REVLON
ANNUAL REPORT 1998

ON THE COVER,

Cindy Crawford is wearing: ColorStay Compact in Sand Beige, EveryLash Mascara in Black, SoftStroke PowderLiner in Brown Suede, Wet/Dry Shadow in Taupe Star, Super Lustrous Lipstick in Hot Cocoa, Nail Enamel in Iced Cocoa.

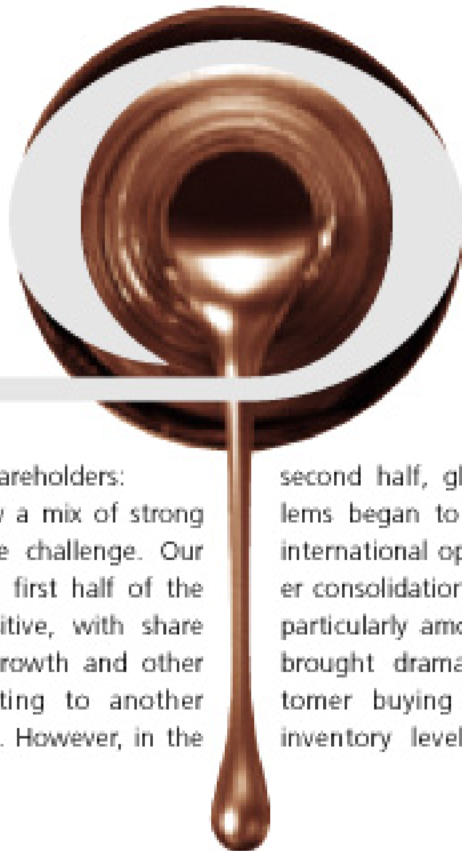
Cybill Shepherd is wearing: Ultima II Glowtion Skin Brightening Moisturizer in Light, Ultima II Glowtion Lip Brightener, Ultima II Full Moisture Lipcolor in Maple Sugar, Ultima II Full Moisture Anti-Feathering Lipliner in Sandalwood, Ultima II Brighten Up, Tighten Up Eye Brightening Cream, Ultima II Beautiful Nutrient Nourishing Mascara in Blackest Brown, Ultima II Beautiful Nutrient Nourishing Cream Eyecolor in Biscuit, Ultima II Wonderwear Eyesexxxy Eyeliner in Brown, Ultima II Beautiful Nutrient Nourishing Blush Stick in Tawny.

This annual report contains forward-looking statements under the caption "Dear Fellow Shareholders" and "Financial Information - Management's Discussion and Analysis of Financial Condition and Results of Operations" which reflect Revlon's expectations and estimates as to future events and financial performance including expectations regarding, the impact of competitive activity on share growth, the impact of retailer consolidations, expansion of Ultima II distribution in 1999, introduction of new products, growth in net sales and earnings, the effect of political and/or economic conditions in international markets, restructuring activities, costs and benefits including cost savings, cash flows from operations, our plans to address the Year 2000 issue, the costs associated therewith and the results of non-compliance the availabilites of funds from currently available credit facilities and refinancings and future capital expenditures. Additionally, statements which use the terms "believes," "expects," "may," "will," "should," "seeks," "plans," "scheduled to," "anticipates," or "intends" are forward-looking. Forward-looking statements involve risks and uncertainties and a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements" for a full description of these risks, uncertainties and factors. We assume no responsibility to update forward-looking information.

Profile

Revlon is a worldwide leader in cosmetics, skin care, fragrance, personal care and professional products. Our vision is to provide glamour, excitement and innovation to consumers through high-quality products at affordable prices. Revlon's products are sold in approximately 175 countries and territories around the world under such well-known brand names as Revlon, ColorStay, Revlon Age Defying, Almay, Ultima II, Charlie, Flex and Creme of Nature.

REVLON



Dear Fellow Shareholders:

In 1998, we saw a mix of strong growth and intense challenge. Our performance in the first half of the year was very positive, with share growth, category growth and other measures all pointing to another record performance. However, in the second half, global economic problems began to seriously impact our international operations, while retailer consolidation in the United States, particularly among chain drugstores, brought dramatic changes to customer buying patterns and trade inventory levels. In addition, U.S.

mass market color cosmetics category growth slowed and increasing competition caused our Revlon brand share to level off. In spite of all this, market share for the total Revlon portfolio of brands grew substantially.

We have adjusted quickly to these developments, and we're confident that we've taken the right steps to put Revlon back on track toward overcoming these conditions. In October, we announced a restructuring aimed at achieving maximum efficiency in every part of the business. We are realigning and streamlining our processes and employee force to remove costs and improve customer service as we prepare for business in the new millennium.

The restructuring is expected to yield annual cost savings of between $30 to $40 million, with $15 to $20 million expected to be achieved in 1999. These savings will provide additional resources to invest in new products and marketing support, and to further our goal to provide improved profit performance.

A changing business

The degree of change in our markets in 1998 is clear in category growth, which slowed to 8.7 percent in the second half. In most industries, that is an excellent rate of growth, but it's far below the 13 percent growth recorded in the first six months – causing full-year category expansion to fall below our expectations.

Increased competition also affected our business in the second half of 1998, contributing to a leveling of Revlon brand share growth. We have responded with aggressive 1999 plans that specifically address this competitive activity, and we believe this problem will be behind us.

Another major factor was the impact of

the consolidation of the large and powerful retailers that have emerged over the past several years. These companies have introduced new sophisticated inventory management systems and technologies, which – while in the long run are beneficial for our business – have disrupted traditional buying patterns. In spite of a painful period of adjustment, these systems will ultimately improve efficiency and take costs out of the system for both retailer and manufacturer. Importantly, we believe these disruptive effects are temporary, and once absorbed will not be a major factor in our day to day business.

...MARKET SHARE FOR THE TOTAL REVLON PORTFOLIO OF BRANDS GREW SUBSTANTIALLY.

Global changes, global focus

Like many companies, our international business was impacted by instability in certain global markets. Economic difficulties in some markets in the Pacific Rim and Eastern Europe and continuing uncertainty in Latin America affected both consumer and trade demand, although mature markets in Western Europe continued to do well. We have adapted to these challenges by realigning and refocusing our international business to accommodate the shifting economic realities.

The impact of economic cycles is part of doing business in international markets, but we continue to believe very strongly that our international business is an important source of long-term growth. While paring administrative costs, we are maintaining our emphasis on distribution and brand building. Through a strategy of Global Focus, we will shift emphasis toward markets that provide us the greatest potential for growth and stability.

Fundamental strength, adjustment to change

Though business conditions constantly change, the fundamental strengths of our business and the power of our brand franchises endure. The steps we have taken in 1998 will align the Company with market forces and will strengthen our solid foundation. The cornerstone of our foundation is our brands, our organization and our leadership in meeting consumer needs.

Those strengths have made Revlon the number one brand in the U.S. mass color cosmetics market and Almay the category's fastest growing major brand. Repositioned to appeal to women age 40 and over, Ultima II has excellent prospects for growth in the mass market. By year-end, distribution had grown to approximately 4,000

Innovation

doors, with substantial expansion planned for 1999.

Growth from innovation

The driving force in our brand power is innovation. Virtually every significant technological advance in the industry over the past five years has come from Revlon. We believe that in the past year we have been responsible for nearly half of the growth in the U.S. mass market color cosmetics category. While some things may be changing at Revlon, our role as the category driver will not.

We have a formidable line-up of new product introductions scheduled throughout the coming year. In the first half, Revlon will introduce Age Defying Makeup and Concealer Compact, EveryLash Mascara, ColorStay Compact Makeup and, in international markets, MoistureStay

Moisturizer and Foundation Stick. Super Lustrous Haircolor will be a major new introduction, offering proprietary shine-enhancing technologies and advanced conditioners. New from Almay will be "Skin Stays Clean" Foundation, Stay Smooth Mascara and Stay Smooth Medicated Lipcolor. Ultima II will expand its Glowtion Skin Brightening franchise.

African Pride, a brand we acquired in 1998, plans to introduce a range of innovative new products, including Grooming Tools for Men, a new men's hair care line specifically targeted at the ethnic market. African Pride significantly expands our presence in the ethnic hair care market and enables us to better serve all of our consumers.

And that's only the first half of the year – the second half will be as, if not more, exciting.

An ongoing responsibility to consumers

Revlon's continuing commitment to the health and well-being of women is unparalleled. That commitment – some $25 million contributed in the past decade to research and services that help women – paid big dividends in 1998. Based on research and initial clinical investigations by the Revlon/UCLA Women's Cancer Research Program, the new breast cancer drug Herceptin® won FDA approval. We are very proud that through Revlon's support, this life-saving treatment became available years sooner

Excitement

than otherwise would have been possible.

Also in 1998, we announced a new partnership with the National Council of Negro Women to develop programs to support the wellness of African-American women. One program already scheduled is a study of the awareness and understanding of breast and ovarian cancer issues. We also continue to support a wide range of other efforts, including the well-known Revlon Run/Walk for Women.

The cornerstone of our foundation is our brands, our organization and our leadership in meeting consumer needs.

Challenge, change and future growth

The past year was one of significant challenge and change in our markets. But it was also a year of rapid and effective response. We were able to adjust because we are an agile organization, a confident organization, always willing to question assumptions and rethink the way we approach our business.

We head into 1999 with all the strengths that have made us the leader in mass market cosmetics firmly in place: brands that no competitor can match, industry-leading technologies, leadership at retail, and the strongest team in the industry. With those strengths and a leaner, more responsive organization, we believe the stage is set for significant growth.

George Fellows

PRESIDENT AND CHIEF EXECUTIVE OFFICER

REVLON RESULTS AT A GLANCE

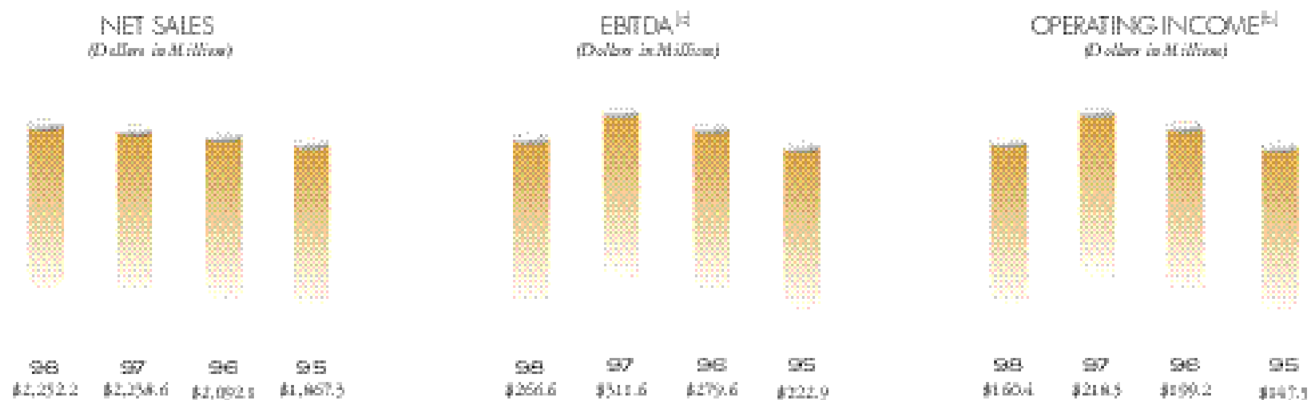
REVLON RESULTS AT A GLANCE

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	YEAR ENDED DECEMBER 31,			
	1998	1997	1996	1995
NET SALES	$2,252.2	$2,238.6	$2,092.1	$1,867.3
EBITDA[(a)]	266.6	311.6	279.6	222.9
OPERATING INCOME BEFORE NON-RECURRING CHARGES, NET[(b)]	160.4	218.5	199.2	147.5
OPERATING INCOME	124.6	214.9	199.2	147.5
INCOME (LOSS) FROM CONTINUING OPERATIONS[(c)]	(27.3)	57.8	24.4	(37.2)
INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE[(c)]	$(.53)	$1.13	$.49	$(.88)

(a) Defined as operating income before non-recurring charges, net of $35.8 million and $3.6 millon in 1998 and 1997, respectively, plus depreciation and amortization other than that relating to debt issuance costs.

(b) Excludes non-recurring charges, net of $35.8 million and $3.6 million in 1998 and 1997, respectively.

(c) Includes the effects of non-recurring charges, net.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)

OVERVIEW

Revlon, Inc. (and together with its subsidiaries, the "Company") operates in a single segment with many different products, which include an extensive array of glamorous, exciting and innovative cosmetics and skin care, fragrance and personal care products, and professional products, consisting of hair and nail care products principally for use in and resale by professional salons. In addition, the Company has a licensing group. The Company's business is conducted exclusively through its wholly owned subsidiary, Revlon Consumer Products Corporation (together with its subsidiaries, "Products Corporation").

RESULTS OF OPERATIONS

The following table sets forth the Company's net sales for each of the last three years:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
NET SALES:			
UNITED STATES	$ 1,338.5	$ 1,300.2	$ 1,182.3
INTERNATIONAL	913.7	938.4	909.8
	$ 2,252.2	$ 2,238.6	$ 2,092.1

The following table sets forth certain statements of operations data as a percentage of net sales for each of the last three years:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
COST OF SALES*	34.0%	33.2%	32.9%
GROSS PROFIT	66.0	66.8	67.1
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A")	59.0	57.1	57.6
BUSINESS CONSOLIDATION COSTS AND OTHER, NET	1.5	0.1	–
OPERATING INCOME	5.5	9.6	9.5

*1998 includes $2.7 (0.1% of net sales) for charges related to restructuring.

Year ended December 31, 1998 compared with year ended December 31, 1997

NET SALES

Net sales were $2,252.2 and $2,238.6 for 1998 and 1997, respectively, an increase of $13.6, or 0.6% (or 2.7% on a constant U.S. dollar basis).

UNITED STATES. Net sales in the United States were $1,338.5 for 1998 compared to $1,300.2 for 1997, an increase of $38.3, or 2.9%. The increase in net sales in 1998 reflects improvements in net sales of products in the Company's Almay and Ultima franchises and expansion of certain of the Company's professional product lines including an acquisition. For the first half of 1998, net sales for the Company's Revlon franchise increased as compared to the first half of 1997 as a result of continued consumer acceptance of new product offerings and general improvement in consumer demand for the Company's color cosmetics. Beginning in the third quarter of 1998, such sales were adversely affected by a slowdown in the rate of growth in the mass market color cosmetics category and a leveling of market share. Additionally, net sales for 1998 were impacted by reduced purchases by some retailers, particularly chain drugstores, resulting from improved inventory management through systems upgrades and inventory reductions following several recent business combinations. The Company expects retail inventory balancing and reductions to continue to affect sales in 1999.

Revlon brand color cosmetics continued as the number one brand in dollar market share in the U.S. self-select distribution channel. New product introductions (including, in 1998, certain products launched during 1997) generated incremental net sales in 1998, principally as a result of launches of Top Speed nail enamel, MoistureStay lip makeup, products in the New Complexion line, ColorStay shampoo, Almay Stay Smooth lip makeup, products in the Almay Amazing collection, products in the Almay One Coat collection, products in the Ultima II Beautiful Nutrient and Ultima II Full Moisture lipcolor lines and Ultima II Glowtion skin brighteners.

INTERNATIONAL. Net sales outside the United States were $913.7 for 1998 compared to $938.4 for 1997, a decrease of $24.7, or 2.6%, on a reported basis (an increase of 2.4% on a constant U.S. dollar basis). The increase in net sales for 1998 on a constant dollar basis reflects the benefits of increased distribution, including acquisitions, and successful new product introductions in several markets including MoistureStay lip makeup and Top Speed nail enamel. The decrease in net sales for 1998 on a reported basis reflects the unfavorable effect on sales of a stronger U.S. dollar against most foreign currencies and unfavorable economic conditions in several international markets. These unfavorable economic conditions restrained consumer and trade demand outside the U.S., particularly in South America and the Far East, as well as Russia and other developing economies. Sales outside the United States are divided into three geographic regions. In Europe, which is comprised of Europe, the Middle East and Africa, net sales decreased by 2.6% on a reported basis to $406.9 for 1998 as compared to 1997 (an increase of 0.5% on a constant U.S. dollar basis). In the Western Hemisphere, which is comprised of Canada, Mexico, Central America, South America and Puerto Rico, net sales increased by 4.8% on a reported basis to $363.3 for 1998 as compared to 1997 (an increase of 9.5% on a constant U.S. dollar basis). The Company's operations in Brazil are significant. In Brazil, net sales were $122.5 on a reported basis for 1998 compared to $130.9 for 1997, a decrease of $8.4, or 6.4% (an increase of 0.5% on a constant U.S. dollar basis). On a reported basis, net sales in Brazil were adversely affected by the stronger U.S. dollar against the Brazilian real. In the Far East, net sales decreased by 17.5% on a reported basis to $143.5 for 1998 as compared to 1997 (a decrease of 7.4% on a constant U.S. dollar basis). Net sales outside the United States, including without limitation in Brazil, were, and may continue to be, adversely impacted by generally weak economic conditions, political and economic uncertainties, including without limitation currency fluctuations, and competitive activities in certain markets.

COST OF SALES

As a percentage of net sales, cost of sales was 34.0% for 1998 compared to 33.2% for 1997. The increase in cost of sales as a

percentage of net sales for 1998 compared to 1997 is due to changes in product mix, the effect of weaker local currencies on the cost of imported purchases, the effect of lower net sales in the second half of 1998 and the inclusion of $2.7 of other costs incurred to exit certain product lines outside the United States in connection with the restructuring charge in the fourth quarter of 1998. These factors were partially offset by the benefits of more efficient global production and purchasing.

