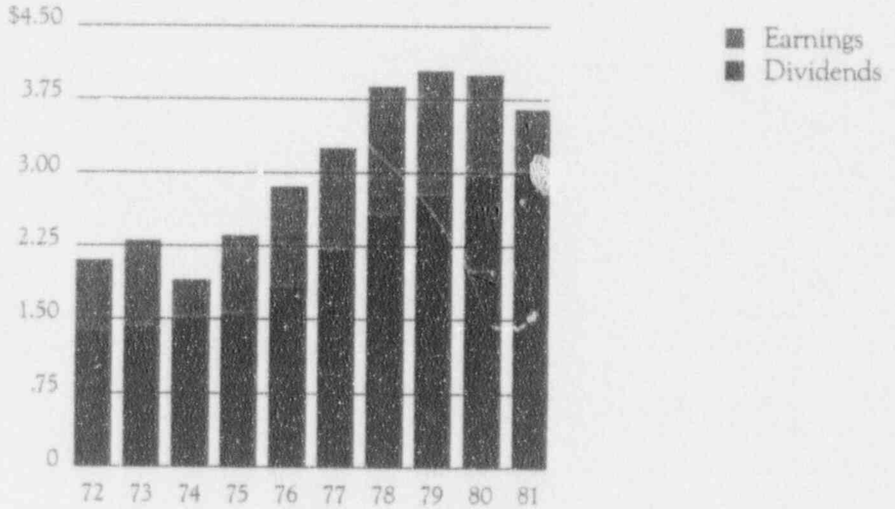
Right: An avid gardener, Angela Cummings often interprets natural themes in her jewelry designs for Tiffany.

Financial Review

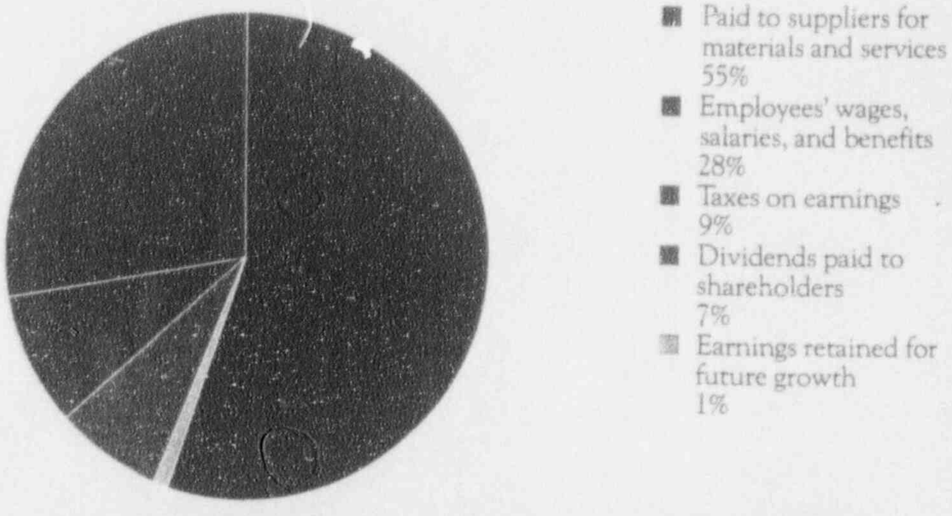
Net Sales
(in millions)



Earnings and
Dividends Per Share



Distribution of the
Avon Sales Dollar—1981



Avon's Business

Avon's two principal industry segments are the manufacture and sale of cosmetics, fragrances and toiletries and of fashion jewelry and accessories. These products are sold directly to customers in their homes by Avon Representatives, following the method used since the Company's founding in 1886. The Company currently sells about 650 products in the United States, Europe, Latin America and other parts of the world. Avon products are offered for every member of the family, although products for women have long been, and remain, of primary importance. Products for women and teenage girls represented about 85% of net sales in 1981. Although the range of products sold in foreign countries is not as extensive as that sold in the United States, most of the products are substantially the same as those marketed domestically. Financial information relating to industry segments and geographic areas is incorporated by reference to the Industry Segment Data note of "Notes to Consolidated Financial Statements" on pages 44 and 45 of this report.

	Year Ended December 31 (in millions)		
	1981	1980	1979
Net Sales of Principal Products			
Cosmetics, fragrances and toiletries:			
Fragrance and bath products for women	$ 783.3	$ 772.3	$ 748.8
Makeup, skin-care and other products for women	812.4	770.7	674.8
Men's toiletry products	192.8	198.7	209.6
Daily-need, children's and teen products	251.3	241.6	213.8
Subtotal	2,039.8	1,983.3	1,847.0
Fashion jewelry and accessories	383.8	425.2	399.2
Other	190.2	160.6	131.3
Consolidated	$2,613.8	$2,569.1	$2,377.5

Cosmetics, Fragrances and Toiletries

The cosmetics, fragrances and toiletries segment includes the following classes of principal products:

Fragrance and bath products for women—30% of consolidated sales
These products consist of perfumes, colognes, sachets, fragrance candles, pomanders, lotions, soaps and powders. They are marketed in a number of fragrance lines, each based on a particular scent and packaging theme.

Makeup, skin-care and other products for women—31% of consolidated sales
These products include such makeup items as lipstick, eye shadow and mascara; skin-care products; nail and hand-care products; and such hair-care products as shampoos, conditioners and brushes.

Men's toiletry products—7% of consolidated sales
These products include cologne, after-shave lotion, shaving cream, talc and soap, in a number of fragrance lines that are based on a particular scent and packaging theme.

Daily-need, children's and teen products—10% of consolidated sales
Daily-need items include deodorants, anti-perspirants, oral hygiene products and such household products as room sprays. Children's and teen products include fragrance products and novelty products for young children.

Fashion Jewelry and Accessories—15% of consolidated sales

The fashion jewelry line is sold in the United States and in several foreign markets. Jewelry for men, women and children is sold by Avon Representatives, with women's jewelry accounting for most of the sales. The fashion accessory line was introduced in the United States during 1981, and includes such items as purses, wallets, key cases and pens.

Other—7% of consolidated sales

Tiffany & Co. sells fine jewelry, sterling silverware, goldware, watches, clocks, china, glassware and stationery from its main store in New York City and from branch stores in Atlanta, Beverly Hills, Chicago, Houston and San Francisco. Avon Fashions, Inc. sells women's apparel by mail order in the United States.