SG&A EXPENSES

As a percentage of net sales, SG&A expenses were 59.0% for 1998 compared to 57.1% for 1997. SG&A expenses other than advertising and consumer-directed promotion expenses, as a percentage of net sales, were 40.2% for 1998 compared to 39.3% for 1997. The increase in SG&A expenses other than advertising and consumer-directed promotion expenses as a percentage of net sales was due primarily to the effects of lower than expected sales. The Company's advertising and consumer-directed promotion expenditures were incurred to support existing product lines, new product launches and increased distribution. Advertising and consumer-directed promotion expenses as a percentage of net sales were 18.8%, or $422.9, for 1998 compared to 17.8%, or $397.4, for 1997.

BUSINESS CONSOLIDATION COSTS AND OTHER, NET

In the fourth quarter of 1998 the Company committed to a restructuring plan to realign and reduce personnel, exit excess leased real estate, realign and consolidate regional activities, reconfigure certain manufacturing operations and exit certain product lines. As a result, the Company recognized a net charge of $42.9 comprised of $26.6 of employee severance and termination benefits for 720 sales, marketing, administrative, factory and distribution employees worldwide, $14.9 of costs to exit excess leased real estate primarily in the United States and $2.7 of other costs described above in cost of sales, partially offset by a gain of $1.3 for the sale of a factory outside the United States.

In the third quarter of 1998 the Company recognized a gain of approximately $7.1 for the sale of the wigs and hairpieces portion of its business in the United States.

In 1997 the Company incurred business consolidation costs of $20.6 in connection with the implementation of its business strategy to rationalize factory operations. These costs primarily included severance for 415 factory and administrative employees and other costs related to the rationalization of certain factory and warehouse operations worldwide. Such costs were partially offset by an approximately $12.7 settlement of a claim and related gains of approximately $4.3 for the sales of certain factory operations outside the United States.

OPERATING INCOME

As a result of the foregoing, operating income decreased by $90.3, or 42.0%, to $124.6 for 1998 from $214.9 for 1997.

OTHER EXPENSES/INCOME

Interest expense was $137.9 for 1998 compared to $133.7 for 1997. The increase in interest expense for 1998 as compared to 1997 is due to higher average outstanding borrowings partially offset by lower interest rates.

Foreign currency losses, net, were $4.6 for 1998 compared to $6.4 for 1997. The foreign currency losses for 1998 were comprised primarily of losses in several markets in Latin America. The losses in 1997 were comprised primarily of losses in several markets in Europe and the Far East.

PROVISION FOR INCOME TAXES

The provision for income taxes was $5.0 and $9.3 for 1998 and 1997, respectively. The decrease was primarily attributable to lower taxable income outside the United States in 1998.

DISCONTINUED OPERATIONS

During 1998, the Company completed the disposition of its approximately 85% equity interest in The Cosmetic Center, Inc. (the "Cosmetic Center"). In connection with such transaction, the Company recorded a loss on disposal of $47.7 during 1998. (Loss) income from discontinued operations was $(16.5) (excluding the $47.7 loss on disposal) and $0.7 for 1998 and 1997, respectively. The 1997 period includes a $6.0 non-recurring gain resulting from the merger of Prestige Fragrance & Cosmetics, Inc., then a wholly owned subsidiary of the Company, with and into Cosmetic Center on April 25, 1997, partially offset by related business consolidation costs of $4.0. The 1998 period includes the Company's share of a non-recurring charge of $10.5 taken by Cosmetic Center primarily related to inventory and severance.

EXTRAORDINARY ITEMS

The extraordinary item of $51.7 in 1998 resulted primarily from the write-off of deferred financing costs and payment of call premiums associated with the redemption of the 9 3/8% Senior Notes and the 10 1/2% Senior Subordinated Notes. The extraordinary item in 1997 resulted from the write-off of deferred financing costs associated with the extinguishment of borrowings under the 1996 Credit Agreement (as hereinafter defined) prior to maturity with proceeds from the Credit Agreement (as hereinafter defined), and costs of approximately $6.3 in connection with the redemption of Products Corporation's 10 7/8% Sinking Fund Debentures due 2010 (the "Sinking Fund Debentures").

Year ended December 31, 1997 compared with year ended December 31, 1996

NET SALES

Net sales were $2,238.6 and $2,092.1 for 1997 and 1996, respectively, an increase of $146.5, or 7.0% or 9.5% on a constant U.S. dollar basis, primarily as a result of successful new product introductions worldwide, increased demand in the United States, increased distribution internationally into the expanding self-select distribution channel and the further development of new international markets.

UNITED STATES. Net sales in the United States increased to $1,300.2 for 1997 from $1,182.3 for 1996, an increase of $117.9, or 10.0%. Net sales improved for 1997, primarily as a result of continued consumer acceptance of new product offerings and general improvement in consumer demand for the Company's color cosmetics. These results were partially offset by a decline in the Company's fragrance business caused by downward trends in the mass fragrance industry and the Company's strategy to de-emphasize new fragrance products. Even though consumer sell-through for the Revlon and Almay brands, as described below in more detail, has increased significantly, the Company's sales to its customers have been during 1997 and may continue to be impacted by retail inventory balancing and reductions resulting from consolidation in the chain drugstore industry in the U.S.

Revlon brand color cosmetics continued as the number one brand in dollar market share in the self-select distribution channel with a share of 21.6% for 1997 versus 21.4% for 1996. Market share, which is subject to a number of conditions, can vary from quarter to quarter as a result of such things as timing of new product introductions and advertising and promotional spending. New product introductions (including, in 1997, certain products launched during 1996) generated incremental net sales in 1997, principally as a result of launches of products in the ColorStay collection, including ColorStay eye makeup and face products such as powder and blush, ColorStay haircolor, launched in the third quarter of 1997, Top Speed nail enamel, launched in the third quarter of 1997, and launches of Revlon Age Defying line extensions, the StreetWear collection, New Complexion face makeup, Line & Shine lip makeup and launches of products in the Almay Amazing collection, including lip makeup, eye makeup, face makeup and concealer, Almay One Coat, and Almay Time-Off Revitalizer.

INTERNATIONAL. Net sales outside the United States increased to $938.4 for 1997 from $909.8 for 1996, an increase of $28.6, or 3.1% on a reported basis or 8.8% on a constant U.S. dollar basis. Net sales improved for 1997, principally as a result of

increased distribution into the expanding self-select distribution channel, successful new product introductions, including the continued roll-out of the ColorStay cosmetics collection and the further development of new international markets. This was partially offset by the Company's decision to exit the unprofitable demonstrator-assisted channel in Japan in the second half of 1996, unfavorable economic conditions in several international markets, and, on a reported basis, the unfavorable effect on sales of a stronger U.S. dollar against certain foreign currencies, primarily the Spanish peseta, the Italian lira and several other European currencies, the Australian dollar, the South African rand and the Japanese yen. New products such as ColorStay haircolor and StreetWear were introduced in select international markets in the second half of 1997. Sales outside the United States were divided into the following geographic areas: Europe, which is comprised of Europe, the Middle East and Africa (in which net sales increased by 3.4% on a reported basis to $417.9 for 1997 as compared to 1996 or an increase of 11.3% on a constant U.S. dollar basis); the Western Hemisphere, which is comprised of Canada, Mexico, Central America, South America and Puerto Rico (in which net sales increased by 11.1% on a reported basis to $346.6 for 1997 as compared to 1996 or an increase of 14.5% on a constant U.S. dollar basis); and the Far East (in which net sales decreased by 10.3% on a reported basis to $173.9 for 1997 as compared to 1996 or a decrease of 5.5% on a constant U.S. dollar basis). Excluding in both periods the effect of the Company's strategy of exiting the demonstrator-assisted distribution channel in Japan, Far East net sales on a constant U.S. dollar basis for 1997 would have been at approximately the same level as those in 1996.

The Company's operations in Brazil are significant and, along with operations in certain other countries, have been subject to, and may continue to be subject to, significant political and economic uncertainties. In Brazil, net sales, operating income and income before taxes were $130.9, $16.0 and $7.7, respectively, for 1997 compared to $132.7, $25.1 and $20.0, respectively, for 1996. Results of operations in Brazil for 1997 were adversely impacted by competitive activity affecting the Company's toiletries business.

COST OF SALES

As a percentage of net sales, cost of sales was 33.2% for 1997 compared to 32.9% for 1996. The increase in cost of sales as a percentage of net sales included factors which enhanced overall operating income, including increased sales of the Company's higher cost, enhanced-performance, technology-based products and increased export sales and other factors including the effect of weaker local currencies on the cost of imported purchases and competitive pressures on the Company's toiletries business in certain international markets. These factors were partially offset by the benefits of improved overhead absorption against higher production volumes and more efficient global production and purchasing.

SG&A EXPENSES

As a percentage of net sales, SG&A expenses were 57.1% for 1997, an improvement from 57.6% for 1996. SG&A expenses other than advertising and consumer-directed promotion expenses, as a percentage of net sales, improved to 39.3% for 1997 compared with 40.6% for 1996, primarily as a result of reduced general and administrative expenses, improved productivity and lower distribution costs in 1997 compared with those in 1996. In accordance with its business strategy, the Company increased advertising and consumer-directed promotion expenditures in 1997 compared with 1996 to support growth in existing product lines, new product launches and increased distribution in the self-select distribution channel in many of the Company's markets outside the United States. Advertising and consumer-directed promotion expenses increased by 11.8% to $397.4, or 17.8% of net sales, for 1997 from $355.5, or 17.0% of net sales, for 1996.

BUSINESS CONSOLIDATION COSTS AND OTHER, NET

Business consolidation costs and other, net, in 1997 include severance, writedowns of certain assets to their estimated net realizable value

and other related costs to rationalize factory operations in certain operations in accordance with the Company's business strategy, partially offset by related gains for the sales of certain factory operations and an approximately $12.7 settlement of a claim in the second quarter of 1997. These business consolidations are intended to lower the Company's operating costs and increase efficiency in the future.

OPERATING INCOME

As a result of the foregoing, operating income increased by $15.7, or 7.9%, to $214.9 for 1997 from $199.2 for 1996.

OTHER EXPENSES/INCOME

Interest expense was $133.7 for 1997 compared to $133.4 for 1996. The slight increase in interest expense in 1997 is due to higher average outstanding borrowings, partially offset by lower interest rates.

Foreign currency losses, net, were $6.4 for 1997 compared to $5.7 for 1996. The increase in foreign currency losses for 1997 as compared to 1996 resulted primarily from a non-recurring gain recognized in 1996 in connection with the Company's simplification of its international corporate structure and from the strengthening of the U.S. dollar versus currencies in the Far East and most European currencies, partially offset by the stabilization of the Venezuelan bolivar and Mexican peso versus the devaluations which occurred during 1996.

PROVISION FOR INCOME TAXES

The provision for income taxes was $9.3 and $25.5 for 1997 and 1996, respectively. The decrease was primarily attributable to lower taxable income with respect to operations outside the United States, partially as a result of the implementation of tax planning, including the utilization of net operating loss carryforwards with respect to operations outside the United States, and benefits from net operating loss carryforwards domestically.

DISCONTINUED OPERATIONS

Income from discontinued operations was $0.7 and $0.4 for 1997 and 1996, respectively. The 1997 period includes a $6.0 non-recurring gain resulting from the merger of Prestige Fragrance & Cosmetics, Inc., then a wholly owned subsidiary of Products Corporation, with and into Cosmetic Center on April 25, 1997, partially offset by related business consolidation costs of $4.0 and operating losses of Cosmetic Center.

EXTRAORDINARY ITEMS

The extraordinary item in 1997 resulted from the write-off in the second quarter of 1997 of deferred financing costs associated with the early extinguishment of borrowings under the 1996 Credit Agreement prior to maturity with proceeds from the Credit Agreement, and costs of approximately $6.3 in connection with the redemption of Products Corporation's Sinking Fund Debentures. The extraordinary item in 1996 resulted from the write-off in the first quarter of 1996 of deferred financing costs associated with the early extinguishment of borrowings under the credit agreement in effect at that time (the "1995 Credit Agreement") prior to maturity with the net proceeds from the Company's initial public equity offering (the "Revlon IPO") and proceeds from the 1996 Credit Agreement.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash (used for) provided by operating activities was $(51.5), $8.7 and $(10.3) for 1998, 1997 and 1996, respectively. The increase in net cash used for operating activities for 1998 compared with cash provided in 1997 resulted primarily from lower operating income and increased cash used for business consolidation costs and other, net in 1998. The increase in net cash provided by

operating activities for 1997 compared with net cash used in 1996 resulted primarily from higher operating income and improved working capital management in 1997, partially offset by increased spending on merchandise display units in connection with the Company's expansion into the self-select distribution channel.

Net cash used for investing activities was $91.0, $84.3 and $61.8 for 1998, 1997 and 1996, respectively. Net cash used for investing activities for 1998 and 1997 includes cash paid in connection with acquisitions of businesses and capital expenditures, partially offset by the proceeds from the sale of the wigs and hairpieces portion of the Company's business in the United States in 1998 and from the sale of certain assets in 1998 and 1997. Net cash used for investing activities for 1998, 1997 and 1996 included capital expenditures of $60.8, $52.3 and $54.7, respectively, and $57.6, $40.5 and $7.1, respectively, used for acquisitions.

Net cash provided by financing activities was $159.1, $84.9 and $77.9 for 1998, 1997 and 1996, respectively. Net cash provided by financing activities for 1998 included proceeds from the issuance of the 9% Senior Notes due 2006 (the "9% Notes"), the 8 1/8% Notes (as hereinafter defined) and the 8 5/8% Notes (as hereinafter defined) and cash drawn under the Credit Agreement, partially offset by the payment of fees and expenses related to the issuance of the 9% Notes, the 8 1/8% Notes and the 8 5/8% Notes, the redemption of the Senior Subordinated Notes (as hereinafter defined), the Senior Notes (as hereinafter defined), and the repayment of borrowings under the Company's Japanese yen-denominated credit agreement (the "Yen Credit Agreement"). During 1998, 1997 and 1996, net cash used by discontinued operations was $17.3, $3.4 and $2.7, respectively. Net cash provided by financing activities for 1997 included cash drawn under the 1996 Credit Agreement and the Credit Agreement, partially offset by the repayment of borrowings under the 1996 Credit Agreement, the payment of fees and expenses related to entering into the Credit Agreement, the repayment of borrowings under the Yen Credit Agreement and the redemption of the Sinking Fund Debentures. Net cash provided by financing activities for 1996 included the net proceeds from the Revlon IPO, cash drawn under the 1995 Credit Agreement and under the 1996 Credit Agreement, partially offset by the repayment of borrowings under the 1995 Credit Agreement, the payment of fees and expenses related to the 1996 Credit Agreement and the repayment of borrowings under the Yen Credit Agreement.

On November 6, 1998, Products Corporation issued and sold $250.0 aggregate principal amount of the 9% Notes in a private placement, receiving net proceeds of $247.2. Products Corporation intends to use $200.0 of the net proceeds from the sale of the 9% Notes to refinance Products Corporation's 9 1/2% Senior Notes due 1999 (the "1999 Notes"), including through open market purchases. Products Corporation intends to use the balance of the net proceeds for general corporate purposes, including to temporarily reduce indebtedness under the working capital lines under the Credit Agreement. Pending the refinancing of the 1999 Notes, such net proceeds will be retained by Products Corporation and a portion of such proceeds will be used to temporarily reduce indebtedness under the working capital lines under the Credit Agreement and under other short-term facilities. On February 24, 1999, substantially all of the 9% Notes were exchanged for registered notes with substantially identical terms (the 9% Notes and the registered exchange notes shall each be referred to as the "9% Notes").

On February 2, 1998, Revlon Escrow Corp., an affiliate of Products Corporation, issued and sold in a private placement $650.0 aggregate principal amount of 8 5/8% Senior Subordinated Notes due 2008 (the "8 5/8% Notes") and $250.0 aggregate principal amount of 8 1/8% Senior Notes due 2006 (the "8 1/8% Notes" and, together with the 8 5/8% Notes, the "Notes"), with the net proceeds of approximately $886 deposited into escrow. The proceeds from the sale of the Notes were used to finance the redemption by Products Corporation of $555.0 aggregate principal amount of its 10 1/2% Senior Subordinated Notes due 2003 (the "Senior Subordinated Notes") and $260.0 aggregate principal amount of its 9 3/8% Senior Notes due 2001 (the "Senior Notes"). Products Corporation delivered a redemption notice to the holders of the Senior Subordinated Notes for the redemption of the Senior Subordinated Notes on March 4, 1998, at which time Products Corporation assumed the obligations under the 8 5/8% Notes and the related

indenture (the "8 5/8% Notes Assumption"), and to the holders of the Senior Notes for the redemption of the Senior Notes on April 1, 1998, at which time Products Corporation assumed the obligations under the 8 1/8% Notes and the related indenture (the "8 1/8% Notes Assumption" and, together with the 8 5/8% Notes Assumption, the "Assumption"). In connection with the redemptions of the Senior Subordinated Notes and the Senior Notes, the Company recorded an extraordinary loss of $51.7 during 1998 resulting primarily from the write-off of deferred financing costs and payment of call premiums on the Senior Subordinated Notes and the Senior Notes. On May 7, 1998, substantially all of the Notes were exchanged for registered notes with substantially identical terms (the Notes and the registered exchange notes shall each be referred to as the "Notes").

In May 1997, Products Corporation entered into a credit agreement (the "Credit Agreement") with a syndicate of lenders, whose individual members change from time to time. The proceeds of loans made under the Credit Agreement were used for the purpose of repaying the loans outstanding under the credit agreement in effect at that time (the "1996 Credit Agreement") and to redeem Products Corporation's Sinking Fund Debentures and were and will be used for general corporate purposes and, in the case of the Acquisition Facility (as hereinafter defined), the financing of acquisitions. The Credit Agreement provides up to $749.0 and is comprised of five senior secured facilities: $199.0 in two term loan facilities (the "Term Loan Facilities"), a $300.0 multi-currency facility (the "Multi-Currency Facility"), a $200.0 revolving acquisition facility, which may be increased to $400.0 under certain circumstances with the consent of a majority of the lenders (the "Acquisition Facility"), and a $50.0 special standby letter of credit facility (the "Special LC Facility"). At December 31, 1998, the Company had approximately $199.0 outstanding under the Term Loan Facilities, $9.7 outstanding under the Multi-Currency Facility, $63.5 outstanding under the Acquisition Facility and $29.0 of issued but undrawn letters of credit under the Special LC Facility. In connection with the issuance of the 9% Notes, Products Corporation amended the Credit Agreement to provide that it can retain the net proceeds of such issuance which exceed the amount of the 1999 Notes refinanced plus related costs and expenses. Additionally, Products Corporation agreed that until the 1999 Notes are refinanced, $200.0 of the Multi-Currency Facility available under the Credit Agreement (reduced by the amount of 1999 Notes actually repurchased or refinanced), which would otherwise be available for working capital purposes, will be used solely to refinance the 1999 Notes. In December 1998, Products Corporation amended the Credit Agreement to modify the terms of certain of the financial ratios and tests to account for, among other things, the expected charges in connection with the Company's restructuring effort. In addition, the amendment increased the applicable margin and provides that Products Corporation may use the proceeds of the Acquisition Facility for general corporate purposes as well as for acquisitions.

A subsidiary of Products Corporation is the borrower under the Yen Credit Agreement, which had a principal balance of approximately ¥1.5 billion as of December 31, 1998 (approximately $13.6 U.S. dollar equivalent as of December 31, 1998) (after giving effect to the repayment described below). Approximately ¥539 million (approximately $4.2 U.S. dollar equivalent) was paid in March 1998, approximately ¥539 million (approximately $4.7 U.S. dollar equivalent as of December 31, 1998) is due in each of March 1999 and 2000 and approximately ¥474 million (approximately $4.2 U.S. dollar equivalent as of December 31, 1998) is due on December 31, 2000. On December 10, 1998, in connection with the disposition of the stock of Cosmetic Center, which had served as collateral under the Yen Credit Agreement, Products Corporation repaid ¥2.22 billion (approximately $19.0 U.S. dollar equivalent as of December 10, 1998) principal amount.

Products Corporation made an optional sinking fund payment of $13.5 and redeemed all of the outstanding $85.0 principal amount Sinking Fund Debentures during 1997 with the proceeds of borrowings under the Credit Agreement. $9.0 aggregate principal amount of previously purchased Sinking Fund Debentures were used for the mandatory sinking fund payment due July 15, 1997.

Products Corporation borrows funds from its affiliates from time to time to supplement its working capital borrowings at interest rates more favorable to Products Corporation than interest rates under the Credit Agreement. No such borrowings were outstanding as of December 31, 1998.

The Company's principal sources of funds are expected to be cash flow generated from operations and borrowings under the Credit

Agreement, refinancings and other existing working capital lines. The Credit Agreement, the 1999 Notes, the Notes and the 9% Notes contain certain provisions that by their terms limit Products Corporation's and/or its subsidiaries' ability to, among other things, incur additional debt. The Company's principal uses of funds are expected to be the payment of operating expenses, working capital and capital expenditure requirements, expenses in connection with the Company's restructuring referred to above and debt service payments (including purchase and repayment of the 1999 Notes).

The Company estimates that capital expenditures for 1999 will be approximately $60, including upgrades to the Company's management information systems. The Company estimates that cash payments related to the 1998 restructuring charge will be approximately $35, of which approximately $22 will be paid in 1999. Pursuant to a tax sharing agreement, Revlon, Inc. may be required to make tax sharing payments to Mafco Holdings Inc. as if Revlon, Inc. were filing separate income tax returns, except that no payments are required by Revlon, Inc. if and to the extent that Products Corporation is prohibited under the Credit Agreement from making tax sharing payments to Revlon, Inc. The Credit Agreement prohibits Products Corporation from making any tax sharing payments other than in respect of state and local income taxes. Revlon, Inc. currently anticipates that, as a result of net operating tax losses and prohibitions under the Credit Agreement, no cash federal tax payments or cash payments in lieu of taxes pursuant to the tax sharing agreement will be required for 1999 (See Note 16 to the Consolidated Financial Statements).

As of December 31, 1997, Products Corporation was party to a series of interest rate swap agreements totaling a notional amount of $225.0 in which Products Corporation agreed to pay on such notional amount a variable interest rate equal to the six month LIBOR to its counterparties and the counterparties agreed to pay on such notional amounts fixed interest rates averaging approximately 6.03% per annum. Products Corporation entered into these agreements in 1993 and 1994 (and in the first quarter of 1996 extended a portion equal to a notional amount of $125.0 through December 2001) to convert the interest rate on $225.0 of fixed-rate indebtedness to a variable rate. Products Corporation terminated these agreements in January 1998 and realized a gain of approximately $1.6, which was recognized upon repayment of the hedged indebtedness and is included in the 1998 extraordinary item for the early extinguishment of debt.

Products Corporation enters into forward foreign exchange contracts and option contracts from time to time to hedge certain cash flows denominated in foreign currencies. Products Corporation had forward foreign exchange contracts denominated in various currencies of approximately $197.5 and $90.1 (U.S. dollar equivalent) outstanding at December 31, 1998 and 1997, respectively, and option contracts of approximately $51.0 and $94.9 outstanding at December 31, 1998 and 1997, respectively. Such contracts are entered into to hedge transactions predominantly occurring within twelve months. If Products Corporation had terminated these contracts on December 31, 1998 and 1997 or the contracts then outstanding on December 31, 1996, no material gain or loss would have been realized.

Based upon the Company's current level of operations and anticipated growth in net sales and earnings as a result of its business strategy, the Company expects that cash flows from operations and funds from currently available credit facilities and refinancings of existing indebtedness will be sufficient to enable the Company to meet its anticipated cash requirements for the foreseeable future on a consolidated basis, including for debt service (including refinancing the 1999 Notes). However, there can be no assurance that cash flow from operations and funds from existing credit facilities and refinancing of existing indebtedness will be sufficient to meet the Company's cash requirements on a consolidated basis. If the Company is unable to satisfy such cash requirements, the Company could be required to adopt one or more alternatives, such as reducing or delaying capital expenditures, restructuring indebtedness, selling assets or operations, or seeking capital contributions or loans from affiliates of the Company or issuing additional shares of capital stock of Revlon, Inc. Revlon, Inc., as a holding company, will be dependent on the earnings and cash flow of, and dividends and distributions from, Products Corporation to pay its expenses and to pay any cash dividend or distribution of the Class A Common Stock that may be authorized by

the Board of Directors of Revlon, Inc. There can be no assurance that any of such actions could be effected, that they would enable the Company to continue to satisfy its capital requirements or that they would be permitted under the terms of the Company's various debt instruments then in effect. The terms of the Credit Agreement, the 1999 Notes, the Notes and the 9% Notes generally restrict Products Corporation from paying dividends or making distributions, except that Products Corporation is permitted to pay dividends and make distributions to Revlon, Inc., among other things, to enable Revlon, Inc. to pay expenses incidental to being a public holding company, including, among other things, professional fees such as legal and accounting, regulatory fees such as Securities and Exchange Commission (the "Commission") filing fees and other miscellaneous expenses related to being a public holding company and to pay dividends or make distributions in certain circumstances to finance the purchase by Revlon, Inc. of its Class A Common Stock in connection with the delivery of such Class A Common Stock to grantees under the Revlon, Inc. Amended and Restated 1996 Stock Plan, provided that the aggregate amount of such dividends and distributions taken together with any purchases of Revlon, Inc. common stock on the open market to satisfy matching obligations under the excess savings plan may not exceed $6.0 per annum.

YEAR 2000

Commencing in 1997, the Company undertook a business process enhancement program to substantially upgrade management information technology systems in order to provide comprehensive order processing, production and accounting support for the Company's business. The Company also developed a comprehensive plan to address Year 2000 issues. The Year 2000 plan addresses three main areas: (a) information technology systems; (b) non-information technology systems (including factory equipment, building systems and other embedded systems); and (c) business partner readiness (including without limitation customers, inventory and non-inventory suppliers, service suppliers, banks, insurance companies and tax and other governmental agencies). To oversee the process, the Company has established a Steering Committee comprised of senior executives of the Company.

In connection with and as part of the Company's business process enhancement program, certain information technology systems have been and will continue to be upgraded to be Year 2000 compliant. In addition, as part of its Year 2000 plan, the Company has identified potential deficiencies related to Year 2000 in certain of its information technology systems, both hardware and software, and is in the process of addressing them through upgrades and other remediation. The Company currently expects to complete upgrade and remediation and testing of its information systems by the third quarter of 1999. In respect of non-information technology systems with date sensitive operating controls, the Company is in the process of identifying those items which may require remediation or replacement, and has commenced an upgrade and remediation program for systems identified as Year 2000 non-compliant. The Company expects to complete remediation or replacement and testing of these by the third quarter of 1999. The Company has identified and contacted and continues to identify and contact key suppliers, both inventory and non-inventory, key customers and other strategic business partners, such as banks, pension trust managers and marketing data suppliers, either by soliciting written responses to questionnaires and/or by meeting with certain of such third parties. The parties from whom the Company has received responses to date generally have indicated that their systems are or will be Year 2000 compliant. The Company currently expects to gain a better understanding of the Year 2000 readiness of third party business partners by early 1999.

The Company does not expect that incremental out-of-pocket costs of its Year 2000 program (which do not include costs incurred in connection with the Company's comprehensive business process enhancement program) will be material. These costs are expected to continue to be incurred through fiscal 1999 and include the cost of third party consultants, remediation of existing computer software and replacement and remediation of embedded systems.

The Company believes that at the current time it is difficult to identify specifically the most reasonably likely worst case Year 2000 scenario. As with all manufacturers and distributors of products such as those sold by the Company, a reasonable worst case scenario would

be the result of failures of third parties (including, without limitation, governmental entities and entities with which the Company has no direct involvement, as well as the Company's suppliers of goods and services and customers) that continue for more than a brief period in various geographic areas where the Company's products are produced or sold at retail or in areas from which the Company's raw materials and components are sourced. In connection with functions that represent a particular Year 2000 risk, including the production, warehousing and distribution of products and the supply of raw materials and components, the Company is considering various contingency plans. Continuing failures in key geographic areas in the United States and in certain European, South American and Asian countries that limit the Company's ability to produce products, its customers' ability to purchase and pay for the Company's products and/or consumers' ability to shop, would be likely to have a material adverse effect on the Company's results of operations, although it would be expected that at least part of any lost sales eventually would be recouped. The extent of such deferred or lost revenue cannot be estimated at this time.

The Company's Year 2000 efforts are ongoing and its overall plan, as well as the consideration of contingency plans, will continue to evolve as new information becomes available. While the Company currently anticipates continuity of its business activities, that continuity will be dependent upon its ability, and the ability of third parties upon which the Company relies directly, or indirectly, to be Year 2000 compliant. There can be no assurance that the Company and such third parties will eliminate potential Year 2000 issues in a timely manner or as to the ultimate cost to the Company of doing so.

EURO CONVERSION

As part of the European Economic and Monetary Union, a single currency (the "Euro") will replace the national currencies of the principal European countries (other than the United Kingdom) in which the Company conducts business and manufacturing. The conversion rates between the Euro and the participating nations' currencies were fixed as of January 1, 1999, with the participating national currencies being removed from circulation between January 1, 2002 and June 30, 2002 and replaced by Euro notes and coinage. During the transition period from January 1, 1999 through December 31, 2001, public and private entities as well as individuals may pay for goods and services using checks, drafts, or wire transfers denominated either in the Euro or the participating country's national currency. Under the regulations governing the transition to a single currency, there is a "no compulsion, no prohibition" rule which states that no one is obliged to use the Euro before July 2002. In keeping with this rule, the Company expects to either continue using the national currencies or the Euro for invoicing or payments. Based upon the information currently available, the Company does not expect that the transition to the Euro will have a material adverse effect on the business or consolidated financial condition of the Company.

FORWARD-LOOKING STATEMENTS

This annual report for the year ended December 31, 1998 as well as other public documents of the Company contain forward-looking statements which involve risks and uncertainties. The Company's actual results may differ materially from those discussed in such forward-looking statements. Such statements include, without limitation, the Company's expectations and estimates as to introduction of new products and expansion into markets, future financial performance, including growth in net sales and earnings, the effect on sales of retail inventory balancing and reductions, the effect on sales of political and/or economic conditions in international markets, the Company's estimate of restructuring activities, costs and benefits, cash flow from operations, information systems upgrades, the Company's plan to address the Year 2000 issue, the costs associated with the Year 2000 issue and the results of Year 2000 non-compliance by the Company or by one or more of the Company's customers, suppliers or other strategic business partners, capital expenditures, the Company's qualitative and quantitative estimates as to market risk, the Company's expectations about the transition to the Euro, the availability of funds from currently available credit facilities and refinancings of indebtedness, and capital contributions or loans

from affiliates or the sale of assets or operations or additional shares of Revlon, Inc. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as "believe," "expects," "may," "will," "should," "seeks," "plans," "scheduled to," "anticipates" or "intends" or the negative of those terms, or other variations of those terms or comparable language, or by discussions of strategy or intentions. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. In addition to factors that may be described in the Company's filings with the Commission, the following factors, among others, could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by the Company: (i) difficulties or delays in developing and introducing new products or failure of customers to accept new product offerings; (ii) changes in consumer preferences, including reduced consumer demand for the Company's color cosmetics and other current products; (iii) difficulties or delays in the Company's continued expansion into the self-select distribution channel and into certain markets and development of new markets; (iv) unanticipated costs or difficulties or delays in completing projects associated with the Company's strategy to improve operating efficiencies, including information system upgrades; (v) the inability to refinance indebtedness, secure capital contributions or loans from affiliates or sell assets or operations or additional shares of Revlon, Inc.; (vi) effects of and changes in political and/or economic conditions, including inflation and monetary conditions, and in trade, monetary, fiscal and tax policies in international markets, including but not limited to Brazil; (vii) actions by competitors, including business combinations, technological breakthroughs, new products offerings and marketing and promotional successes; (viii) combinations among significant customers or the loss, insolvency or failure to pay debts by a significant customer or customers; (ix) lower than expected sales as a result of a longer than expected duration of retail inventory balancing and reductions; (x) difficulties, delays or unanticipated costs or less than expected benefits resulting from the Company's restructuring activities; (xi) interest rate or foreign exchange rate changes affecting the Company's market sensitive financial instruments; (xii) difficulties, delays or unanticipated costs associated with the transition to the Euro; and (xiii) difficulties, delays or unanticipated costs in achieving Year 2000 compliance or unanticipated consequences from non-compliance by the Company or one or more of the Company's customers, suppliers or other strategic business partners.

EFFECT OF NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The effect of adopting the statement and the date of such adoption by the Company have not yet been determined.

INFLATION

In general, costs are affected by inflation and the effects of inflation may be experienced by the Company in future periods. Management believes, however, that such effects have not been material to the Company during the past three years in the United States or foreign non-hyperinflationary countries. The Company operates in certain countries around the world, such as Brazil, Venezuela and Mexico, that have experienced hyperinflation in the past three years. The Company's operations in Brazil were accounted for as operating in a hyperinflationary economy until June 30, 1997. Effective July 1, 1997, Brazil was considered a non-hyperinflationary economy. The impact of accounting for Brazil as a non-hyperinflationary economy was not material to the Company's operating results. Effective January 1997, Mexico was considered a hyperinflationary economy for accounting purposes. Effective January 1, 1999, it will no longer be considered a hyperinflationary economy. In hyperinflationary foreign countries, the Company attempts to mitigate the effects of inflation by increasing prices in line with inflation, where possible, and efficiently managing its working capital levels.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

REVLON, INC. AND SUBSIDIARIES

INTEREST RATE SENSITIVITY

The Company has exposure to changing interest rates, primarily in the United States. The Company's policy is to manage interest rate risk through the use of a combination of fixed and floating rate debt. The Company from time to time makes use of derivative financial instruments to adjust its fixed and floating rate ratio. The table below provides information about the Company's indebtedness that is sensitive to changes in interest rates. The table presents cash flows with respect to principal on indebtedness and related weighted average interest rates by expected maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 1998. The information is presented in U.S. dollar equivalents, which is the Company's reporting currency.

EXCHANGE RATE SENSITIVITY

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. In addition, a portion of the Company's borrowings are denominated in foreign currencies, which are also subject to market risk associated with exchange rate movement (See "Financial Condition, Liquidity and Capital Resources"). The Company's policy is to hedge major net foreign currency cash exposures generally through foreign exchange forward and option contracts. The contracts are entered into with major financial institutions to minimize counterparty risk. These contracts generally have a duration of less than twelve months and are primarily against the U.S. dollar. In addition, the Company enters into foreign currency swaps to hedge intercompany financing transactions. The table below provides information about the Company's foreign exchange financial instruments by functional currency and presents such information in U.S. dollar equivalents. For foreign currency forward exchange agreements and option contracts, the table presents the gross notional amounts and weighted average exchange rates by contractual maturity dates. The fair value of foreign currency options and forward exchange contracts is the estimated amount the Company would receive (pay) to terminate the agreements.