Quarterly Financial Data

Quarterly data for the two years ended December 31, 1981 are summarized below (in millions, except per share amounts):

	1981				
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 549.3	$ 343.7	$ 66.1	$ 37.7	$ .63
Second	635.9	387.8	96.4	54.7	.91
Third	600.9	364.5	75.8	47.1	.78
Fourth	827.7	499.7	158.2	80.4	1.34
	$2,613.8	$1,595.7	$396.5	$219.9	$3.66

	1980				
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 516.1	$ 325.8	$ 65.3	$ 33.1	$ .55
Second	601.8	372.6	94.7	60.6	1.01
Third	583.8	363.6	78.7	42.5	.70
Fourth	867.4	546.5	198.7	105.9	1.76
	$2,569.1	$1,608.5	$437.4	$242.1	$4.02

Discussion of Liquidity and Capital Resources

Cash and short-term investments decreased $50.6 million during 1981, to $257.8 million at December 31, 1981. During the past three years the Company has undertaken major facilities expansion projects in several countries, including the United States, the United Kingdom, Argentina, Brazil, Japan and Ireland. Capital expenditures during this three-year period totaled $348.2 million, all of which was financed without long-term borrowing. Construction programs in progress at December 31, 1981 carried an estimated cost to complete of $80 million. Capital expenditures in the next three years are expected to continue at generally the same rate as, or at a somewhat lower rate than, the previous three years.

During January 1982, the Company purchased 49% of the outstanding common stock of Mallinckrodt, Inc. at a price of $50 per share. The funds required to purchase the shares totaled approximately $367 million. A revolving credit agreement was established to provide $300 million as a part of the financing for the purchase of Mallinckrodt shares. This acquisition is described in the Proposed Merger note of "Notes to Consolidated Financial Statements" on page 48.

Repayment of the funds obtained under the revolving credit agreement is due in May 1983. The Company plans to make application to obtain credit ratings. Such credit ratings will enable the Company to avail itself of both long- and short-term financing, if such action is desirable. It is anticipated that the revolving credit agreement will be replaced with other financing prior to its due date.

During 1982 it may be necessary for the Company to borrow an additional $50 million for seasonal U.S. operating needs and facilities expansion projects. Normal seasonal financing requirements for International operations are expected to be approximately $70 million. The peak level of borrowings during 1982 (for all purposes) might total $420 million.

Short-term borrowing consists primarily of borrowings from banks by International subsidiaries, and it is expected that the level of such borrowings will increase during 1982. Unused lines of credit at December 31, 1981 approximated $385 million. Of this amount, $85 million is related to International operations, and consisted almost entirely of overdraft facilities. The remaining $300 million was obtained to provide the funds for the purchase of Mallinckrodt, Inc. common stock.

Discussion of 1981 and 1980

Consolidated net sales were $2.61 billion in 1981, an increase of $45 million or 2% over 1980. U.S. net sales increased 6% to $1.41 billion, and International sales declined 3% to $1.20 billion. Net earnings declined 9% to $219.9 million. Earnings per share were $3.66, compared with $4.02 in 1980.

During 1981, Statement of Financial Accounting Standards No. 52 relating to foreign currency translation was adopted, and the results of 1980 have been restated to reflect this change.

The decrease in net earnings of $22.2 million (36¢ per share) was caused principally by the following factors:

- An increase in cost of goods sold as a percentage of net sales, which decreased net earnings by $20.9 million (34¢ per share).
- An increase in marketing, distribution and administrative expenses as a percentage of net sales, which decreased net earnings by $4.0 million (6¢ per share).
- An increase in the effective income tax rate, which decreased net earnings by $8.5 million (14¢ per share).

These decreases aggregating $33.4 million (54¢ per share) were partially offset by the following factors:

- Higher net sales, which increased net earnings by $3.9 million (6¢ per share).
- An increase in other income—net, which increased net earnings by $7.3 million (12¢ per share).

The increase in consolidated net sales resulted from higher unit volume in the U.S., partially offset by lower sales in International. The strengthening of the U.S. dollar abroad and unsettled economic conditions in some of the Company's major foreign markets were significant factors contributing to the decline in International sales. Although sales in Europe increased in terms of local currencies, European sales after translation into U.S. dollars fell 17%. Avon sales in terms of U.S. dollars in Latin America advanced 6%, and in Canada, the Pacific and Africa combined 10%. A portion of the sales increase is attributable to a 2% increase in the number of active Representatives.

Cost of goods sold increased by $57.5 million, and also increased as a percentage of net sales, to 39.0% in 1981 from 37.4% in 1980. The increase in the cost ratio was primarily the result of competitive pricing strategies in the U.S. and abroad and the effect of foreign currency fluctuations.

Marketing, distribution and administrative expenses increased by $28.1 million, and also increased as a percentage of net sales, to 45.9% in 1981 from 45.6% in 1980. The increasing cost of operations overseas was a major factor contributing to the higher level of expenses.

Interest income and other income—net increased $14.2 million to $49.2 million. One major factor contributing to the increase was interest income, which rose $9.5 million to $49.3 million as a result of higher interest rates on short-term investments. Another factor contributing to the increase was greater foreign exchange gains, resulting from the remeasurement of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions in 1981, compared with 1980.

The greater foreign exchange gains included in other income in 1981 were more than offset by higher foreign exchange losses charged to cost of goods sold and to expenses, which resulted from the remeasurement of inventories and prepaid expenses at historical rates. The net effect of these factors reduced net earnings by $36.7 million (61¢ per share) in 1981, compared with $20.0 million (33¢ per share) in 1980.

Taxes on earnings decreased by $4.5 million, but the effective income tax rate increased to 50.7% in 1981 from 48.8% in 1980. The principal cause of the increase in the effective tax rate was higher tax rates on International earnings resulting from foreign exchange losses.

Discussion of 1980 and 1979

Consolidated net sales were $2.57 billion in 1980, an increase of $192 million or 8% over 1979. U.S. net sales increased $5.6 million to $1.33 billion, and International net sales increased 18% to $1.24 billion. Net earnings decreased 1% to $242.1 million. Earnings per share were $4.02, compared with $4.06 in 1979. Financial results for 1980 and 1979 have been restated to reflect the adoption of FASB Statement No. 52, Foreign Currency Translation.

The decrease in net earnings of $1.9 million (4¢ per share) was caused principally by the following factors:

- An increase in marketing, distribution and administrative expenses as a percentage of net sales caused net earnings to decrease by $26.1 million (44¢ per share).
- A decrease in other income—net reduced net earnings $.5 million (1¢ per share).
- An increase in the income tax rate caused net earnings to decrease by $1.7 million (3¢ per share).

These decreases in net earnings of $28.3 million (48¢ per share) were partially offset by:

- Higher net sales that caused net earnings to increase by $18.2 million (30¢ per share).
- A decrease in cost of goods sold as a percentage of net sales that caused net earnings to increase by $8.2 million (14¢ per share).

The increase in consolidated net sales resulted from increased net sales in International, where higher unit volume and higher average unit selling prices both contributed to the increase. A portion of the increased unit volume was attributable to a 5% increase in the number of active Avon Representatives. In the U.S., sales to Representatives declined by 2%, as lower unit volume more than offset higher unit selling prices.