The Company does not hold or issue financial instruments for trading purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

REVLON, INC. AND SUBSIDIARIES

(US DOLLAR EQUIVALENT IN MILLIONS)		AVERAGE CONTRACTUAL RATE [a]	EXPECTED MATURITY DATE FOR YEAR ENDED DECEMBER 31, 1999	2000	2001	2002	2003	THEREAFTER	TOTAL	FAIR VALUE DEC. 31, 1998
DEBT										
SHORT-TERM VARIABLE RATE (VARIOUS CURRENCIES)			$ 27.8						$ 27.8	$ 27.8
AVERAGE INTEREST RATE			6.7%							
LONG-TERM FIXED RATE ($US)			200.0					$ 1,149.1	1,349.1	1,286.0
AVERAGE INTEREST RATE			9.5%					8.6%		
LONG-TERM VARIABLE RATE ($US)			1.0	$ 1.0	$ 39.5	$ 227.6			269.1	269.1
AVERAGE INTEREST RATE			7.9%	7.9%	7.9%	8.0%				
LONG-TERM VARIABLE RATE (VARIOUS CURRENCIES)			5.0	9.3	0.3	3.1		0.1	17.8	17.8
AVERAGE INTEREST RATE			3.8%	3.9%	7.3%	7.7%		7.3%		
FORWARD AND OPTION CONTRACTS [b]										
BRISTISH POUND	FORWARD CONTRACTS	0.60	55.0						55.0	–
	OPTION CONTRACTS	0.60	8.5						8.5	–
CANADIAN DOLLAR	FORWARD CONTRACTS	1.53	41.2						41.2	0.1
	OPTION CONTRACTS	1.56	17.5						17.5	(0.2)
JAPANESE YEN	FORWARD CONTRACTS	118.39	36.4						36.4	(1.5)
	OPTION CONTRACTS	116.28	4.8						4.8	0.1
FRENCH FRANC	FORWARD CONTRACTS	5.60	17.7						17.7	–
SOUTH AFRICAN RAND	FORWARD CONTRACTS	6.40	11.2						11.2	(0.2)
NETHERLAND GUILDER	FORWARD CONTRACTS	1.88	9.5						9.5	–
HONG KONG DOLLAR	FORWARD CONTRACTS	7.82	6.1						6.1	–
AUSTRALIAN DOLLAR	FORWARD CONTRACTS	1.61	9.9						9.9	0.1
	OPTION CONTRACTS	1.64	10.9						10.9	–
GERMAN DEUTSCHEMARK	FORWARD CONTRACTS	1.65	4.8						4.8	–
	OPTION CONTRACTS	1.67	9.3						9.3	–
NEW ZEALAND DOLLAR	FORWARD CONTRACTS	1.92	4.6						4.6	(0.1)
SWITZERLAND FRANC	FORWARD CONTRACTS	1.34	1.1						1.1	–

(a) Stated in units of local currency per U.S. dollar.

(b) Maturity amounts for forward and option contracts are stated in contract notional amounts.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

REVLON, INC. AND SUBSIDIARIES

(US DOLLAR EQUIVALENT IN MILLIONS)		AVERAGE CONTRACTUAL RATE (a)	EXPECTED MATURITY DATE FOR YEAR ENDED DECEMBER 31, 1999	2000	2001	2002	2003	THEREAFTER	TOTAL	FAIR VALUE DEC. 31, 1998
DEBT										
SHORT-TERM VARIABLE RATE (VARIOUS CURRENCIES)			$ 27.8						$ 27.8	$ 27.8
AVERAGE INTEREST RATE			6.7%							
LONG-TERM FIXED RATE ($US)			200.0					$ 1,149.1	1,349.1	1,286.0
AVERAGE INTEREST RATE			9.5%					8.6%		
LONG-TERM VARIABLE RATE ($US)			1.0	$ 1.0	$ 39.5	$ 227.6			269.1	269.1
AVERAGE INTEREST RATE			7.9%	7.9%	7.9%	8.0%				
LONG-TERM VARIABLE RATE (VARIOUS CURRENCIES)			5.0	9.3	0.3	3.1		0.1	17.8	17.8
AVERAGE INTEREST RATE			3.8%	3.9%	7.3%	7.7%		7.3%		
FORWARD AND OPTION CONTRACTS (b)										
BRISTISH POUND	FORWARD CONTRACTS	0.60	55.0						55.0	–
	OPTION CONTRACTS	0.60	8.5						8.5	–
CANADIAN DOLLAR	FORWARD CONTRACTS	1.53	41.2						41.2	0.1
	OPTION CONTRACTS	1.56	17.5						17.5	(0.2)
JAPANESE YEN	FORWARD CONTRACTS	118.39	36.4						36.4	(1.5)
	OPTION CONTRACTS	116.28	4.8						4.8	0.1
FRENCH FRANC	FORWARD CONTRACTS	5.60	17.7						17.7	–
SOUTH AFRICAN RAND	FORWARD CONTRACTS	6.40	11.2						11.2	(0.2)
NETHERLAND GUILDER	FORWARD CONTRACTS	1.88	9.5						9.5	–
HONG KONG DOLLAR	FORWARD CONTRACTS	7.82	6.1						6.1	–
AUSTRALIAN DOLLAR	FORWARD CONTRACTS	1.61	9.9						9.9	0.1
	OPTION CONTRACTS	1.64	10.9						10.9	–
GERMAN DEUTSCHEMARK	FORWARD CONTRACTS	1.65	4.8						4.8	–
	OPTION CONTRACTS	1.67	9.3						9.3	–
NEW ZEALAND DOLLAR	FORWARD CONTRACTS	1.92	4.6						4.6	(0.1)
SWITZERLAND FRANC	FORWARD CONTRACTS	1.34	1.1						1.1	–

(a) Stated in units of local currency per U.S. dollar.

(b) Maturity amounts for forward and option contracts are stated in contract notional amounts.

CONSOLIDATED BALANCE SHEETS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	DECEMBER 31, 1998	1997
ASSETS		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$ 34.7	$ 37.4
TRADE RECEIVABLES, LESS ALLOWANCES OF $28.5 AND $25.9, RESPECTIVELY	536.0	492.5
INVENTORIES	264.1	260.7
PREPAID EXPENSES AND OTHER	69.9	94.4
TOTAL CURRENT ASSETS	904.7	885.0
PROPERTY, PLANT AND EQUIPMENT, NET	378.9	364.0
OTHER ASSETS	173.5	142.7
INTANGIBLE ASSETS, NET	372.9	319.2
NET ASSETS OF DISCONTINUED OPERATIONS	–	45.1
TOTAL ASSETS	$ 1,830.0	$ 1,756.0
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
SHORT-TERM BORROWINGS - THIRD PARTIES	$ 27.9	$ 42.7
CURRENT PORTION OF LONG-TERM DEBT - THIRD PARTIES	6.0	5.5
ACCOUNTS PAYABLE	134.8	178.8
ACCRUED EXPENSES AND OTHER	389.7	356.0
TOTAL CURRENT LIABILITIES	558.4	583.0
LONG-TERM DEBT - THIRD PARTIES	1,629.9	1,388.8
LONG-TERM DEBT - AFFILIATES	24.1	30.9
OTHER LONG-TERM LIABILITIES	265.6	211.8
STOCKHOLDERS' DEFICIENCY:		
PREFERRED STOCK, PAR VALUE $.01 PER SHARE; 20,000,000 SHARES AUTHORIZED, 546 SHARES OF SERIES A PREFERRED STOCK ISSUED AND OUTSTANDING	54.6	54.6
CLASS B COMMON STOCK, PAR VALUE $.01 PER SHARE; 200,000,000 SHARES AUTHORIZED, 31,250,000 ISSUED AND OUTSTANDING	0.3	0.3
CLASS A COMMON STOCK, PAR VALUE $.01 PER SHARE; 350,000,000 SHARES AUTHORIZED, 19,986,771 AND 19,886,575 ISSUED AND OUTSTANDING, RESPECTIVELY	0.2	0.2
CAPITAL DEFICIENCY	(228.5)	(231.1)
ACCUMULATED DEFICIT SINCE JUNE 24, 1992	(402.0)	(258.8)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(72.6)	(23.7)
TOTAL STOCKHOLDERS' DEFICIENCY	(648.0)	(458.5)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 1,830.0	$1,756.0

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31, 1998	1997	1996
NET SALES	$ 2,252.2	$ 2,238.6	$ 2,092.1
COST OF SALES	765.7	743.1	688.9
GROSS PROFIT	1,486.5	1,495.5	1,403.2
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,328.8	1,277.0	1,204.0
BUSINESS CONSOLIDATION COSTS AND OTHER, NET	33.1	3.6	–
OPERATING INCOME	124.6	214.9	199.2
OTHER EXPENSES (INCOME):			
INTEREST EXPENSE	137.9	133.7	133.4
INTEREST INCOME	(5.2)	(4.2)	(4.4)
AMORTIZATION OF DEBT ISSUANCE COSTS	5.1	6.6	8.3
FOREIGN CURRENCY LOSSES, NET	4.6	6.4	5.7
MISCELLANEOUS, NET	4.5	5.3	6.3
OTHER EXPENSES, NET	146.9	147.8	149.3
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(22.3)	67.1	49.9
PROVISION FOR INCOME TAXES	5.0	9.3	25.5
(LOSS) INCOME FROM CONTINUING OPERATIONS	(27.3)	57.8	24.4
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(16.5)	0.7	0.4
LOSS FROM DISPOSAL OF DISCONTINUED OPERATIONS	(47.7)	–	–
EXTRAORDINARY ITEMS - EARLY EXTINGUISHMENTS OF DEBT	(51.7)	(14.9)	(6.6)
NET (LOSS) INCOME	$ (143.2)	$ 43.6	$ 18.2
BASIC (LOSS) INCOME PER COMMON SHARE:			
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (0.53)	$ 1.13	$ 0.49
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(1.26)	0.01	0.01
EXTRAORDINARY ITEMS	(1.01)	(0.29)	(0.13)
NET (LOSS) INCOME PER COMMON SHARE	$ (2.80)	$ 0.85	$ 0.37
DILUTED (LOSS) INCOME PER COMMON SHARE:			
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (0.53)	$ 1.13	$ 0.49
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(1.26)	0.01	0.01
EXTRAORDINARY ITEMS	(1.01)	(0.29)	(0.13)
NET (LOSS) INCOME PER COMMON SHARE	$ (2.80)	$ 0.85	$ 0.37
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
BASIC	51,217,997	51,131,440	49,687,500
DILUTIVE	51,217,997	51,544,318	49,818,792

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY AND COMPREHENSIVE LOSS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)	PREFERRED STOCK	COMMON STOCK	CAPITAL DEFICIENCY	ACCUMULATED DEFICIT (a)	ACCUMULATED OTHER COMPREHENSIVE LOSS (b)	TOTAL STOCKHOLDERS' DEFICIENCY
BALANCE, JANUARY 1, 1996	$ 54.6	$ 0.4	$ (414.7)	$ (320.6)	$ (22.0)	$ (702.3)
NET PROCEEDS FROM						
INITIAL PUBLIC OFFERING		0.1	187.7			187.8
NET CAPITAL DISTRIBUTION			(0.5) (c)			(0.5)
ACQUISITION OF BUSINESS			(4.1) (d)			(4.1)
COMPREHENSIVE INCOME:						
NET INCOME				18.2		18.2
ADJUSTMENT FOR MINIMUM						
PENSION LIABILITY					4.6	4.6
CURRENCY TRANSLATION ADJUSTMENT					(0.8) (e)	(0.8)
TOTAL COMPREHENSIVE INCOME						22.0
BALANCE, DECEMBER 31, 1996	54.6	0.5	(231.6)	(302.4)	(18.2)	(497.1)
ISSUANCE OF COMMON STOCK			0.2			0.2
NET CAPITAL CONTRIBUTION			0.3 (c)			0.3
COMPREHENSIVE INCOME:						
NET INCOME				43.6		43.6
ADJUSTMENT FOR MINIMUM						
PENSION LIABILITY					7.9	7.9
CURRENCY TRANSLATION ADJUSTMENT					(13.4)	(13.4)
TOTAL COMPREHENSIVE INCOME						38.1
BALANCE, DECEMBER 31, 1997	54.6	0.5	(231.1)	(258.8)	(23.7)	(458.5)
ISSUANCE OF COMMON STOCK			2.6			2.6
COMPREHENSIVE LOSS:						
NET LOSS				(143.2)		(143.2)
ADJUSTMENT FOR MINIMUM						
PENSION LIABILITY					(28.0)	(28.0)
REVALUATION OF MARKETABLE SECURITIES					(3.0)	(3.0)
CURRENCY TRANSLATION ADJUSTMENT					(17.9) (f)	(17.9)
TOTAL COMPREHENSIVE LOSS						(192.1)
BALANCE, DECEMBER 31, 1998	$ 54.6	$ 0.5	$ (228.5)	$ (402.0)	$ (72.6)	$ (648.0)

(a) Represents net loss since June 24, 1992, the effective date of the transfer agreements referred to in Note 16.

(b) Accumulated other comprehensive loss includes a revaluation of marketable securities of $3.0 for 1998, currency translation adjustments of $37.1, $19.2 and $5.8 for 1998, 1997 and 1996, respectively, and adjustments for the minimum pension liability of $32.5, $4.5 and $12.4 for 1998, 1997 and 1996, respectively.

(c) Represents changes in capital from the acquisition of the Bill Blass business (See Note 16).

(d) Represents amounts paid to Revlon Holdings Inc. for the Tarlow Advertising Division ("Tarlow") (See Note 16).

(e) Includes $2.1 of gains related to the Company's simplification of its corporate structure outside the United States.

(f) Accumulated other comprehensive loss and comprehensive loss each include a reclassification adjustment of $2.2 for realized gains associated with the sale of certain assets outside the United States.

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)	YEAR ENDED DECEMBER 31, 1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET (LOSS) INCOME	$ (143.2)	$ 43.6	$ 18.2
ADJUSTMENTS TO RECONCILE NET (LOSS) INCOME TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION	111.3	99.7	88.7
LOSS (INCOME) FROM DISCONTINUED OPERATIONS	64.2	(0.7)	(0.4)
EXTRAORDINARY ITEMS	51.7	14.9	6.6
GAIN ON SALE OF CERTAIN ASSETS, NET	(8.4)	(4.4)	–
CHANGE IN ASSETS AND LIABILITIES:			
INCREASE IN TRADE RECEIVABLES	(43.0)	(70.0)	(67.7)
INCREASE IN INVENTORIES	(4.6)	(16.9)	(2.7)
(INCREASE) DECREASE IN PREPAID EXPENSES AND OTHER CURRENT ASSETS	(11.4)	0.4	(7.2)
(DECREASE) INCREASE IN ACCOUNTS PAYABLE	(49.2)	17.9	9.4
INCREASE (DECREASE) IN ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES	52.5	(2.8)	(10.0)
OTHER, NET	(71.4)	(73.0)	(45.2)
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(51.5)	8.7	(10.3)
CASH FLOWS FROM INVESTING ACTIVITIES:			
CAPITAL EXPENDITURES	(60.8)	(52.3)	(54.7)
ACQUISITION OF BUSINESSES, NET OF CASH ACQUIRED	(57.6)	(40.5)	(7.1)
PROCEEDS FROM THE SALE OF CERTAIN ASSETS	27.4	8.5	–
NET CASH USED FOR INVESTING ACTIVITIES	(91.0)	(84.3)	(61.8)
CASH FLOWS FROM FINANCING ACTIVITIES:			
NET (DECREASE) INCREASE IN SHORT-TERM BORROWINGS - THIRD PARTIES	(16.3)	18.0	5.8
PROCEEDS FROM THE ISSUANCE OF LONG-TERM DEBT - THIRD PARTIES	1,469.1	760.2	266.4
REPAYMENT OF LONG-TERM DEBT - THIRD PARTIES	(1,270.9)	(690.2)	(366.6)
NET PROCEEDS FROM ISSUANCE OF COMMON STOCK	1.1	0.2	187.8
NET CONTRIBUTION FROM (DISTRIBUTION TO) PARENT	–	0.3	(0.5)
PROCEEDS FROM THE ISSUANCE OF DEBT - AFFILIATES	105.9	120.7	115.0
REPAYMENT OF DEBT - AFFILIATES	(105.9)	(120.2)	(115.0)
ACQUISITION OF BUSINESS FROM AFFILIATE	–	–	(4.1)
PAYMENT OF DEBT ISSUANCE COSTS	(23.9)	(4.1)	(10.9)
NET CASH PROVIDED BY FINANCING ACTIVITIES	159.1	84.9	77.9
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2.0)	(3.6)	(0.9)
NET CASH USED BY DISCONTINUED OPERATIONS	(17.3)	(3.4)	(2.7)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2.7)	2.3	2.2
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37.4	35.1	32.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 34.7	$ 37.4	$ 35.1
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:			
CASH PAID DURING THE PERIOD FOR:			
INTEREST	$ 133.4	$ 139.6	$ 139.0
INCOME TAXES, NET OF REFUNDS	10.9	10.5	15.4
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:			
IN CONNECTION WITH BUSINESS ACQUISITIONS, LIABILITIES WERE ASSUMED (INCLUDING MINORITY INTEREST AND DISCONTINUED OPERATIONS) AS FOLLOWS:			
FAIR VALUE OF ASSETS ACQUIRED	$ 74.5	$ 132.7	$ 9.7
CASH PAID	(57.6)	(64.5)	(7.2)
LIABILITIES ASSUMED	$ 16.9	$ 68.2	$ 2.5

See Accompanying Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:
Revlon, Inc. (the "Company") is a holding company, formed in April 1992, that conducts its business exclusively through its direct subsidiary, Revlon Consumer Products Corporation and its subsidiaries ("Products Corporation"). The Company operates in a single segment with many different products, which include an extensive array of glamorous, exciting and innovative cosmetic and skin care, fragrance and personal care products, and professional products (products for use in and resale by professional salons). In the United States and increasingly in international markets, the Company's products are sold principally in the self-select distribution channel. The Company also sells certain products in the demonstrator-assisted distribution channel, sells consumer and professional products to United States military exchanges and commissaries and has a licensing group. Outside the United States, the Company also sells such consumer products through department stores and specialty stores, such as perfumeries.