Cost of goods sold increased by $56.9 million but decreased as a percentage of net sales, to 37.4% in 1980, from 38.0% in 1979. The decrease in the cost ratio occurred after including the effect of the adoption of the LIFO method of accounting for the inventories of Tiffany & Co. This change increased cost of goods sold $11.6 million. The cost ratio, exclusive of the effect of the adoption of LIFO by Tiffany, was 36.9%. Lessening of the rate of discount on specially priced items in the U.S. and price increases in certain foreign countries contributed to the decline in the cost ratio.

Marketing, distribution and administrative expenses increased $134.4 million, and also increased as a percentage of net sales, to 45.6% in 1980, from 43.6% in 1979. Approximately two-thirds of the increased expenditures occurred in International, primarily to support marketing and field operations programs. The increase as a percentage of net sales resulted from the continued support of U.S. marketing and field operations programs in the face of lower sales.

Foreign currency fluctuations included in cost of goods sold, marketing, distribution and administrative expenses, and other deductions—net decreased net earnings by $20.0 million (33¢ per share) in 1980, compared with $19.1 million (32¢ per share) in 1979.

Taxes on earnings increased by $1.2 million, and the income tax rate was 48.8% in 1980, compared with 48.4% in 1979. The primary cause of the increase in the tax rate was the effect of greater foreign exchange losses in 1980.

A discussion of the impact of inflation on the Company follows under "Information on Inflation and Changing Prices" on pages 35 through 38.

Information on Inflation and Changing Prices

Constant Dollar Data

The following consolidated summary of earnings includes the annual amount of net sales and net earnings adjusted to a constant 1981 dollar basis, using the Consumer Price Index for All Urban Consumers (CPI-U). The historical cost information in the consolidated summary of earnings is based on the application of FASB Statement No. 8 and the constant dollar data is based on the application of FASB Statement No. 8 and 33, as permitted by FASB Statement No. 52. The restated amounts are referred to as constant dollar earnings, since the intent of this method is to hold the purchasing power of the dollar constant for the period reported. The amounts shown under the heading "Adjusted for general inflation" are derived by restating cost of goods sold and depreciation expense to dollars whose purchasing power is equivalent to the average purchasing power of the dollar for the year 1981 as measured by the CPI-U. Net sales and all expenses, other than cost of goods sold and depreciation expense, are assumed to have occurred proportionately in relation to the changing CPI-U over the course of the year, and are deemed to be stated in average 1981 dollars in the primary financial statements, thus requiring no adjustment in the constant dollar statement.

Cost of goods sold is adjusted by restating the historical cost of inventories at the beginning and end of the year, and inventories acquired and sold during the year, to average 1981 dollars, thereby adjusting the amounts charged to current earnings.

Depreciation expense is adjusted by restating the historical cost of depreciable assets on hand during the year to average 1981 dollars, and using the revised amounts to calculate adjusted depreciation expense for the year. Depreciation expense included in the constant dollar statement is restated to average 1981 dollars, employing the same estimated useful lives and depreciation methods as used in the primary financial statements.

The effect of the decline in purchasing power on net monetary assets or liabilities is determined by calculating these net monetary items at the beginning and end of the year, adjusted for the change in such items during the year, in terms of average 1981 dollars.

Current Cost Data

The consolidated summary of earnings also includes the annual amount of net sales and net earnings adjusted to a current cost basis. The restated amounts are referred to as current cost earnings, since the intent of this method is to measure the effects of changing prices on inventories, property, cost of goods sold and depreciation for the period reported. The amounts shown under the heading "Adjusted for changes in specific prices" are derived by restating cost of goods sold and depreciation expense to the current cost at the date of sale or use. Net sales and all expenses, other than cost of goods sold and depreciation expense, are assumed to be stated at current cost in the primary financial statements, thus requiring no adjustment in the current cost statement.

The current cost of raw material was based on current purchase contracts, vendor price quotations and other published prices for the quality, quantity and time at which the Company purchases these items, or by applying an index of relevant purchase prices to the historical cost of such items.

Finished goods current cost was estimated on the basis of standard costs adjusted to reflect current material, labor and overhead costs, as well as current cost depreciation of buildings and equipment.

In the U.S., substantially all inventories are accounted for on a last-in, first-out basis; actual cost of goods sold therefore generally reflects current costs. In other countries, current cost of goods sold was estimated by adjusting historical costs for the approximate time lag between the acquisition of inventories and their subsequent sale. The result is the current cost to replace inventories at December 31 and cost of goods sold at the time of sale.

The current cost of buildings that were assumed to be reproduced was estimated by applying published construction cost indexes to the acquisition prices of the buildings. Current estimated construction costs to obtain equivalent floor space were used for buildings that would not be replaced in their present configuration, and for buildings in those countries where published construction cost indexes do not exist.

Where practicable, the current cost of equipment was estimated on the basis of current quoted market prices for new machinery of equivalent capacity. The current cost of all other equipment was developed by using engineering estimates or by applying indexes that were derived from recent cost data for items of similar productive capacity.

Depreciation based on the current cost of buildings and equipment was estimated applying the same depreciation methods and estimated useful lives used in preparing the historical cost financial statements.

Summary

The current cost method measures the estimated change in specific prices, and may also assume replacement with different plant and equipment than that currently in use. The use of this method results in an estimated current cost of plant and equipment, inventories, cost of goods sold and depreciation. Constant dollar adjustment indicates the effect of the general rate of inflation, as measured by the CPI-U, on inventories, cost of goods sold, plant and equipment, and depreciation, by restating their historical cost in terms of average current year dollars. Current cost differs from constant dollar adjusted amounts to the extent that the estimated changes in the current cost of material, labor, overhead, and plant and equipment differ from the general rate of inflation.

The effect of constant dollar restatement is to increase cost of goods sold and depreciation expense and, therefore, to show lower adjusted net earnings. This impact was moderated by the fact that U.S. inventories are valued on the last-in, first-out method. Depreciation represents approximately 2% of total costs and expenses.

The effect of current cost restatement increased depreciation expense, but decreased cost of goods sold as a result of the high rates of foreign currency devaluation experienced during 1981. Adjusted net earnings were higher than historic net earnings. During periods of inflation such results will be experienced only when the rate of foreign currency devaluation exceeds the rate of increase in current cost of goods sold over historic cost of goods sold in local currency.

As shown in the consolidated adjusted summary of earnings, the income tax rate for 1981 increased from 51.7% to 57.0% on the constant dollar basis, but decreased to 49.8% on the current cost basis, because most countries allow tax deductions only for historical costs.