Products Corporation was formed in April 1992 and, on June 24, 1992, succeeded to assets and liabilities of the cosmetic and skin care, fragrance and personal care products business of its then parent company whose name was changed from Revlon, Inc. to Revlon Holdings Inc. ("Holdings"). Certain consumer products lines sold in demonstrator-assisted distribution channels considered not integral to the Company's business and which historically had not been profitable (the "Retained Brands") and certain other assets and liabilities were retained by Holdings. Unless the context otherwise requires, all references to the Company mean Revlon, Inc. and its subsidiaries. Through December 31, 1998, the Company has essentially had no business operations of its own and its only material asset has been all of the outstanding capital stock of Products Corporation. As such, its net (loss) income has historically consisted predominantly of its equity in the net (loss) income of Products Corporation and in 1998, 1997 and 1996 included approximately $1.5, $1.2 and $0.8, respectively, in expenses incidental to being a public holding company.

The Consolidated Financial Statements of the Company presented herein relate to the business to which the Company succeeded and include the assets, liabilities and results of operations of such business. Assets, liabilities, revenues, other income, costs and expenses which were identifiable specifically to the Company are included herein and those identifiable specifically to the retained and divested businesses of Holdings have been excluded. Amounts which were not identifiable specifically to either the Company or Holdings are included herein to the extent applicable to the Company pursuant to a method of allocation generally based on the respective proportion of the business of the Company to the applicable total of the businesses of the Company and Holdings. The operating results of the Retained Brands and divested businesses of Holdings have not been reflected in the Consolidated Financial Statements of the Company. Management of the Company believes that the basis of allocation and presentation is reasonable.

Although the Retained Brands were not transferred to the Company when the cosmetic and skin care, fragrance and personal care products business of Holdings was transferred to Products Corporation, Products Corporation's bank lenders required that all assets and liabilities relating to such Retained Brands existing on the date of transfer (June 24, 1992), other than the brand names themselves and certain other intangible assets, be transferred to Products Corporation. Any assets and liabilities that had not been disposed of or satisfied by December 31 of the applicable year have been reflected in the Company's consolidated financial position as of such dates. However, any new assets or liabilities generated by such Retained Brands since the transfer date and any income or loss associated with inventory that has been transferred to Products Corporation relating to such Retained Brands have been and will be for the account of Holdings. In addition, certain assets and liabilities relating to divested businesses were transferred to Products Corporation on the transfer date and any remaining balances as of December 31 of the applicable year have been reflected in the Company's Consolidated Balance Sheets as of such dates. At December 31, 1998 and 1997, the amounts reflected in the Company's Consolidated Balance Sheets aggregated a net liability of $25.9, of which $7.5 is included in accrued expenses and other and $18.4

is included in other long-term liabilities as of both dates.

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries after elimination of all material intercompany balances and transactions. Further, the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of liabilities and the reporting of revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

The Company is an indirect majority owned subsidiary of MacAndrews & Forbes Holdings Inc. ("MacAndrews Holdings"), a corporation wholly owned indirectly through Mafco Holdings Inc. ("Mafco Holdings" and, together with MacAndrews Holdings, "MacAndrews & Forbes") by Ronald O. Perelman.

CASH AND CASH EQUIVALENTS:

Cash equivalents (primarily investments in time deposits which have original maturities of three months or less) are carried at cost, which approximates fair value.

INVENTORIES:

Inventories are stated at the lower of cost or market value. Cost is principally determined by the first-in, first-out method.

PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS:

Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets as follows: land improvements, 20 to 40 years; buildings and improvements, 5 to 50 years; machinery and equipment, 3 to 17 years; and office furniture and fixtures and capitalized software, 2 to 12 years. Leasehold improvements are amortized over their estimated useful lives or the terms of the leases, whichever is shorter. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized.

During 1998, the Company adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires capitalization of certain development costs of software to be used internally. The adoption of this statement did not have a material effect on the Company's financial condition or results of operations.

Included in other assets are permanent displays amounting to approximately $129.0 and $107.7 (net of amortization) as of December 31, 1998 and 1997, respectively, which are amortized over 3 to 5 years. In addition, the Company has included in other assets charges related to the issuance of its debt instruments amounting to approximately $23.6 and $20.5 (net of amortization) as of December 31, 1998 and 1997, respectively, which are amortized over the term of the debt instruments.

INTANGIBLE ASSETS RELATED TO BUSINESSES ACQUIRED:

Intangible assets related to businesses acquired principally represent goodwill, the majority of which is being amortized on a straight-line basis over 40 years. The Company evaluates, when circumstances warrant, the recoverability of its intangible assets on the basis of undiscounted cash flow projections and through the use of various other measures, which include, among other things, a review of its image, market share and business plans. Accumulated amortization aggregated $115.6 and $104.2 at December 31, 1998 and 1997, respectively.

REVENUE RECOGNITION:

The Company recognizes net sales upon shipment of merchandise. Net sales comprise gross revenues less expected returns, trade discounts and customer allowances. Cost of sales is reduced for the estimated net realizable value of expected returns.

INCOME TAXES:

Income taxes are calculated using the liability method in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

The Company is included in the affiliated group of which Mafco Holdings is the common parent, and the Company's federal taxable income and loss will be included in such group's consolidated tax return filed by Mafco Holdings. The Company also may be included in certain state and local tax returns of Mafco Holdings or its subsidiaries. For all periods presented, federal, state and local income taxes are provided as if the Company filed its own income tax returns. On June 24, 1992, Holdings, the Company and certain of its subsidiaries and Mafco Holdings entered into a tax sharing agreement, which is described in Notes 13 and 16.

PENSION AND OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS:

The Company sponsors pension and other retirement plans in various forms covering substantially all employees who meet eligibility requirements. For plans in the United States, the minimum amount required pursuant to the Employee Retirement Income Security Act, as amended, is contributed annually. Various subsidiaries outside the United States have retirement plans under which funds are deposited with trustees or reserves are provided.

The Company accounts for benefits such as severance, disability and health insurance provided to former employees prior to their retirement, if estimable, on a terminal basis in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies," as amended by SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which requires companies to accrue for postemployment benefits when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are expensed as incurred. The amounts charged against earnings in 1998, 1997 and 1996 were $31.9, $29.7 and $26.3, respectively.

FOREIGN CURRENCY TRANSLATION:

Assets and liabilities of foreign operations are generally translated into United States dollars at the rates of exchange in effect at the balance sheet date. Income and expense items are generally translated at the weighted average exchange rates prevailing during each period presented. Gains and losses resulting from foreign currency transactions are included in the results of operations. Gains and losses resulting from translation of financial statements of foreign subsidiaries and branches operating in non-hyperinflationary economies are recorded as a component of stockholders' deficiency. Foreign subsidiaries and branches operating in hyperinflationary economies translate nonmonetary assets and liabilities at historical rates and include translation adjustments in the results of operations.

Effective January 1997, the Company's operations in Mexico have been accounted for as operating in a hyperinflationary economy. Effective January 1, 1999, Mexico will no longer be considered a hyperinflationary economy. Effective July 1997, the Company's operations in Brazil have been accounted for as is required for a non-hyperinflationary economy. The impact of the changes in accounting for Brazil and Mexico were not material to the Company's operating results in 1997.

SALE OF SUBSIDIARY STOCK:

The Company recognizes gains and losses on sales of subsidiary stock in its Consolidated Statements of Operations.

BASIC AND DILUTED (LOSS) INCOME PER COMMON SHARE AND CLASSES OF STOCK:
The basic (loss) income per common share has been computed based upon the weighted average number of shares of common stock outstanding. Diluted (loss) income per common share has been computed based upon the weighted average number of shares of common stock outstanding and shares that would have been outstanding assuming the issuance of common stock for all dilutive potential common stock outstanding. The Company's outstanding stock options represent the only potential dilutive common stock outstanding. The amounts of (loss) income used in the calculations of diluted and basic (loss) income per common share were the same for all years presented. The number of shares used in the calculation of diluted (loss) income per common share for 1998 does not include any incremental shares that would have been outstanding assuming the exercise of stock options because the effect of those incremental shares would have been antidilutive. The number of shares used in the calculation of diluted (loss) income per common share for 1997 and 1996 increased by 412,878 and 131,292 shares, respectively, to give effect to outstanding stock options.

Basic and diluted (loss) income per common share calculations assume that 42,500,000 shares of Common Stock (as defined below) had been outstanding for all periods presented prior to the consummation of the Company's initial public equity offering on March 5, 1996 (the "Revlon IPO"), in which each of the outstanding shares of the Company's common stock in existence at that time was converted into approximately .1215 of a share of its newly created Class A Common Stock, par value $.01 per share (the "Class A Common Stock") (totaling 11,250,000 shares of Class A Common Stock), and approximately .3376 of a share of its newly created Class B Common Stock, par value $.01 per share (totaling 31,250,000 shares of Class B Common Stock) (collectively with the Class A Common Stock, the "Common Stock"), upon consummation of the Revlon IPO. In connection with the Revlon IPO, the Company issued and sold 8,625,000 shares of its Class A Common Stock. Such shares were included in the Company's basic weighted average number of shares outstanding from March 5, 1996.

The Class A Common Stock and Class B Common Stock vote as a single class on all matters, except as otherwise required by law, with each share of Class A Common Stock entitling its holder to one vote and each share of the Class B Common Stock entitling its holder to ten votes. All of the shares of the Class B Common Stock are owned by REV Holdings Inc. ("REV Holdings"), an indirect wholly owned subsidiary of Mafco Holdings. Mafco Holdings beneficially owns shares of Common Stock having approximately 97.4% of the combined voting power of the outstanding shares of Common Stock. The holders of the Company's two classes of common stock are entitled to share equally in the earnings of the Company from dividends, when and if declared by the Board.

The Company designated 1,000 shares of Preferred Stock as the Series A Preferred Stock, of which 546 shares are outstanding and held by REV Holdings. The holder of Series A Preferred Stock is not entitled to receive any dividends. The Series A Preferred Stock is entitled to a liquidation preference of $100,000 per share before any distribution is made to the holders of Common Stock. The holder of the Series A Preferred Stock does not have any voting rights, except as required by law. The Series A Preferred Stock may be redeemed at any time by the Company, at its option, for $100,000 per share. However, the terms of Products Corporation's various debt agreements currently restrict Revlon, Inc.'s ability to effect such redemption by generally restricting the amount of dividends or distributions Products Corporation can pay to Revlon, Inc.

STOCK-BASED COMPENSATION:
SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation plans using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretation. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock (See Note 15).

DERIVATIVE FINANCIAL INSTRUMENTS:
Derivative financial instruments are utilized by the Company to reduce interest rate and foreign exchange risks. The Company maintains a control environment which includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for trading purposes.

The differentials to be received or paid under interest rate contracts designated as hedges are recognized in income over the life of the contracts as adjustments to interest expense. Gains and losses on terminations of interest rate contracts designated as hedges are deferred and amortized into interest expense over the remaining life of the original contracts or until repayment of the hedged indebtedness. Unrealized gains and losses on outstanding contracts designated as hedges are not recognized.

Gains and losses on contracts designated to hedge identifiable foreign currency commitments are deferred and accounted for as part of the related foreign currency transaction. Gains and losses on all other foreign currency contracts are included in income currently. Transaction gains and losses have not been material.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The effect of adopting the statement and the date of such adoption by the Company have not yet been determined.

2. DISCONTINUED OPERATIONS

During 1998, the Company completed the disposition of its approximately 85% equity interest in The Cosmetic Center, Inc. (the "Cosmetic Center"), along with certain amounts due from Cosmetic Center to the Company for working capital and inventory, to a newly formed limited partnership controlled by an unrelated third party. The Company received a minority limited partnership interest in the limited partnership as consideration for the disposition. Based upon the Company's expectation that it will receive no future cash flows from the limited partnership, as well as other factors, the Company has assigned no value to such interest. As a result, the Company recorded a loss on disposal of $47.7 during 1998. All prior periods have been restated to reflect the results of operations of Cosmetic Center as discontinued operations. As of December 31, 1997, the net assets of the discontinued operations consisted primarily of inventory and intangible assets, offset by liabilities, including third party debt and minority interest.

3. EXTRAORDINARY ITEMS

The extraordinary item of $51.7 in 1998 resulted primarily from the write-off of deferred financing costs and payment of call premiums associated with the redemption of the Senior Notes (as hereinafter defined) and the Senior Subordinated Notes (as hereinafter defined). The extraordinary item in 1997 resulted from the write-off in the second quarter of 1997 of deferred financing costs associated with the early extinguishment of borrowings under a prior credit agreement and costs of approximately $6.3 in connection with the redemption of Products Corporation's 10 7/8% Sinking Fund Debentures due 2010 (the "Sinking Fund Debentures"). The early extinguishment of borrowings under a prior credit agreement and the redemption of the Sinking Fund Debentures were financed by the proceeds from a new credit agreement which became effective in May 1997 (the "Credit Agreement"). The extraordinary item in 1996 resulted from the write-off of deferred financing costs associated with the early extinguishment of borrowings with the net proceeds from the Revlon IPO and proceeds from a prior credit agreement.

4. BUSINESS CONSOLIDATION COSTS AND OTHER, NET

In the fourth quarter of 1998 the Company committed to a restructuring plan to realign and reduce personnel, exit excess leased real

estate, realign and consolidate regional activities, reconfigure certain manufacturing operations and exit certain product lines. The restructuring also included the sale of a factory outside the United States. As a result, the Company recognized a net charge of $42.9, which includes $2.7 charged to cost of sales. The restructuring included the termination of 720 sales, marketing, administrative, factory and distribution employees worldwide. By December 31, 1998 the Company had terminated 215 employees.

In the third quarter of 1998 the Company recognized a gain of approximately $7.1 for the sale of the wigs and hairpieces portion of its business in the United States.

The cash and noncash elements of the restructuring charge and gains recorded in 1998 approximate $30.1 and $5.7, respectively.

In 1997 the Company incurred business consolidation costs of $20.6 in connection with the implementation of its business strategy to rationalize factory operations. These costs primarily included severance for 415 factory and administrative employees and other costs related to the rationalization of certain factory and warehouse operations worldwide. Such costs were partially offset by an approximately $12.7 settlement of a claim and related gains of approximately $4.3 on the sales of certain factory operations outside the United States. As of December 31, 1998 and 1997 the Company had terminated 415 and 200 employees, respectively, relating to the 1997 charge.

Details of the charges are as follows:

	YEAR ENDED DECEMBER 31,1998				
	BALANCE BEGINNING OF YEAR	EXPENSE (INCOME)	(UTILIZED) RECEIVED		BALANCE END OF YEAR
			CASH	NONCASH	
EMPLOYEE SEVERANCE AND TERMINATION BENEFITS	$ 7.8	$ 26.6	$ (9.5)	$ –	$ 24.9
FACTORY, WAREHOUSE AND OFFICE COSTS	3.2	14.9	(2.4)	(3.6)	12.1
SALE OF ASSETS	–	(8.4)	8.4	–	–
OTHER (EXPENSE INCLUDED IN COST OF SALES)	–	2.7	–	(2.7)	–
	$ 11.0	$ 35.8	$ (3.5)	$ (6.3)	$ 37.0

	YEAR ENDED DECEMBER 31,1997				
	BALANCE BEGINNING OF YEAR	EXPENSE (INCOME)	(UTILIZED) RECEIVED		BALANCE END OF YEAR
			CASH	NONCASH	
EMPLOYEE SEVERANCE AND TERMINATION BENEFITS	$ –	$ 14.2	$ (6.4)	$ –	$ 7.8
FACTORY, WAREHOUSE AND OFFICE COSTS	–	6.4	(1.2)	(2.0)	3.2
SALE OF ASSETS	–	(4.3)	4.3	–	–
SETTLEMENT OF CLAIM	–	(12.7)	12.7	–	–
	$ –	$ 3.6	$ 9.4	$ (2.0)	$ 11.0

5. ACQUISITIONS

In 1998 and 1997 the Company consummated acquisitions for a combined purchase price of $62.6 and $51.6 (excluding the acquisition of Cosmetic Center), respectively, with resulting goodwill of $63.7 and $35.8, respectively. These acquisitions were not significant to the Company's results of operations. Acquisitions consummated in 1996 were also not significant to the Company's results of operations.

6. INVENTORIES

	DECEMBER 31, 1998	DECEMBER 31, 1997
RAW MATERIALS AND SUPPLIES	$ 78.2	$ 82.6
WORK-IN-PROCESS	14.4	14.9
FINISHED GOODS	171.5	163.2
	$ 264.1	$ 260.7

7. PREPAID EXPENSES AND OTHER

	DECEMBER 31, 1998	DECEMBER 31, 1997
PREPAID EXPENSES	$ 42.4	$ 40.7
OTHER	27.5	53.7
	$ 69.9	$ 94.4

8. PROPERTY, PLANT AND EQUIPMENT, NET

	DECEMBER 31, 1998	DECEMBER 31, 1997
LAND AND IMPROVEMENTS	$ 33.8	$ 32.5
BUILDINGS AND IMPROVEMENTS	197.3	193.2
MACHINERY AND EQUIPMENT	216.8	203.5
OFFICE FURNITURE AND FIXTURES AND CAPITALIZED SOFTWARE	88.5	73.9
LEASEHOLD IMPROVEMENTS	37.2	37.5
CONSTRUCTION-IN-PROGRESS	36.9	30.6
	610.5	571.2
ACCUMULATED DEPRECIATION	(231.6)	(207.2)
	$ 378.9	$ 364.0

Depreciation expense for the years ended December 31, 1998, 1997 and 1996 was $40.5, $38.4 and $37.0, respectively.

9. ACCRUED EXPENSES AND OTHER

	DECEMBER 31,	
	1998	1997
ADVERTISING AND PROMOTIONAL COSTS AND ACCRUAL FOR SALES RETURNS	$ 158.3	$ 147.1
COMPENSATION AND RELATED BENEFITS	68.6	73.5
INTEREST	39.4	32.1
TAXES, OTHER THAN FEDERAL INCOME TAXES	27.5	30.2
RESTRUCTURING AND BUSINESS CONSOLIDATION COSTS	27.1	18.2
OTHER	68.8	54.9
	$ 389.7	$ 356.0

10. SHORT-TERM BORROWINGS

Products Corporation maintained short-term bank lines of credit at December 31, 1998 and 1997 aggregating approximately $88.3 and $82.3, respectively, of which approximately $27.9 and $42.7 were outstanding at December 31, 1998 and 1997, respectively. Interest rates on amounts borrowed under such short-term lines at December 31, 1998 and 1997 varied from 2.9% to 8.6% and from 2.5% to 12.0%, respectively, excluding Latin American countries in which the Company had outstanding borrowings of approximately $3.5 and $7.5 at December 31, 1998 and 1997, respectively. Compensating balances at December 31, 1998 and 1997 were approximately $5.1 and $6.2, respectively. Interest rates on compensating balances at December 31, 1998 and 1997 varied from 3.3% to 5.0% and 0.4% to 8.1%, respectively.