The consolidated summary of earnings adjusted for general inflation and changing prices for the year ended December 31, 1981 follows (in millions):

	As shown in the financial statements (historical cost)*	Adjusted for general inflation (constant dollar)	Adjusted for changes in specific prices (current cost)
Net sales	$2,613.8	$2,613.8	$2,613.8
Cost of goods sold	1,041.9	1,071.9	1,016.2
Marketing, distribution and administrative expenses	1,207.3	1,217.9	1,216.4
Interest income	49.3	49.3	49.3
Other income (deductions)—net	22.9	22.9	22.9
Taxes on earnings	225.8	225.8	225.8
Net earnings	$ 211.0	$ 170.4	$ 227.6
Income tax rate	51.7%	57.0%	49.8%
Depreciation included in:			
Cost of goods sold	$ 13.8	$ 21.8	$ 20.7
Marketing, distribution and administrative expenses	18.4	28.9	27.5
	$ 32.2	$ 50.7	$ 48.2
Purchasing power gain on net monetary items		$ 6.5	$ 6.5
Increase in current cost of inventory and property held during the year			$ 27.9
Effect of increase in general price level			111.4
Increase in current cost under increase in the general price level			$ (83.5)
At December 31, 1981:			
Inventories			$ 450.1
Property—net of accumulated depreciation			852.6

*Based on the application of FASB Statement No. 8, as permitted by FASB Statement No. 52.

Selected financial data adjusted for general inflation and changing prices in average 1981 dollars (in millions, except per share amounts):

	Year ended December 31				
	1981	1980	1979	1978	1977
Constant dollar information:					
Net sales	$2,613.8	$2,836.3	$2,979.7	$2,909.2	$2,565.1
Net earnings	170.4	214.6	263.5		
Earnings per share	2.83	3.57	4.38		
Purchasing power gain (loss) on net monetary items	6.5	3.2	(2.2)		
Net assets, December 31	1,280.0	1,309.8	1,297.3		
Dividends per share	3.00	3.26	3.44	3.55	3.31
Market price, December 31	29.03	35.98	46.71	68.15	70.46
Average consumer price index (1967 = 100)	272.4	246.8	217.4	195.4	181.5
Current cost information:					
Net earnings	$ 227.6	$ 230.0	$ 266.9		
Earnings per share	3.78	3.82	4.44		
Increase in current cost over (under) increase in the general price level	(83.5)	(20.8)	12.0		
Net assets, December 31	1,277.1	1,400.1	1,418.4		

Note: This data is based on the application of FASB Statement No. 8 and 33, as permitted by FASB Statement No. 52.

Stock Market and Dividend Data

Avon capital stock is listed or the New York Stock Exchange (symbol: AVP). At Decemb.r 31, 1981, there were approximately 34,000 sharehold..rs of record. The price-earnings ratios are based on net earnings per share in each year and the high and low market prices shown below:

	1981		1980	
Quarter	High	Low	High	Low
First	$39⅜	$32½	$40⅝	$31⅛
Second	42⅛	37	38⅞	32⅝
Third	38⅞	32¼	40¼	34⅛
Fourth	35⅜	29⅛	38⅝	32⅝
Price-earnings ratio	12	8	10	8

	Cash Dividends Per Share	
Quarter	1981	1980
First	$ .75	$ .70
Second	.75	.75
Third	.75	.75
Fourth	.75	.75
	$3.00	$2.95
Total dividends paid:		
Amount (in millions)	$180.4	$177.5
% to net earnings	82%	73%

Consolidated Statement of Earnings and Retained Earnings

Avon Products, Inc. and Subsidiaries
(in millions, except per share amounts)

	Year Ended December 31 1981	1980	1979
Net sales:			
United States	$1,413.0	$1,332.1	$1,326.5
International	1,200.8	1,237.0	1,051.0
	2,613.8	2,569.1	2,377.5
Cost of goods sold	1,018.1	960.6	903.7
Gross profit	1,595.7	1,608.5	1,473.8
Marketing, distribution and administrative expenses	1,199.2	1,171.1	1,036.7
Operating profit	396.5	437.4	437.1
Interest income	49.3	39.8	34.3
Other income (deductions)—net	(.1)	(4.8)	1.7
Earnings before taxes	445.7	472.4	473.1
Taxes on earnings	225.8	230.3	229.1
Net earnings	219.9	242.1	244.0
Cash dividends	180.4	177.5	164.6
Addition to retained earnings	39.5	64.6	79.4
Retained earnings, January 1	823.8	759.2	679.8
Retained earnings, December 31	$ 863.3	$ 823.8	$ 759.2
Per share of capital stock:			
Net earnings	$3.66	$4.02	$4.06
Cash dividends	3.00	2.95	2.75
Average shares outstanding	60.15	60.15	60.14

The accompanying notes are an integral part of these statements.

Consolidated Statement of Financial Condition

Avon Products, Inc. and Subsidiaries
(in millions of dollars)

	December 31 1981	December 31 1980
Assets		
Current assets		
Cash	$ 19.0	$ 25.7
Short-term investments	238.8	282.7
Accounts receivable (less allowance for doubtful accounts of $14.7 and $13.3)	216.4	240.3
Inventories		
Finished goods	195.8	178.1
Raw material	196.0	202.2
	391.8	380.3
Prepaid expenses	122.0	120.3
Total current assets	988.0	1,049.3
Property		
Land	41.9	39.1
Buildings	315.9	295.8
Equipment and improvements	299.2	277.6
Construction in progress	76.4	76.6
	733.4	689.1
Less accumulated depreciation	215.1	209.8
	518.3	479.3
Prepaid U.S. retirement plan expense	36.0	29.6
Deferred charges	25.5	24.9
	$1,567.8	$1,583.1

The accompanying notes are an integral part of these statements.

	December 31 1981	1980
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable	$ 49.3	$ 36.6
Accounts payable	115.3	113.5
Accrued expenses	93.0	87.7
Accrued compensation	34.1	35.4
Retail sales and other taxes	89.1	107.6
Taxes on earnings	146.6	173.1
Total current liabilities	527.4	553.9
Long-term debt	4.8	2.6
Foreign employee benefit plans	41.3	45.7
Other liabilities	5.9	4.2
Deferred income taxes	55.4	48.4
Shareholders' equity		
Capital stock, par value $.50		
Authorized 80,000,000 shares		
Outstanding 60,156,135 and 60,153,045 shares	30.1	30.1
Capital surplus	59.3	59.2
Adjustment—foreign currency translation	(19.7)	15.2
Retained earnings	863.3	823.8
	933.0	928.3
	$1,567.8	$1,583.1

Consolidated Statement of Changes in Financial Position

Avon Products, Inc. and Subsidiaries
(in millions)

	Year Ended December 31 1981	1980	1979
Sources of working capital			
Net earnings	$219.9	$242.1	$244.0
Add			
Depreciation	31.5	27.8	23.8
Deferred income taxes	7.0	23.4	10.3
Working capital provided from operations	258.4	293.3	278.1
Increase in long-term debt	2.2	(1.5)	(1.3)
Disposals of property	11.4	6.7	2.7
Sales of capital stock under option	.1	.2	.4
	272.1	298.7	279.9
Uses of working capital			
Cash dividends	180.4	177.5	164.6
Additions to property	114.2	117.7	116.3
Additions to prepaid U.S. retirement plan expense and deferred charges	7.0	9.7	13.7
Decrease in other liabilities	2.7	(2.1)	(8.0)
Effect of foreign currency translation adjustments on working capital	2.6	6.2	(6.0)
	306.9	309.0	280.6
Decrease in working capital	$(34.8)	$(10.3)	$ (.7)
Changes in components of working capital			
Cash and short-term investments	$(50.6)	$ 1.5	$(35.2)
Accounts receivable	(23.9)	26.9	25.1
Inventories	11.5	14.2	11.2
Prepaid expenses	1.7	27.2	18.3
Notes payable	(12.7)	21.4	(13.5)
Accounts payable and accrued expenses	(5.8)	(39.0)	1.5
Accrued taxes	45.0	(62.5)	(8.1)
Decrease in working capital	$(34.8)	$(10.3)	$ (.7)

The accompanying notes are an integral part of these statements.

Accounting Policies

Principles of consolidation—All subsidiaries are consolidated.

Short-term investments—Short-term investments are stated at cost plus accrued interest, which approximates market value.

Inventories—Inventories are stated at cost, not in excess of market. Cost is determined on a last-in, first-out basis for substantially all U.S. inventories, and on a first-in, first-out basis for all other inventories.

Property and depreciation—Property is recorded at cost. Depreciation over the estimated useful lives of the property in the United States and Canada is determined principally on declining-balance methods for property acquired prior to January 1, 1977, and on the straight-line basis for property acquired subsequently. In other countries depreciation is determined on the straight-line basis.

Stock options—Proceeds from the sale of capital stock issued pursuant to stock option plans are credited to capital stock to the extent of par value, and to capital surplus for the excess of the option price over par value. Any corporate tax benefits resulting from stock option plans are credited to capital surplus.

Taxes on earnings—Taxes on earnings are adjusted for deferred income taxes where there are differences between the years in which transactions affect taxable income and the years in which they affect net earnings.

Taxes on earnings are reduced by investment tax credits in the year in which the related assets are placed in service. These credits were not material in any of the years presented.

Deferred income taxes—These include the effects of timing differences related to noncurrent items, including depreciation and capitalized interest.

The net deferred income tax benefit associated with certain current items is included in prepaid expenses.

Retirement plans—Avon Products, Inc. and several subsidiaries maintain noncontributory retirement plans for substantially all their employees. The annual provisions under these plans, as determined by independent actuaries using accepted actuarial methods, provide for current service cost and straight-line amortization of prior service liability primarily over a thirty-year period. All plans are funded on a current basis except where funding is not required.

Earnings per share—Earnings per share of capital stock are based on the average number of shares outstanding during each year. Shares issuable on the exercise of stock options are excluded from the average number of shares because their inclusion would not reduce earnings per share for any of the years presented.

Taxes on Earnings

The Company has provided for U.S. and foreign income taxes (after giving effect to available tax planning alternatives and foreign tax credits) on earnings of subsidiaries that have been remitted, that are available for remittance, or that are not intended to be invested in foreign operations. The balance of unremitted earnings of foreign subsidiaries that are restricted or required for current or future operations approximated $250 million at December 31, 1981.

An analysis of taxes on earnings and earnings before taxes follows (in millions):

	Year Ended December 31 1981	1980	1979
Taxes on earnings:			
Federal:			
Current	**$123.6**	$128.5	$137.8
Deferred	**8.3**	6.7	8.7
	131.9	135.2	146.5
Foreign:			
Current	**78.6**	63.8	62.9
Deferred	**(1.3)**	16.7	1.6
	77.3	80.5	64.5
State and other	**16.6**	14.6	18.1
	$225.8	$230.3	$229.1
Earnings before taxes:			
United States	**$287.0**	$274.6	$313.0
Foreign	**158.7**	197.8	160.1
	$445.7	$472.4	$473.1

Differences between the consolidated income tax rate and the statutory federal income tax rate are as follows:

	Year Ended December 31 1981	1980	1979
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
State and local income taxes, net of federal income tax benefit	**2.0**	1.7	2.0
Effect of remeasuring foreign currency statements	**3.3**	1.8	1.7
Foreign income taxes and all other	**(.6)**	(.7)	(1.3)
Consolidated income tax rate	**50.7%**	48.8%	48.4%

Net current deferred income tax benefit included in prepaid expenses (in millions)	**$10.4**	$19.2	$13.8

Industry Segment Data

The Company's business is primarily comprised of two industry segments, the production and sale of cosmetics, fragrances and toiletries and of fashion jewelry and accessories. Operations are conducted in the United States, Europe, Latin America and other parts of the world.

Operating profit consists of total revenues less cost of goods sold and marketing, distribution and administrative expenses. Interest income and other income (deductions)—net, which are included in earnings before taxes, are excluded from operating profit.

The identifiable assets of industry segments and geographic areas are those assets used in the Company's operations in each segment and area. General corporate asse[illegible] short-term investments.

	Year Ended December 31 (in millions)				
	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
Industry Segments					
1981					
Cosmetics, fragrances and toiletries	$2,039.8	$306.2	$1,012.6	$26.7	$ 95.4
Fashion jewelry and accessories	383.8	79.7	193.4	3.7	14.4
All other	190.2	17.1	123.0	1.1	4.4
General corporate	.0	(6.5)	238.8	.0	.0
Consolidated	$2,613.8	$396.5	$1,567.8	$31.5	$114.2
1980					
Cosmetics, fragrances and toiletries	$ 1,983.3	$ 339.0	$ 1,010.2	$ 23.2	$ 91.8
Fashion jewelry and accessories	425.2	95.7	191.7	3.8	19.2
All other	160.6	7.8	98.5	.8	6.7
General corporate	.0	(5.1)	282.7	.0	.0
Consolidated	$ 2,569.1	$ 437.4	$ 1,583.1	$ 27.8	$ 117.7
1979					
Cosmetics, fragrances and toiletries	$ 1,847.0	$ 321.6	$ 869.1	$ 19.7	$ 93.0
Fashion jewelry and accessories	399.2	108.0	175.0	3.1	21.5
All other	131.3	11.0	100.7	1.0	1.8
General corporate	.0	(3.5)	272.2	.0	.0
Consolidated	$ 2,377.5	$ 437.1	$ 1,417.0	$ 23.8	$ 116.3