11. LONG-TERM DEBT

	DECEMBER 31,	
	1998	1997
WORKING CAPITAL LINES(a)	$ 272.2	$ 344.6
BANK MORTGAGE LOAN AGREEMENT DUE 2000 (b)	13.6	33.3
9 1/2% SENIOR NOTES DUE 1999(c)	200.0	200.0
9 3/8% SENIOR NOTES DUE 2001(d)	–	260.0
8 1/8% SENIOR NOTES DUE 2006 (e)	249.3	–
9% SENIOR NOTES DUE 2006(f)	250.0	–
10 1/2% SENIOR SUBORDINATED NOTES DUE 2003(g)	–	555.0
8 5/8% SENIOR SUBORDINATED NOTES DUE 2008 (h)	649.8	–
ADVANCES FROM HOLDINGS (i)	24.1	30.9
NOTES PAYABLE DUE THROUGH 2004 (7.2%)	1.0	1.4
	1,660.0	1,425.2
LESS CURRENT PORTION	(6.0)	(5.5)
	$ 1,654.0	$ 1,419.7

(a) In May 1997, Products Corporation entered into the Credit Agreement with a syndicate of lenders, whose individual members change from time to time. The proceeds of loans made under the Credit Agreement were used to repay the loans outstanding under the credit agreement in effect at that time and to redeem the Sinking Fund Debentures.

The Credit Agreement provides up to $749.0 and is comprised of five senior secured facilities: $199.0 in two term loan facilities (the “Term Loan Facilities”), a $300.0 multi-currency facility (the “Multi-Currency Facility”), a $200.0 revolving acquisition facility, which may be increased to $400.0 under certain circumstances with the consent of a majority of the lenders (the “Acquisition Facility”), and a $50.0 special standby letter of credit facility (the “Special LC Facility” and together with the Term Loan Facilities, the Multi-Currency Facility and the Acquisition Facility, the “Credit Facilities”). The Multi-Currency Facility is available (i) to Products Corporation in revolving credit loans denominated in U.S. dollars (the “Revolving Credit Loans”), (ii) to Products Corporation in standby and commercial letters of credit denominated in U.S. dollars (the “Operating Letters of Credit”) and (iii) to Products Corporation and certain of its international subsidiaries designated from time to time in revolving credit loans and bankers’ acceptances denominated in U.S. dollars and other currencies (the “Local Loans”). At December 31, 1998, Products Corporation had approximately $199.0 outstanding under the Term Loan Facilities, $9.7 outstanding under the Multi-Currency Facility, $63.5 outstanding under the Acquisition Facility and $29.0 of issued but undrawn letters of credit under the Special LC Facility.

The Credit Facilities (other than loans in foreign currencies) bear interest as of December 31, 1998 at a rate equal to, at Products Corporation’s option, either (A) the Alternate Base Rate plus 1.75% (or 2.75% for Local Loans); or (B) the Eurodollar Rate plus 2.75%. Loans in foreign currencies bear interest as of December 31, 1998 at a rate equal to the Eurocurrency Rate or, in the case of Local Loans, the local lender rate, in each case plus 2.75%. The applicable margin is reduced in the event Products Corporation attains certain leverage ratios. Products Corporation pays the lender a commitment fee as of December 31, 1998 of 1/2 of 1% of the unused portion of the Credit Facilities. Under the Multi-Currency Facility, the Company pays the lenders an administrative fee of 1/4% per annum on the aggregate principal amount of specified Local Loans. Products Corporation also paid certain facility and other fees to the lenders and agents upon closing of the Credit Agreement. Prior to its termination date, the commitments under the Credit Facilities will be reduced by: (i) the net proceeds in excess of $10.0 each year received during such year from sales of assets by Holdings (or certain of its subsidiaries), Products Corporation or any of its subsidiaries (and $25.0 in the aggregate during the term with respect to certain specified dispositions), subject to certain limited exceptions, (ii) certain proceeds from the sales of collateral security granted to the lenders, (iii) the net proceeds from the issuance by Products Corporation or any of its subsidiaries of certain additional debt, (iv) 50% of the excess cash flow of Products Corporation and its subsidiaries (unless certain leverage ratios are attained) and (v) certain scheduled reductions in the case of the Term Loan Facilities, which commenced on May 31, 1998 in the aggregate amount of $1.0 annually over the remaining life of the Credit Agreement, and in the case of the Acquisition Facility, which will commence on December 31, 1999 in the amount of $25.0 and in the amounts of $60.0 during 2000, $90.0 during 2001 and $25.0 during 2002 (which reductions will be proportionately increased if the Acquisition Facility is increased). The Credit Agreement will terminate on May 30, 2002. The weighted average interest rates on the Term Loan Facilities, the Multi-Currency Facility and the Acquisition Facility were 8.1%, 9.2% and 8.7% per annum for 1998, respectively, and 7.1%, 5.4% and 5.7% for 1997, respectively.

The Credit Facilities, subject to certain exceptions and limitations, are supported by guarantees from Holdings and certain of its subsidiaries, Revlon, Inc., Products Corporation and the domestic subsidiaries of Products Corporation. The obligations of Products Corporation under the Credit Facilities and the obligations under the aforementioned guarantees are secured, subject to certain limitations, by (i) mortgages on Holdings’ Edison, New Jersey (until its disposition in August 1998) and Products Corporation’s Phoenix, Arizona facility; (ii) the capital stock of Products Corporation and its domestic subsidiaries, 66% of the capital stock of its first tier foreign subsidiaries and the capital stock of certain subsidiaries of Holdings; (iii) domestic intellectual property and certain other domestic intangibles of (x) Products Corporation and its domestic subsidiaries and (y) certain subsidiaries of Holdings; (iv) domestic inventory and accounts receivable of (x) Products Corporation and its domestic subsidiaries and (y) certain subsidiaries of Holdings; and (v) the assets of certain foreign subsidiary borrowers under the Multi-Currency Facility (to support their borrowings only). The Credit Agreement

provides that the liens on the stock and personal property referred to above may be shared from time to time with specified types of other obligations incurred or guaranteed by Products Corporation, such as interest rate hedging obligations, working capital lines and a subsidiary of Products Corporation's yen-denominated credit agreement.

The Credit Agreement contains various material restrictive covenants prohibiting Products Corporation from (i) incurring additional indebtedness or guarantees, with certain exceptions, (ii) making dividend, tax sharing and other payments or loans to Revlon, Inc. or other affiliates, with certain exceptions, including among others, permitting Products Corporation to pay dividends and make distributions to Revlon, Inc., among other things, to enable Revlon, Inc. to pay expenses incidental to being a public holding company, including, among other things, professional fees such as legal and accounting, regulatory fees such as Securities and Exchange Commission ("Commission") filing fees and other miscellaneous expenses related to being a public holding company, and to pay dividends or make distributions in certain circumstances to finance the purchase by Revlon, Inc. of its common stock in connection with the delivery of such common stock to grantees under any stock option plan, provided that the aggregate amount of such dividends and distributions taken together with any purchases of Revlon, Inc. common stock on the market to satisfy matching obligations under an excess savings plan may not exceed $6.0 per annum, (iii) creating liens or other encumbrances on their assets or revenues, granting negative pledges or selling or transferring any of their assets except in the ordinary course of business, all subject to certain limited exceptions, (iv) with certain exceptions, engaging in merger or acquisition transactions, (v) prepaying indebtedness, subject to certain limited exceptions, (vi) making investments, subject to certain limited exceptions, and (vii) entering into transactions with affiliates of Products Corporation other than upon terms no less favorable to Products Corporation or its subsidiaries than it would obtain in an arms' length transaction. In addition to the foregoing, the Credit Agreement contains financial covenants requiring Products Corporation to maintain minimum interest coverage and covenants which limit the leverage ratio of Products Corporation and the amount of capital expenditures.

The events of default under the Credit Agreement include a Change of Control (as defined in the Credit Agreement) of Products Corporation, the acceleration of, or certain payment defaults under, indebtedness of REV Holdings in excess of $0.5, and other customary events of default for such types of agreements.

In December 1998, Products Corporation amended the Credit Agreement to modify the terms of certain of the financial ratios and tests to account for, among other things, the expected charges in connection with the Company's restructuring effort. In addition, the amendment increased the applicable margin to the levels set forth in the description above and provides that Products Corporation may use the proceeds of the Acquisition Facility for general corporate purposes as well as for acquisitions.

(b) The Pacific Finance & Development Corp., a subsidiary of Products Corporation, is the borrower under a yen-denominated credit agreement (the "Yen Credit Agreement"), which had a principal balance of approximately ¥1.5 billion as of December 31, 1998 (approximately $13.6 U.S. dollar equivalent as of December 31, 1998) (after giving effect to the repayment described below). Approximately ¥539 million (approximately $4.2 U.S. dollar equivalent) was paid in March 1998, approximately ¥539 million (approximately $4.7 U.S. dollar equivalent as of December 31, 1998) is due in each of March 1999 and 2000 and approximately ¥474 million (approximately $4.2 U.S. dollar equivalent as of December 31, 1998) is due on December 31, 2000. On December 10, 1998, in connection with the disposition of the stock of Cosmetic Center, which had served as collateral under the Yen Credit Agreement, Products Corporation repaid ¥2.22 billion (approximately $19.0 U.S. dollar equivalent as of December 10, 1998) principal amount. The applicable interest rate at December 31, 1998 under the Yen Credit Agreement was the Euro-Yen rate plus 2.75%, which approximated 3.5%. The interest rate at December 31, 1997 was the Euro-Yen rate plus 1.25%, which approximated 1.9%.

(c) The 9 1/2% Senior Notes due 1999 (the "1999 Notes") are senior unsecured obligations of Products Corporation and rank pari passu in right of payment to all existing and future Senior Debt (as defined in the indenture relating to the 1999 Notes (the "1999 Notes Indenture")). The 1999 Notes bear interest at 9 1/2% per annum. Interest is payable on June 1 and December 1.

The 1999 Notes may not be redeemed prior to maturity. Upon a Change of Control (as defined in the 1999 Notes Indenture) and subject to certain conditions, each holder of 1999 Notes will have the right to require Products Corporation to repurchase all or a portion of such holder's 1999 Notes at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase. In addition, under certain circumstances in the event of an Asset Disposition (as defined in the 1999 Notes Indenture), Products Corporation will be obligated to make offers to purchase the 1999 Notes.

The 1999 Notes Indenture contains various restrictive covenants that, among other things, limit (i) the issuance of additional debt and redeemable stock by Products Corporation, (ii) the issuance of debt and preferred stock by Products Corporation's subsidiaries, (iii) the incurrence of liens on the assets of Products Corporation and its subsidiaries which do not equally and ratably secure the 1999 Notes, (iv) the payment of dividends on and redemption of capital stock of Products Corporation and its subsidiaries and the redemption of certain subordinated obligations of Products Corporation, except that the 1999 Notes Indenture permits Products Corporation to pay dividends and make distributions to Revlon, Inc., among other things, to enable Revlon, Inc. to pay expenses incidental to being a public holding company, including, among other things, professional fees such as legal and accounting, regulatory fees such as Commission filing fees and other miscellaneous expenses related to being a public holding company, and to pay dividends or make distributions up to $5.0 per annum (subject to allowable increases) in certain circumstances to finance the purchase by Revlon, Inc. of its Class A Common Stock in connection with the delivery of such Class A Common Stock to grantees under any stock option plan, (v) the sale of assets and subsidiary stock, (vi) transactions with affiliates and (vii) consolidations, mergers and transfers of all or substantially all of Products Corporation's assets. The 1999 Notes Indenture also prohibits certain restrictions on distributions from subsidiaries. All of these limitations and prohibitions, however, are subject to a number of important qualifications.

On November 6, 1998, Products Corporation issued and sold in a private placement $250.0 aggregate principal amount of 9% Senior Notes due 2006 (the "9% Notes"), receiving net proceeds of $247.2. Products Corporation intends to use $200.0 of the net proceeds from the sale of the 9% Notes to refinance the 1999 Notes, including through open market purchases. Such proceeds have temporarily been used to reduce borrowings under the Credit Agreement. As a result of the refinancing, the Company has classified the 1999 Notes as "Long-term debt-third parties" in its consolidated balance sheet as of December 31, 1998. On January 22, 1999, Products Corporation filed a registration statement with the Commission with respect to an offer to exchange the 9% Notes for registered notes with substantially identical terms (the "Exchange Offer"). The Exchange Offer will expire on February 24, 1999, unless extended.

(d) During 1998 Products Corporation redeemed the 9 3/8% Senior Notes due 2001 with proceeds from the sale of the 8 1/8% Notes due 2006 (the "8 1/8% Notes") and 8 5/8% Notes due 2008 (the "8 5/8% Notes").

(e) The 8 1/8% Notes are senior unsecured obligations of Products Corporation and rank pari passu in right of payment with all existing and future Senior Debt (as defined in the indenture relating to the 8 1/8% Notes (the "8 1/8% Notes Indenture")) of Products Corporation, including the 1999 Notes until the maturity or earlier retirement thereof, the 9% Notes and the indebtedness under the Credit Agreement, and are senior to the 8 5/8% Notes and to all future subordinated indebtedness of Products Corporation. The 8 1/8% Notes are effectively subordinated to the outstanding indebtedness and other liabilities of Products Corporation's subsidiaries. Interest is payable on February 1 and August 1.

The 8 1/8% Notes may be redeemed at the option of Products Corporation in whole or from time to time in part at any time on or after February 1, 2002 at the redemption prices set forth in the 8 1/8% Notes Indenture plus accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to February 1, 2001, Products Corporation may redeem up to 35% of the aggregate principal amount of the 8 1/8% Notes originally issued at a redemption price of 108 1/8% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date fixed for redemption, with, and to the extent Products Corporation receives, the net cash proceeds of one or more Public Equity Offerings (as defined in the 8 1/8% Notes Indenture), provided that at least $162.5

aggregate principal amount of the 8 1/8% Notes remains outstanding immediately after the occurrence of each such redemption.

Upon a Change of Control (as defined in the 8 1/8% Notes Indenture), Products Corporation will have the option to redeem the 8 1/8% Notes in whole at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of redemption plus the Applicable Premium (as defined in the 8 1/8% Notes Indenture) and, subject to certain conditions, each holder of the 8 1/8% Notes will have the right to require Products Corporation to repurchase all or a portion of such holder's 8 1/8% Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of repurchase.

The 8 1/8% Notes Indenture contains covenants that, among other things, limit (i) the issuance of additional debt and redeemable stock by Products Corporation, (ii) the incurrence of liens, (iii) the issuance of debt and preferred stock by Products Corporation's subsidiaries, (iv) the payment of dividends on capital stock of Products Corporation and its subsidiaries and the redemption of capital stock of Products Corporation and certain subordinated obligations, (v) the sale of assets and subsidiary stock, (vi) transactions with affiliates and (vii) consolidations, mergers and transfers of all or substantially all Products Corporation's assets. The 8 1/8% Notes Indenture also prohibits certain restrictions on distributions from subsidiaries. All of these limitations and prohibitions, however, are subject to a number of important qualifications.

(f) The 9% Notes are senior unsecured obligations of Products Corporation and rank pari passu in right of payment with all existing and future Senior Debt (as defined in the indenture relating to the 9% Notes (the "9% Notes Indenture")) of Products Corporation, including the 1999 Notes until the maturity or earlier retirement thereof, the 8 1/8% Notes and the indebtedness under the Credit Agreement, and are senior to the 8 5/8% Notes and to all future subordinated indebtedness of Products Corporation. The 9% Notes are effectively subordinated to outstanding indebtedness and other liabilities of Products Corporation's subsidiaries. Interest is payable on May 1 and November 1.

The 9% Notes may be redeemed at the option of Products Corporation in whole or from time to time in part at any time on or after November 1, 2002 at the redemption prices set forth in the 9% Notes Indenture plus accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to November 1, 2001, Products Corporation may redeem up to 35% of the aggregate principal amount of the 9% Notes originally issued at a redemption price of 109% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date fixed for redemption, with, and to the extent Products Corporation receives, the net cash proceeds of one or more Public Equity Offerings (as defined in the 9% Notes Indenture), provided that at least $162.5 aggregate principal amount of the 9% Notes remains outstanding immediately after the occurrence of each such redemption.

Upon a Change in Control (as defined in the 9% Notes Indenture), Products Corporation will have the option to redeem the 9% Notes in whole at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of redemption plus the Applicable Premium (as defined in the 9% Notes Indenture) and, subject to certain conditions, each holder of the 9% Notes will have the right to require Products Corporation to repurchase all or a portion of such holder's 9% Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of repurchase.

The 9% Notes Indenture contains covenants that, among other things, limit (i) the issuance of additional debt and redeemable stock by Products Corporation, (ii) the incurrence of liens, (iii) the issuance of debt and preferred stock by Products Corporation's subsidiaries, (iv) the payment of dividends on capital stock of Products Corporation and its subsidiaries and the redemption of capital stock of Products Corporation and certain subordinated obligations, (v) the sale of assets and subsidiary stock, (vi) transactions with affiliates and (vii) consolidations, mergers and transfers of all or substantially all Products Corporation's assets. The 9% Notes Indenture also prohibits certain restrictions on distributions from subsidiaries. All of these limitations and prohibitions, however, are subject to a number of important qualifications.

(g) During 1998 Products Corporation redeemed the 10 1/2% Senior Subordinated Notes due 2003 with proceeds from the sale of the 8 1/8% Notes and 8 5/8% Notes.

(h) The 8 5/8% Notes are general unsecured obligations of Products Corporation and are (i) subordinate in right of payment to all exist-

ing and future Senior Debt (as defined in the indenture relating to the 8 5/8% Notes (the "8 5/8% Notes Indenture")) of Products Corporation, including the 1999 Notes until the maturity or earlier retirement thereof, the 9% Notes, the 8 1/8% Notes and the indebtedness under the Credit Agreement, (ii) pari passu in right of payment with all future senior subordinated debt, if any, of Products Corporation and (iii) senior in right of payment to all future subordinated debt, if any, of Products Corporation. The 8 5/8% Notes are effectively subordinated to the outstanding indebtedness and other liabilities of Products Corporation's subsidiaries. Interest is payable on February 1 and August 1.

The 8 5/8% Notes may be redeemed at the option of Products Corporation in whole or from time to time in part at any time on or after February 1, 2003 at the redemption prices set forth in the 8 5/8% Notes Indenture plus accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to February 1, 2001, Products Corporation may redeem up to 35% of the aggregate principal amount of the 8 5/8% Notes originally issued at a redemption price of 108 5/8% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date fixed for redemption, with, and to the extent Products Corporation receives, the net cash proceeds of one or more Public Equity Offerings (as defined in the 8 5/8% Notes Indenture), provided that at least $422.5 aggregate principal amount of the 8 5/8% Notes remains outstanding immediately after the occurrence of each such redemption.

Upon a Change of Control (as defined in the 8 5/8% Notes Indenture), Products Corporation will have the option to redeem the 8 5/8% Notes in whole at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of redemption plus the Applicable Premium (as defined in the 8 5/8% Notes Indenture) and, subject to certain conditions, each holder of the 8 5/8% Notes will have the right to require Products Corporation to repurchase all or a portion of such holder's 8 5/8% Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of repurchase.

The 8 5/8% Notes Indenture contains covenants that, among other things, limit (i) the issuance of additional debt and redeemable stock by Products Corporation, (ii) the incurrence of liens, (iii) the issuance of debt and preferred stock by Products Corporation's subsidiaries, (iv) the payment of dividends on capital stock of Products Corporation and its subsidiaries and the redemption of capital stock of Products Corporation, (v) the sale of assets and subsidiary stock, (vi) transactions with affiliates, (vii) consolidations, mergers and transfers of all or substantially all Products Corporation's assets and (viii) the issuance of additional subordinated debt that is senior in right of payment to the 8 5/8% Notes. The 8 5/8% Notes Indenture also prohibits certain restrictions on distributions from subsidiaries. All of these limitations and prohibitions, however, are subject to a number of important qualifications.

The 1999 Notes Indenture, the 8 1/8% Notes Indenture, the 8 5/8% Notes Indenture and the 9% Notes Indenture contain customary events of default for debt instruments of such type.

(i) During 1992, Holdings made an advance of $25.0 to Products Corporation, evidenced by subordinated noninterest-bearing demand notes. The notes were subsequently adjusted by offsets of amounts due from Holdings to Products Corporation, and additional amounts loaned by Holdings to Products Corporation, such that the amount outstanding under the notes was $41.3 as of December 31, 1995. In June 1996, $10.9 in notes due to Products Corporation from Holdings under the Financing Reimbursement Agreement was offset against the notes. In June 1997, Products Corporation borrowed from Holdings approximately $0.5, representing certain amounts received by Holdings from the sale of a brand and the inventory relating thereto. In 1998, approximately $6.8 due to Products Corporation from Holdings was offset against the notes payable to Holdings. At December 31, 1998 the balance of $24.1 is evidenced by noninterest-bearing promissory notes payable to Holdings that are subordinated to Products Corporation's obligations under the Credit Agreement.

Products Corporation borrows funds from its affiliates from time to time to supplement its working capital borrowings at interest rates more favorable to Products Corporation than the rate under the Credit Agreement. No such borrowings were outstanding at December 31, 1998 or 1997.

The aggregate amounts of long-term debt maturities (at December 31, 1998), in the years 1999 through 2003 are $206.0, $10.2, $39.8, $254.8 and $0, respectively, and $1,149.2 thereafter.

12. FINANCIAL INSTRUMENTS

As of December 31, 1997, Products Corporation was party to a series of interest rate swap agreements totaling a notional amount of $225.0 in which Products Corporation agreed to pay on such notional amount a variable interest rate equal to the six month LIBOR to its counterparties and the counterparties agreed to pay on such notional amounts fixed interest rates averaging approximately 6.03% per annum. Products Corporation entered into these agreements in 1993 and 1994 (and in the first quarter of 1996 extended a portion equal to a notional amount of $125.0 through December 2001) to convert the interest rate on $225.0 of fixed-rate indebtedness to a variable rate. Products Corporation terminated these agreements in January 1998 and realized a gain of approximately $1.6, which was recognized upon repayment of the hedged indebtedness and is included in the extraordinary item for the early extinguishment of debt. Certain other swap agreements were terminated in 1993 for a gain of $14.0 that was amortized over the original lives of the agreements through 1997. The amortization of the 1993 realized gain in 1997 and 1996 was approximately $3.1 and $3.2, respectively.

Products Corporation enters into forward foreign exchange contracts and option contracts from time to time to hedge certain cash flows denominated in foreign currencies. At December 31, 1998 and 1997, Products Corporation had outstanding forward foreign exchange contracts denominated in various currencies of approximately $197.5 and $90.1, respectively, and outstanding option contracts of approximately $51.0 and $94.9, respectively. Such contracts are entered into to hedge transactions predominantly occurring within twelve months. If Products Corporation had terminated these contracts on December 31, 1998 and 1997 or the contracts then outstanding on December 31, 1996, no material gain or loss would have been realized.

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same issues or on the current rates offered to the Company for debt of the same remaining maturities. The estimated fair value of long-term debt at December 31, 1998 and 1997 was approximately $(63.1) and $39.0 (less) more than the carrying value of $1,660.0 and $1,425.2, respectively. Because considerable judgment is required in interpreting market data to develop estimates of fair value, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions or estimation methodologies may be material to the estimated fair value amounts.

Products Corporation also maintains standby and trade letters of credit with certain banks for various corporate purposes under which Products Corporation is obligated, of which approximately $30.7 and $40.6 (including amounts available under credit agreements in effect at that time) were maintained at December 31, 1998 and 1997, respectively. Included in these amounts are $26.9 and $27.7, respectively, in standby letters of credit, which support Products Corporation's self-insurance programs. The estimated liability under such programs is accrued by Products Corporation.

The carrying amounts of cash and cash equivalents, marketable securities, trade receivables, accounts payable and short-term borrowings approximate their fair values.

13. INCOME TAXES

In June 1992, Holdings, Revlon, Inc. and certain of its subsidiaries, and Mafco Holdings entered into a tax sharing agreement (as subsequently amended, the "Tax Sharing Agreement"), pursuant to which Mafco Holdings has agreed to indemnify Revlon, Inc. against federal, state or local income tax liabilities of the consolidated or combined group of which Mafco Holdings (or a subsidiary of Mafco Holdings other than Revlon, Inc. or its subsidiaries) is the common parent for taxable periods beginning on or after January 1, 1992 during which Revlon, Inc. or a subsidiary of Revlon, Inc. is a member of such group. Pursuant to the Tax Sharing Agreement, for all taxable periods beginning on or after January 1, 1992, Revlon, Inc. will pay to Holdings amounts equal to the taxes that Revlon, Inc. would otherwise have to pay if it were to file separate federal, state or local income tax returns (including any amounts determined to be due as a result of a redetermination arising from an audit or otherwise of the consolidated or combined tax liability relating to any

such period which is attributable to Revlon, Inc.), except that Revlon, Inc. will not be entitled to carry back any losses to taxable periods ending prior to January 1, 1992. No payments are required by Revlon, Inc. if and to the extent that Products Corporation is prohibited under the Credit Agreement from making tax sharing payments to Revlon, Inc. The Credit Agreement prohibits Products Corporation from making any tax sharing payments other than in respect of state and local income taxes. Since the payments to be made by Revlon, Inc. under the Tax Sharing Agreement will be determined by the amount of taxes that Revlon, Inc. would otherwise have to pay if it were to file separate federal, state or local income tax returns, the Tax Sharing Agreement will benefit Mafco Holdings to the extent Mafco Holdings can offset the taxable income generated by Revlon, Inc. against losses and tax credits generated by Mafco Holdings and its other subsidiaries. As a result of net operating tax losses and prohibitions under the Credit Agreement there were no federal tax payments or payments in lieu of taxes pursuant to the Tax Sharing Agreement for 1998, 1997 or 1996. The Company has a liability of $0.9 to Holdings in respect of federal taxes for 1997 under the Tax Sharing Agreement.

Pursuant to the asset transfer agreement referred to in Note 16, Products Corporation assumed all tax liabilities of Holdings other than (i) certain income tax liabilities arising prior to January 1, 1992 to the extent such liabilities exceeded reserves on Holdings' books as of January 1, 1992 or were not of the nature reserved for and (ii) other tax liabilities to the extent such liabilities are related to the business and assets retained by Holdings.

The Company's (loss) income from continuing operations before income taxes and the applicable provision (benefit) for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES:			
DOMESTIC	$ 15.3	$ 82.6	$ 9.4
FOREIGN	(37.6)	(15.5)	40.5
	$ (22.3)	$ 67.1	$ 49.9
PROVISION (BENEFIT) FOR INCOME TAXES:			
FEDERAL	$ –	$ 0.9	$ –
STATE AND LOCAL	0.6	1.1	1.2
FOREIGN	4.4	7.3	24.3
	$ 5.0	$ 9.3	$ 25.5
CURRENT	$ 12.1	$ 31.9	$ 22.7
DEFERRED	(0.3)	10.4	6.6
BENEFITS OF OPERATING LOSS CARRYFORWARDS	(7.7)	(34.1)	(4.7)
CARRYFORWARD UTILIZATION APPLIED TO GOODWILL	0.5	1.1	1.0
EFFECT OF ENACTED CHANGE OF TAX RATES	0.4	–	(0.1)
	$ 5.0	$ 9.3	$ 25.5

The effective tax rate on (loss) income from continuing operations before income taxes is reconciled to the applicable statutory federal income tax rate as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
STATUTORY FEDERAL INCOME TAX RATE	(35.0)%	35.0%	35.0%
STATE AND LOCAL TAXES, NET OF FEDERAL INCOME TAX BENEFIT	1.7	1.1	1.6
FOREIGN AND U.S. TAX EFFECTS ATTRIBUTABLE TO OPERATIONS OUTSIDE THE U.S.	75.1	13.4	36.2
TAX WRITE-OFF OF U.S. INVESTMENT IN FOREIGN SUBSIDIARY	(232.9)	–	–
NONDEDUCTIBLE AMORTIZATION EXPENSE	13.5	4.5	5.9
CHANGE IN DOMESTIC VALUATION ALLOWANCE	200.3	(43.5)	(29.7)
OTHER	(0.3)	3.4	2.1
EFFECTIVE RATE	22.4%	13.9%	51.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are presented below:

	DECEMBER 31,	
	1998	1997
DEFERRED TAX ASSETS:		
ACCOUNTS RECEIVABLE, PRINCIPALLY DUE TO DOUBTFUL ACCOUNTS	$ 4.2	$ 3.3
INVENTORIES	12.1	10.5
NET OPERATING LOSS CARRYFORWARDS – DOMESTIC	190.3	107.6
NET OPERATING LOSS CARRYFORWARDS – FOREIGN	111.0	100.1
ACCRUALS AND RELATED RESERVES	22.6	9.4
EMPLOYEE BENEFITS	32.5	28.7
STATE AND LOCAL TAXES	13.1	13.1
SELF-INSURANCE	2.2	3.8
ADVERTISING, SALES DISCOUNTS AND RETURNS AND COUPON REDEMPTIONS	30.5	26.0
OTHER	27.5	25.3
TOTAL GROSS DEFERRED TAX ASSETS	446.0	327.8
LESS VALUATION ALLOWANCE	(383.0)	(280.1)
NET DEFERRED TAX ASSETS	63.0	47.7
DEFERRED TAX LIABILITIES:		
PLANT, EQUIPMENT AND OTHER ASSETS	(58.4)	(50.8)
OTHER	(8.2)	(5.5)
TOTAL GROSS DEFERRED TAX LIABILITIES	(66.6)	(56.3)
NET DEFERRED TAX LIABILITY	$ (3.6)	$ (8.6)

The valuation allowance for deferred tax assets at January 1, 1998 was $280.1. The valuation allowance increased by $102.9 during 1998 and decreased by $54.0 and $9.9 during 1997 and 1996, respectively.

During 1998, 1997 and 1996, certain of the Company's foreign subsidiaries used operating loss carryforwards to credit the current provision for income taxes by $2.4, $4.0, and $4.7, respectively. Certain other foreign operations generated losses during 1998, 1997 and 1996 for which the potential tax benefit was reduced by a valuation allowance. During 1998 and 1997, the Company used domestic operating loss carryforwards to credit the deferred provision for income taxes by $5.3 and $12.0, respectively. During 1997, the Company applied domestic operating loss carryforwards to credit the current provision for income taxes by $18.1. At December 31, 1998, the Company had tax loss carryforwards of approximately $830.4 as compared with $581.3 at December 31, 1997. The increase in 1998 is primarily related to a substantial increase in the domestic net operating loss carryforwards as a result of the write-off of the U.S. tax basis of the investment in certain foreign operations. The net operating losses at December 31, 1998 expire in future years as follows: 1999-$29.9; 2000-$14.2; 2001-$17.1; 2002-$32.5; 2003 and beyond-$593.8; unlimited-$142.9. The Company could receive the benefit of such tax loss carryforwards only to the extent it has taxable income during the carryforwards periods in the applicable jurisdictions. In addition, based upon certain factors, including the amount and nature of gains or losses recognized by Mafco Holdings and its other subsidiaries included in the consolidated federal income tax return, the amount of net operating loss carryforwards attributable to Mafco Holdings and such other subsidiaries and the amounts of alternative minimum tax liability of Mafco Holdings and such other subsidiaries, pursuant to the terms of the Tax Sharing Agreement, all or a portion of the domestic operating loss carryforwards may not be available to the Company should the Company cease being a member of the Mafco Holdings consolidated federal income tax return.

Appropriate United States and foreign income taxes have been accrued on foreign earnings that have been or are expected to be remitted in the near future. Unremitted earnings of foreign subsidiaries which have been, or are currently intended to be, permanently reinvested in the future growth of the business aggregated approximately $14.3 at December 31, 1998, excluding those amounts which, if remitted in the near future, would not result in significant additional taxes under tax statutes currently in effect.

14. POSTRETIREMENT BENEFITS

PENSION:

A substantial portion of the Company's employees in the United States are covered by defined benefit pension plans. The Company uses September 30 as its measurement date for plan obligations and assets.

OTHER POSTRETIREMENT BENEFITS:

The Company also has sponsored an unfunded retiree benefit plan, which provides death benefits payable to beneficiaries of certain key employees and former employees. Participation in this plan is limited to participants enrolled as of December 31, 1993. The Company also administers a medical insurance plan on behalf of Holdings, the cost of which has been apportioned to Holdings. The Company uses September 30 as its measurement date for plan obligations.