	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
	Year Ended December 31 (in millions)				
Geographic Areas					
1981					
United States	$1,440.5	$246.3	$ 702.6	$14.9	$ 63.5
Europe	441.1	45.7	227.7	7.9	12.6
Latin America	482.2	71.0	259.9	5.6	27.6
All other foreign	327.5	48.1	138.8	3.1	10.5
Total International	1,250.8	164.8	626.4	16.6	50.7
General corporate	.0	(6.5)	238.8	.0	.0
Eliminations	(77.5)	(8.1)	.0	.0	.0
Consolidated	$2,613.8	$396.5	$1,567.8	$31.5	$114.2
1980					
United States	$ 1,360.8	$ 245.5	$ 592.3	$ 12.8	$ 56.4
Europe	528.1	64.1	294.0	7.5	33.0
Latin America	456.1	102.0	272.8	4.7	24.1
All other foreign	274.1	36.0	141.3	2.8	4.2
Total International	1,258.3	202.1	708.1	15.0	61.3
General corporate	.0	(5.1)	282.7	.0	.0
Eliminations	(50.0)	(5.1)	.0	.0	.0
Consolidated	$ 2,569.1	$ 437.4	$ 1,583.1	$ 27.8	$ 117.7
1979					
United States	$ 1,352.3	$ 282.3	$ 526.9	$ 12.3	$ 45.4
Europe	461.7	62.4	273.6	5.2	40.1
Latin America	367.4	71.3	227.9	3.6	23.2
All other foreign	238.1	30.3	116.4	2.7	7.6
Total International	1,067.2	164.0	617.9	11.5	70.9
General corporate	.0	(3.5)	272.2	.0	.0
Eliminations	(42.0)	(5.7)	.0	.0	.0
Consolidated	$ 2,377.5	$ 437.1	$ 1,417.0	$ 23.8	$ 116.3

Accounting Change

During 1981, the Company adopted Statement of Financial Accounting Standards No. 52, which established a new method of accounting for foreign currency translation. Financial statements for 1980 and 1979 have been restated to reflect the adoption. The effect of the adoption on results for the three years ended December 31, 1981 follows (in millions, except per share amounts):

	FASB Statement No. 52	No. 8
1981		
Earnings before taxes	$445.7	$436.8
Net earnings	219.9	211.0
Earnings per share	3.66	3.51
1980		
Earnings before taxes	$472.4	$472.3
Net earnings	242.1	241.3
Earnings per share	4.02	4.01
1979		
Earnings before taxes	$473.1	$480.2
Net earnings	244.0	250.7
Earnings per share	4.06	4.17

Effect of Foreign Exchange Fluctuations

Net earnings were unfavorably affected by foreign exchange fluctuations, as follows (in millions):

	Year Ended December 31 1981	1980	1979
Foreign exchange gains (losses)—net:			
Remeasurement of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions	$ 10.2	$ .3	$ 4.2
Remeasurement of certain items, principally inventories, at historical rates	(46.9)	(20.3)	(23.3)
	$(36.7)	$(20.0)	$(19.1)
Detail by country:			
Brazil	$(19.6)	$(15.8)	$(15.6)
Argentina	(15.6)	(2.9)	(4.5)
All other—net	(1.5)	(1.3)	1.0
	$(36.7)	$(20.0)	$(19.1)

An analysis of adjustment—foreign currency translation (in the shareholders' equity section of the statement of financial condition) for the three years ended December 31, 1981 follows (in millions):

	1981	1980	1979
Adjustment—foreign currency translation:			
Balance, January 1	$ 15.2	$18.0	$11.6
Translation adjustments	(34.9)	(2.8)	6.4
Balance, December 31	$(19.7)	$15.2	$18.0

Short-Term Investments

Short-term investments consisted primarily of time deposits and commercial paper.

Lines of Credit

Unused lines of credit at December 31, 1981 approximated $385 million. Of this amount, $85 million is related to International operations, and consisted almost entirely of overdraft facilities. These lines of credit involved no material compensating balances or commitment fees. The remaining $300 million was obtained to provide the funds for the purchase of Mallinckrodt, Inc. common stock described in the Proposed Merger note of "Notes to Consolidated Financial Statements." A commitment fee of ⅛% per year is payable on the unused portion of the commitment.

Long-Term Debt

Notes payable of $4.8 and $2.6 million at December 31, 1981 and 1980, respectively, were obligations of domestic and foreign subsidiaries payable to 1994. The notes of foreign subsidiaries were payable in local currency.

Capital Changes

Stock option transactions are summarized below:

	Shares available for option	Shares under option	
		Shares	Price
January 1, 1980	378,950	823,645	$29-$60
Granted	(817,770)	817,770	40
Exercised	0	(4,800)	29
Cancelled	731,100	(731,100)	29-60
December 31, 1980	292,280	905,515	29-60
Granted	(201,500)	201,500	38
Exercised	0	(3,090)	29-40
Cancelled	32,550	(32,550)	38-60
December 31, 1981	123,330	1,071,375	$29-$60

All options were granted at market value on the dates of grant.

The 1970 Stock Option Incentive Plan permits the granting of stock appreciation rights to optionees. Such rights, as granted, permit the optionees to receive cash and/or stock equal to any excess of the market value over the exercise price. The aggregate difference between the exercise price and the market price is charged to net earnings as compensation expenses. The number of shares covered by options is reduced by the number of rights exercised.

For the three years ended December 31, 1981, increases in capital stock and capital surplus were attributable to stock issued pursuant to the 1970 Stock Option Incentive Plan as follows (in millions):

	1981	1980	1979
Capital stock:	$ .0	$ .0	$ .0
Capital surplus:			
Options exercised	$ .1	$ .1	$ .3
Corporate tax benefit arising from the exercise of stock options	.0	.1	.1
	$ .1	$ .2	$ .4

Retirement Plans

Accumulated plan benefits and plan net assets for the Company's U.S. defined benefit retirement plans at January 1, are presented below (in millions):

	1981	1980
Present value of accumulated plan benefits:		
Vested	$111.2	$110.8
Nonvested	26.4	34.0
	$137.6	$144.8
Net assets available for benefits	$209.9	$151.6

The estimated rate of return used to determine the present value of accumulated plan benefits was 9.0% and 7.5% for 1981 and 1980, respectively.

The Company's foreign retirement plans are not required to report pursuant to the Employee Retirement Income Security Act of 1974. They do not determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed for U.S. plans.

Retirement plan expense was $25.3, $27.2 and $24.6 million in 1981, 1980 and 1979, respectively.

Commitments

Various construction programs were in progress at December 31, 1981, with an estimated additional cost to complete of $80 million.

The Company leases office space in New York City for its executive and administrative offices, and in London, England for its European Marketing Center, under operating leases that expire in 1997 and 1982 to 2000, respectively. Other real property is leased under operating leases expiring from 1982 to 2036.

The Company leases automobiles and other equipment under operating leases that expire during the next five years.

The minimum annual rental of real property is subject to escalation for increases in taxes, utilities and maintenance labor. Personal property rentals are subject to escalation based on usage.

Rent expense was $58.9, $53.6 and $46.9 million in 1981, 1980 and 1979, respectively.

Long-term lease obligations, all of which are operating leases, at December 31, 1981 consisted of (in millions):

Period	Minimum rental for the period
1982	$ 38.9
1983	33.4
1984	27.1
1985	18.5
1986	18.2
Beyond 1986	186.8
	$322.9

Proposed Merger

On December 15, 1981, Avon Products, Inc. and Mallinckrodt, Inc. announced the signing of a merger agreement under which Mallinckrodt will become a wholly owned subsidiary of Avon. Under the agreement Avon purchased approximately 49% of the outstanding shares of Mallinckrodt common stock at a price of $50 per share, during January 1982.

The funds required to purchase the shares totaled approximately $367 million. Of this amount $300 million was obtained under a revolving credit agreement from a group of banks, and the remainder was provided from Avon's cash and short-term deposits.

Under the merger agreement, the remaining shares of Mallinckrodt common stock outstanding will be exchanged for a maximum of 12,895,794 shares of Avon capital stock at an exchange rate not to exceed 1.667 or less than 1.429 shares of Avon capital stock for each share of Mallinckrodt common stock. This exchange is subject to the approval of the shareholders of both companies at special meetings of shareholders to be held on March 8, 1982. The transaction will be accounted for as a purchase. Mallinckrodt reported net sales of $494.4 million and net earnings of $39.7 million in the year ended December 31, 1981.

Supplemental Information

(in millions)

	Year ended December 31 1981	1980	1979
Depreciation	$ 31.5	$ 27.8	$ 23.8
Research and development expense	30.9	30.0	24.9
Advertising expense	30.7	35.5	44.0
Provision for doubtful accounts	34.7	32.0	26.8
Repairs and maintenance expense	26.2	23.9	22.8
Taxes other than on earnings:			
Payroll taxes	$ 67.3	$ 70.3	$ 61.6
Other	17.9	17.4	15.5
	85.2	87.7	77.1
Taxes on earnings	225.8	230.3	229.1
Total taxes	$311.0	$318.0	$306.2
Interest expense:			
Incurred	$ 16.8	$ 12.3	$ 10.8
Capitalized	(13.2)	(11.0)	(9.9)
Expensed	$ 3.6	$ 1.3	$ .9
Excess of current cost over the stated value of LIFO inventories	$ 32.4	$ 32.8	$ 17.2

Management's Responsibility for Financial Reporting

Management is responsible for all the information and representations contained in the annual report, including the financial statements, which are prepared in accordance with generally accepted accounting principles. Some elements in the statements are based on management's estimates and informed judgments.

The Company maintains systems of internal controls to provide reasonable assurance that its financial records are reliable for the purpose of preparing the financial statements, that its assets are adequately protected, and that there is proper authorization and accounting for all transactions. The internal control system is supported by written policies and procedures, by the careful selection and training of qualified personnel, and by an extensive internal auditing program.

The Company's financial statements have been examined by Main Hurdman, independent public accountants, as stated in their report. Their examination was made in accordance with generally accepted auditing standards, and included a review and evaluation of internal controls.

The Audit Committee of the Board of Directors, composed solely of outside Directors, is responsible for reviewing and monitoring the quality of the Company's accounting and auditing practices. The Committee meets several times each year with management, the internal auditors, and the independent public accountants. The independent public accountants and the Director—Internal Auditing have complete access to management and to the Audit Committee, and meet with both to discuss their audit activities, the internal controls, and financial reporting matters.

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors of
Avon Products, Inc.

We have examined the consolidated statement of financial condition of Avon Products, Inc. and subsidiaries as of December 31, 1981 and 1980 and the related consolidated statements of earnings and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the consolidated financial position of Avon Products, Inc. and subsidiaries at December 31, 1981 and 1980 and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles, applied on a consistent basis after giving retroactive effect to the change, with which we concur, in the method of accounting for foreign currency translation as described in the Accounting Change note of notes to the consolidated financial statements.

Main Hurdman

New York, New York
February 2, 1982

Ten-Year Review

Avon Products, Inc. and Subsidiaries
(in millions of dollars, except per share amounts)

	1981	1980
Net sales:		
United States	$1,413.0	$1,332.1
International	1,200.8	1,237.0
	2,613.8	2,569.1
Cost of goods sold	1,018.1	960.6
Gross profit	1,595.7	1,608.5
Marketing, distribution and administrative expenses	1,199.2	1,171.1
Operating profit	396.5	437.4
Interest income	49.3	39.8
Other income (deductions)—net	(.1)	(4.8)
Earnings before taxes	445.7	472.4
Taxes on earnings	225.8	230.3
Net earnings	$ 219.9	$ 242.1
Per share of stock:		
Net earnings	$3.66	$4.02
Cash dividends	3.00	2.95
Average shares outstanding (in millions)	60.15	60.15
% to net sales:		
Earnings before taxes	17.1%	18.4%
Net earnings	8.4	9.4
Working capital	$ 460.6	$ 495.4
Current ratio	1.87	1.89
Property—net	518.3	479.3
Capital expenditures	114.2	117.7
Total assets	1,567.8	1,583.1
Long-term debt	4.8	2.6
Shareholders' equity	933.0	928.3
Number of employees:		
United States	15,300	15,300
International	18,400	19,000
	33,700	34,300

Note: Amounts for 1980 and 1979 have been restated to reflect the adoption of FASB Statement No. 52, Foreign Currency Translation, as described in Notes to Consolidated Financial Statements under Accounting Change.

1979	1978	1977	1976	1975	1974	1973	1972
$1,326.5	$1,233.0	$1,019.4	$ 865.1	$ 750.7	$ 758.1	$ 723.6	$ 663.8
1,051.0	853.3	689.3	617.1	585.9	537.4	462.0	370.0
2,377.5	2,086.3	1,708.7	1,482.2	1,336.6	1,295.5	1,185.6	1,033.8
903.7	759.1	619.7	544.4	495.6	519.0	433.7	372.1
1,473.8	1,327.2	1,089.0	937.8	841.0	776.5	751.9	661.7
1,036.7	880.4	718.8	617.1	569.1	540.2	485.1	406.5
437.1	446.8	370.2	320.7	271.9	236.3	266.8	255.2
34.3	29.9	22.0	20.3	12.5	11.1	10.8	5.7
1.7	(8.5)	(2.5)	5.0	1.9	(4.5)	(6.6)	(3.3)
473.1	468.2	389.7	346.0	286.3	242.9	271.0	257.6
229.1	234.6	194.2	174.6	144.9	129.2	133.7	131.4
$ 244.0	$ 233.6	$ 195.5	$ 171.4	$ 141.4	$ 113.7	$ 137.3	$ 126.2
$4.06	$3.89	$3.26	$2.86	$2.36	$1.90	$2.29	$2.11
2.75	2.55	2.20	1.80	1.51	1.48	1.40	1.35
60.14	60.11	60.02	59.99	59.95	59.93	59.90	59.85
19.9%	22.4%	22.8%	23.3%	21.4%	18.7%	22.9%	24.9%
10.3	11.2	11.4	11.6	10.6	8.8	11.6	12.2
$ 505.7	$ 507.9	$ 475.3	$ 418.9	$ 360.0	$ 314.0	$ 294.0	$ 246.0
2.07	2.13	2.37	2.38	2.42	2.32	2.30	2.35
392.6	292.0	242.4	231.8	225.2	218.9	215.6	196.5
116.3	75.6	35.2	27.6	24.0	20.3	34.4	34.2
1,417.0	1,282.4	1,082.0	966.7	847.8	780.9	742.9	629.4
4.1	5.4	7.5	9.4	11.6	23.1	24.3	31.2
866.3	770.7	682.4	614.7	547.8	493.6	466.6	398.9
16,200	15,200	13,000	12,400	11,700	12,900	13,100	12,200
18,100	17,300	15,200	15,200	14,200	14,900	15,000	13,800
34,300	32,500	28,200	27,600	25,900	27,800	28,100	26,000

Board of Directors

R. Manning Brown, Jr.*
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New York Life Insurance Company

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Retired; former
Executive Vice President

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Chairman of the Board
and Chief Executive Officer
MortonNorwich Products, Inc.
(Manufacturer of salt, pharmaceuticals, household products and specialty chemicals)

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and Chief Executive Officer

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Consultant

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grocery products; operator and
franchisor of quick service restaurants)

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Avco Corporation
(Diversified financial services
and manufacturing)

*Audit Committee member

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Chairman of the Board and
Chief Executive Officer

William R. Chaney
President

James E. Preston
Executive Vice President

Edmund W. Pugh, Jr.
Senior Vice President—Finance

S. Arnold Zimmerman
Senior Vice President, General Counsel
and Secretary

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J. Frank Casey
Phyllis B. Davis
Philip B. Evans
Robert H. Hansen
Manoel A. F. Lima
Paul B. Markovits
Norman K. McDowell
Donald S. Moss
L. Robert Pfund
E. Peter Raisbeck

Helmuth R. Fandl
Vice President and Treasurer

Jules Zimmerman
Vice President and Controller

Vice Presidents

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Ronald B. Clark
Louis V. Consiglio
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Seymour M. Kent
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Alan M. Newton
Stuart A. Ochiltree
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Donald B. Smith
Andrew J. Sventy
John L. Tefft
Creed R. Terry
David D. Ussery
William H. Willett
Ronald C. Wolfe
Hans R. Zimmer

Independent Accountants
Main Hurdman
55 East 52nd Street
New York, N.Y. 10055

Transfer Agent and Registrar
Morgan Guaranty Trust Co.
30 West Broadway
New York, N.Y. 10015

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Photography: Burt Glinn, Magnum; Peggy Barnett

Worldwide Facilities

United States

World Headquarters
New York City
Marcia Worthing, General Manager

Research Laboratories
Suffern, New York
Ronald C. Wolfe, Vice President

Mansfield, Massachusetts
Stephen A. Perreault, General Manager

Manufacturing Laboratories
Morton Grove, Illinois
Douglas W. Meyers, General Manager

Springdale, Ohio
Donald G. Sillies, General Manager

Suffern, New York
Thomas Jensch, General Manager

Distribution Branches
Atlanta, Georgia
Norman N. Haynes, General Manager

Glenview, Illinois
Eugene R. Mecklenburg, General Manager

Kansas City, Missouri
Dudley R. Gleason, General Manager

Newark, Delaware
W. Frederick Robinson, General Manager

Pasadena, California
William A. Roy, General Manager

Springdale, Ohio
Thomas L. Mutach, General Manager

Subsidiaries
Tiffany & Co.
New York City
Anthony D. Ostrom, President

Avon Fashions, Inc.
Newport News, Virginia
Robert B. Fry, President

International

Argentina
Buenos Aires
Pascual J. Albrizio, General Manager

Australia
Sydney
John M. Woods, Managing Director

Belgium
Bornem
Roger A. Lambot, General Manager

Brazil
São Paulo
João B. Maggioli, General Manager

Canada
Pointe Claire, Quebec
William E. Griffin, Jr., President

Chile
Santiago
Carlos Andreani, General Manager

France
Rantigny
Claude Noailly, General Manager

Guatemala
Guatemala City
Jorge H. Martinez, General Manager

Honduras
San Pedro Sula
Victor Ham, National Sales Manager

Ireland
Portarlington (Jewelry Manufacturing)
Harold O. Schaefer, General Manager

Italy
Olgiate Comasco (Como)
Giorgio Giuliani, Managing Director

Ivory Coast
Abidjan
Yves Repessé, General Manager

Japan
Tokyo
C. William Pryor, General Manager, Sales
Akitomo Kato, General Manager, Operations

Liberia
Monrovia
Carrie Ball, National Sales Manager

Malaysia
Kuala Lumpur
Rusli bin Tambi, General Manager

Mexico
Mexico City
Fernando Lezama, Vice President and General Manager

The Netherlands
Amsterdam
Roger A. Lambot, General Manager

New Zealand
Auckland
Mervyn P. Stark, General Manager

Nigeria
Lagos
John C. S. Lea, General Manager

Paraguay
Asunción
Herminio A. Cantero, General Manager

Philippines
Manila
Richard A. Stefani, General Manager, Distribution
David D. Gutierrez, General Manager, Manufacturing

Puerto Rico
Caguas
Angel M. Disdier, General Manager

Aguadilla and San Sebastian (Jewelry Manufacturing)
Jaime Lopez-Guirao, General Manager

Saudi Arabia
Jeddah
Robin A. Cramp, General Manager

Senegal
Dakar
Yves Repessé, General Manager

Spain
Madrid
Fernando Gutiérrez, General Manager

Sweden
Gothenburg
Sonja Liden, General Manager

Thailand
Bangkok
Amornthep Derojanawong, General Manager

United Kingdom
London (European Marketing Center)
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Northampton
James T. Cookson, Managing Director

Uruguay
Montevideo
João B. Maggioli, General Manager

Venezuela
Caracas
Thomas Fortson, General Manager

West Germany
Neufahrn
Hans H. Andresen, General Manager

Neunkirchen
Jaochim Noetzel, General Manager

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