Information regarding the Company's significant pension and other postretirement plans at the dates indicated is as follows:

	PENSION PLANS		OTHER POSTRETIREMENT BENEFITS	
	DECEMBER 31,			
	1998	1997	1998	1997
CHANGE IN BENEFIT OBLIGATION:				
BENEFIT OBLIGATION - SEPTEMBER 30 OF PRIOR YEAR	$ (364.8)	$ (339.5)	$ (8.7)	$ (8.2)
SERVICE COST	(12.8)	(11.7)	(0.1)	(0.1)
INTEREST COST	(27.0)	(26.0)	(0.7)	(0.7)
PLAN AMENDMENTS	0.2	(2.5)	–	0.3
ACTUARIAL LOSS	(51.6)	(5.9)	(0.3)	(0.3)
CURTAILMENTS	0.6	(0.1)	–	–
BENEFITS PAID	17.6	20.5	0.5	0.3
FOREIGN EXCHANGE	(0.1)	1.1	–	–
PLAN PARTICIPANT CONTRIBUTIONS	(0.7)	(0.7)	–	–
BENEFIT OBLIGATION - SEPTEMBER 30 OF CURRENT YEAR	(438.6)	(364.8)	(9.3)	(8.7)
CHANGE IN PLAN ASSETS:				
FAIR VALUE OF PLAN ASSETS - SEPTEMBER 30 OF PRIOR YEAR	306.9	254.9	–	–
ACTUAL (LOSS) RETURN ON PLAN ASSETS	(6.5)	58.0	–	–
EMPLOYER CONTRIBUTIONS	3.5	14.4	0.5	0.3
PLAN PARTICIPANT CONTRIBUTIONS	0.7	0.7	–	–
BENEFITS PAID	(17.6)	(20.5)	(0.5)	(0.3)
FOREIGN EXCHANGE	(1.0)	(0.6)	–	–
FAIR VALUE OF PLAN ASSETS - SEPTEMBER 30 OF CURRENT YEAR	286.0	306.9	–	–
FUNDED STATUS OF PLANS	(152.6)	(57.9)	(9.3)	(8.7)
AMOUNTS CONTRIBUTED TO PLANS DURING FOURTH QUARTER	1.0	0.9	0.1	0.1
UNRECOGNIZED NET LOSS (GAIN)	96.6	12.9	(1.4)	(2.0)
UNRECOGNIZED PRIOR SERVICE COST	7.3	9.7	–	–
UNRECOGNIZED NET (ASSET) OBLIGATION	(0.9)	(1.1)	–	–
ACCRUED BENEFIT COST	$ (48.6)	$ (35.5)	$ (10.6)	$ (10.6)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS CONSIST OF:				
PREPAID EXPENSES	$ 8.7	$ 9.6	$ –	$ –
OTHER LONG-TERM LIABILITIES	(98.6)	(51.6)	(10.6)	(10.6)
INTANGIBLE ASSET	7.8	1.0	–	–
ACCUMULATED OTHER COMPREHENSIVE LOSS	32.5	4.5	–	–
DUE FROM AFFILIATE	1.0	1.0	1.7	1.9
	$ (48.6)	$ (35.5)	$ (8.9)	$ (8.7)

The following weighted-average assumptions were used in accounting for the plans:

	U.S. PLANS			INTERNATIONAL PLANS		
	1998	1997	1996	1998	1997	1996
DISCOUNT RATE	6.75%	7.75%	7.75%	6.2%	7.1%	7.9%
EXPECTED RETURN ON PLAN ASSETS	9.0	9.0	9.0	9.6	10.1	10.4
RATE OF FUTURE COMPENSATION INCREASES	5.3	5.3	5.3	4.9	5.3	5.1

The components of net periodic benefit cost for the plans are as follows:

	PENSION PLANS			OTHER POSTRETIREMENT BENEFITS		
	YEAR ENDED DECEMBER 31,					
	1998	1997	1996	1998	1997	1996
SERVICE COST	$ 12.8	$ 11.7	$ 10.6	$ 0.1	$ 0.1	$ 0.1
INTEREST COST	27.0	26.0	24.3	0.7	0.7	0.7
EXPECTED RETURN ON PLAN ASSETS	(27.4)	(23.0)	(19.3)	–	–	–
AMORTIZATION OF PRIOR SERVICE COST	1.8	1.8	1.7	–	–	–
AMORTIZATION OF NET TRANSITION ASSET	(0.2)	(0.2)	0.3	–	–	–
AMORTIZATION OF ACTUARIAL LOSS (GAIN)	1.0	1.2	2.0	(0.3)	(0.2)	(0.2)
SETTLEMENT LOSS	–	0.2	0.3	–	–	–
CURTAILMENT LOSS	0.3	0.1	1.0	–	–	–
	15.3	17.8	20.9	0.5	0.6	0.6
PORTION ALLOCATED TO HOLDINGS	(0.3)	(0.3)	(0.3)	0.1	0.1	0.1
	$ 15.0	$ 17.5	$ 20.6	$ 0.6	$ 0.7	$ 0.7

Where the accumulated benefit obligation exceeded the related fair value of plan assets, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the Company's pension plans are as follows:

	DECEMBER 31,		
	1998	1997	1996
PROJECTED BENEFIT OBLIGATION	$ 428.2	$ 55.5	$ 141.4
ACCUMULATED BENEFIT OBLIGATION	370.5	45.2	131.4
FAIR VALUE OF PLAN ASSETS	276.3	1.9	81.6

15. STOCK COMPENSATION PLAN

Since March 5, 1996, Revlon, Inc. has had a stock-based compensation plan (the "Plan"), which is described below. Revlon, Inc. applies APB Opinion No. 25 and its related interpretation in accounting for the Plan. Under APB Opinion No. 25, because the exercise price of Revlon, Inc.'s employee stock options equals the market price of the underlying stock on the date of grant, no compensation cost has been recognized. Had compensation cost for the Plan been determined consistent with SFAS No. 123, Revlon, Inc.'s net (loss) income and net (loss) income per diluted share of $(143.2) and $(2.80), respectively, for 1998, $43.6 and $0.85, respectively,

for 1997 and $18.2 and $0.37, respectively, for 1996 would have been changed to the pro forma amounts of $(166.8) and $(3.25) for 1998, respectively, $31.3 and $0.61, respectively, for 1997 and $15.0 and $0.30, respectively, for 1996. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model assuming no dividend yield, expected volatility of approximately 56% in 1998, 39% in 1997 and 31% in 1996; weighted average risk-free interest rate of 5.37% in 1998, 6.54% in 1997 and 5.99% in 1996; and a seven year expected average life for the Plan's options issued in 1998, 1997 and 1996. The effects of applying SFAS No. 123 in this pro forma disclosure are not necessarily indicative of future amounts.

Under the Plan, Revlon, Inc. may grant options to its employees for up to an aggregate of 5.0 million shares of Class A Common Stock. Non-qualified options granted under the Plan have a term of 10 years during which the holder can purchase shares of Class A Common Stock at an exercise price which must be not less than the market price on the date of the grant. Options granted in 1996 to certain executive officers will not vest as to any portion until the third anniversary of the grant date and will thereupon become 100% vested, except that upon termination of employment by Revlon, Inc. between the second and third anniversary of the grant other than for "cause," death or "disability" under the applicable employment agreement, such options will vest with respect to 50% of the shares subject thereto. Primarily all other option grants, including options granted to certain executive officers in 1998 and 1997, will vest 25% each year beginning on the first anniversary of the date of grant and will become 100% vested on the fourth anniversary of the date of grant. During each of 1997 and 1998, the Company granted to Mr. Perelman, Chairman of the Board, options to purchase 300,000 shares of Class A Common Stock, which grants will vest in full on the fifth anniversary of the grant dates. At December 31, 1998 and 1997 there were 403,950 and 98,450 options exercisable under the Plan, respectively. At December 31, 1996 there were no options exercisable under the Plan.

A summary of the status of the Plan as of December 31, 1998, 1997 and 1996 and changes during the years then ended is presented below:

	SHARES (000)	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING AT FEBRUARY 28, 1996	–	–
GRANTED	1,010.2	$ 24.37
EXERCISED	–	–
FORFEITED	(119.1)	24.00
OUTSTANDING AT DECEMBER 31, 1996	891.1	24.37
GRANTED	1,485.5	32.64
EXERCISED	(12.1)	24.00
FORFEITED	(85.1)	29.33
OUTSTANDING AT DECEMBER 31,1997	2,279.4	29.57
GRANTED	1,707.8	36.65
EXERCISED	(55.9)	26.83
FORFEITED	(166.8)	32.14
OUTSTANDING AT DECEMBER 31, 1998	3,764.5	32.71

The weighted average fair value of each option granted during 1998, 1997 and 1996 approximated $22.26, $16.42 and $11.00, respectively.

The following table summarizes information about the Plan's options outstanding at December 31, 1998:

DECEMBER 31, 1998			
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING (000)	WEIGHTED AVERAGE YEARS REMAINING	WEIGHTED AVERAGE EXERCISE PRICE
$17.13 TO $29.88	833.2	7.43	$ 23.41
31.38 TO 33.88	1,012.7	8.05	31.41
34.00 TO 53.56	1,918.6	8.95	37.44
17.13 TO 53.56	3,764.5	8.37	32.71

16. RELATED PARTY TRANSACTIONS

TRANSFER AGREEMENTS

In June 1992, Revlon, Inc. and Products Corporation entered into an asset transfer agreement with Holdings and certain of its wholly owned subsidiaries (the "Asset Transfer Agreement"), and Revlon, Inc. and Products Corporation entered into a real property asset transfer agreement with Holdings (the "Real Property Transfer Agreement" and, together with the Asset Transfer Agreement, the "Transfer Agreements"), and pursuant to such agreements, on June 24, 1992 Holdings transferred assets to Products Corporation and Products Corporation assumed all the liabilities of Holdings, other than certain specifically excluded assets and liabilities (the liabilities excluded are referred to as the "Excluded Liabilities"). Holdings retained the Retained Brands. Holdings agreed to indemnify Revlon, Inc. and Products Corporation against losses arising from the Excluded Liabilities, and Revlon, Inc. and Products Corporation agreed to indemnify Holdings against losses arising from the liabilities assumed by Products Corporation. The amounts reimbursed by Holdings to Products Corporation for the Excluded Liabilities for 1998, 1997 and 1996 were $0.6, $0.4 and $1.4, respectively.

OPERATING SERVICES AGREEMENT

In June 1992, Revlon, Inc., Products Corporation and Holdings entered into an operating services agreement (as amended and restated, and as subsequently amended, the "Operating Services Agreement") pursuant to which Products Corporation has manufactured, marketed, distributed, warehoused and administered, including the collection of accounts receivable, the Retained Brands for Holdings. Pursuant to the Operating Services Agreement, Products Corporation was reimbursed an amount equal to all of its and Revlon, Inc.'s direct and indirect costs incurred in connection with furnishing such services, net of the amounts collected by Products Corporation with respect to the Retained Brands, payable quarterly. The net amounts due from Holdings to Products Corporation for such direct and indirect costs plus a fee equal to 5% of the net sales of the Retained Brands for 1998, 1997 and 1996 were $0.9 (which amount was offset against certain notes payable to Holdings), $1.7 and $5.7, respectively.

REIMBURSEMENT AGREEMENTS

Revlon, Inc., Products Corporation and MacAndrews Holdings have entered into reimbursement agreements (the "Reimbursement Agreements") pursuant to which (i) MacAndrews Holdings is obligated to provide (directly or through affiliates) certain professional and administrative services, including employees, to Revlon, Inc. and its subsidiaries, including Products Corporation, and purchase services from third party providers, such as insurance and legal and accounting services, on behalf of Revlon, Inc. and its subsidiaries,

including Products Corporation, to the extent requested by Products Corporation, and (ii) Products Corporation is obligated to provide certain professional and administrative services, including employees, to MacAndrews Holdings (and its affiliates) and purchase services from third party providers, such as insurance and legal and accounting services, on behalf of MacAndrews Holdings (and its affiliates) to the extent requested by MacAndrews Holdings, provided that in each case the performance of such services does not cause an unreasonable burden to MacAndrews Holdings or Products Corporation, as the case may be. The Company reimburses MacAndrews Holdings for the allocable costs of the services purchased for or provided to the Company and its subsidiaries and for reasonable out-of-pocket expenses incurred in connection with the provision of such services. MacAndrews Holdings (or such affiliates) reimburses the Company for the allocable costs of the services purchased for or provided to MacAndrews Holdings (or such affiliates) and for the reasonable out-of-pocket expenses incurred in connection with the purchase or provision of such services. The net amounts reimbursed by MacAndrews Holdings to the Company for the services provided under the Reimbursement Agreements for 1998, 1997 and 1996 were $3.1 ($0.2 of which was offset against certain notes payable to Holdings), $4.0 and $2.2, respectively. Each of Revlon, Inc. and Products Corporation, on the one hand, and MacAndrews Holdings, on the other, has agreed to indemnify the other party for losses arising out of the provision of services by it under the Reimbursement Agreements other than losses resulting from its willful misconduct or gross negligence. The Reimbursement Agreements may be terminated by either party on 90 days' notice. The Company does not intend to request services under the Reimbursement Agreements unless their costs would be at least as favorable to the Company as could be obtained from unaffiliated third parties.

TAX SHARING AGREEMENT

Holdings, Revlon, Inc., Products Corporation and certain of its subsidiaries and Mafco Holdings are parties to the Tax Sharing Agreement, which is described in Note 13. Since payments to be made under the Tax Sharing Agreement will be determined by the amount of taxes that Revlon, Inc. would otherwise have to pay if it were to file separate federal, state or local income tax returns, the Tax Sharing Agreement will benefit Mafco Holdings to the extent Mafco Holdings can offset the taxable income generated by Revlon, Inc. against losses and tax credits generated by Mafco Holdings and its other subsidiaries.

FINANCING REIMBURSEMENT AGREEMENT

Holdings and Products Corporation entered into a financing reimbursement agreement (the "Financing Reimbursement Agreement") in 1992, which expired on June 30, 1996, pursuant to which Holdings agreed to reimburse Products Corporation for Holdings' allocable portion of (i) the debt issuance cost and advisory fees related to the capital restructuring of Holdings, and (ii) interest expense attributable to the higher cost of funds paid by Products Corporation under the credit agreement in effect at that time as a result of additional borrowings for the benefit of Holdings in connection with the assumption of certain liabilities by Products Corporation under the Asset Transfer Agreement and the repurchase of certain subordinated notes from affiliates. In February 1995, the Financing Reimbursement Agreement was amended and extended to provide that Holdings would reimburse Products Corporation for a portion of the debt issuance costs and advisory fees related to the credit agreement then in effect (which portion was approximately $4.7 and was evidenced by a noninterest-bearing promissory note payable on June 30, 1996) and 1 1/2% per annum of the average balance outstanding under the credit agreement then in effect and the average balance outstanding under working capital borrowings from affiliates through June 30, 1996 and such amounts were evidenced by a noninterest-bearing promissory note payable on June 30, 1996. As of December 31, 1995, the aggregate amount of notes payable by Holdings under the Financing Reimbursement Agreement was $8.9. In June 1996, $10.9 in notes due to Products Corporation, which included $2.0 of interest reimbursement from Holdings in 1996, under the Financing Reimbursement Agreement was offset against an $11.7 demand note payable by Products Corporation to Holdings.

REGISTRATION RIGHTS AGREEMENT

Prior to the consummation of the Revlon IPO, Revlon, Inc. and Revlon Worldwide Corporation (subsequently merged into REV Holdings), the then direct parent of Revlon, Inc., entered into the Registration Rights Agreement pursuant to which REV Holdings and certain transferees of Revlon, Inc.'s Common Stock held by REV Holdings (the "Holders") have the right to require Revlon, Inc. to register all or part of the Class A Common Stock owned by such Holders and the Class A Common Stock issuable upon conversion of Revlon, Inc.'s Class B Common Stock owned by such Holders under the Securities Act of 1933, as amended (a "Demand Registration"); provided that Revlon, Inc. may postpone giving effect to a Demand Registration up to a period of 30 days if Revlon, Inc. believes such registration might have a material adverse effect on any plan or proposal by Revlon, Inc. with respect to any financing, acquisition, recapitalization, reorganization or other material transaction, or if Revlon, Inc. is in possession of material non-public information that, if publicly disclosed, could result in a material disruption of a major corporate development or transaction then pending or in progress or in other material adverse consequences to Revlon, Inc. In addition, the Holders have the right to participate in registrations by Revlon, Inc. of its Class A Common Stock (a "Piggyback Registration"). The Holders will pay all out-of-pocket expenses incurred in connection with any Demand Registration. Revlon, Inc. will pay any expenses incurred in connection with a Piggyback Registration, except for underwriting discounts, commissions and expenses attributable to the shares of Class A Common Stock sold by such Holders.

OTHER

Pursuant to a lease dated April 2, 1993 (the "Edison Lease"), Holdings leased to Products Corporation the Edison research and development facility for a term of up to 10 years with an annual rent of $1.4 and certain shared operating expenses payable by Products Corporation which, together with the annual rent, were not to exceed $2.0 per year. Pursuant to an assumption agreement dated February 18, 1993, Holdings agreed to assume all costs and expenses of the ownership and operation of the Edison facility as of January 1, 1993, other than (i) the operating expenses for which Products Corporation was responsible under the Edison Lease and (ii) environmental claims and compliance costs relating to matters which occurred prior to January 1, 1993 up to an amount not to exceed $8.0 (the amount of such claims and costs for which Products Corporation is responsible, the "Environmental Limit"). In addition, pursuant to such assumption agreement, Products Corporation agreed to indemnify Holdings for environmental claims and compliance costs relating to matters which occurred prior to January 1, 1993 up to an amount not to exceed the Environmental Limit and Holdings agreed to indemnify Products Corporation for environmental claims and compliance costs relating to matters which occurred prior to January 1, 1993 in excess of the Environmental Limit and all such claims and costs relating to matters occurring on or after January 1, 1993. Pursuant to an occupancy agreement, during 1998, 1997 and 1996 Products Corporation rented from Holdings a portion of the administration building located at the Edison facility and space for a retail store of Products Corporation's now discontinued retail operation. Products Corporation provided certain administrative services, including accounting, for Holdings with respect to the Edison facility pursuant to which Products Corporation paid on behalf of Holdings costs associated with the Edison facility and was reimbursed by Holdings for such costs, less the amount owed by Products Corporation to Holdings pursuant to the Edison Lease and the occupancy agreement. In August 1998, Holdings sold the Edison facility to an unrelated third party, which assumed substantially all liability for environmental claims and compliance costs relating to the Edison facility, and in connection with the sale, Products Corporation terminated the Edison Lease and entered into a new lease with the new owner. Holdings agreed to indemnify Products Corporation to the extent rent under the new lease exceeds rent that would have been payable under the terminated Edison Lease had it not been terminated. The net amount reimbursed by Holdings to Products Corporation with respect to the Edison facility for 1998, 1997 and 1996 was $0.5, $0.7 and $1.1, respectively.

During 1997, a subsidiary of Products Corporation sold an inactive subsidiary to a company that was an affiliate of the Company

during 1997 and part of 1998 for approximately $1.0.

Effective July 1, 1997, Holdings contributed to Products Corporation substantially all of the assets and liabilities of the Bill Blass business not already owned by Products Corporation. The contributed assets approximated the contributed liabilities and were accounted for at historical cost in a manner similar to that of a pooling of interests and, accordingly, prior period financial statements were restated as if the contribution took place prior to the beginning of the earliest period presented.

In the fourth quarter of 1996, a subsidiary of Products Corporation purchased an inactive subsidiary from an affiliate for net cash consideration of approximately $3.0 in a series of transactions in which the Company expects to realize foreign tax benefits in future years.

Effective January 1, 1996, Products Corporation acquired from Holdings substantially all of the assets of Tarlow in consideration for the assumption of substantially all of the liabilities and obligations of Tarlow. Net liabilities assumed were approximately $3.4. The assets acquired and liabilities assumed were accounted for at historical cost in a manner similar to that of a pooling of interests and, accordingly, prior period financial statements have been restated as if the acquisition took place at the beginning of the earliest period. Products Corporation paid $4.1 to Holdings which was accounted for as an increase in capital deficiency. A nationally recognized investment banking firm rendered its written opinion that the terms of the purchase are fair from a financial standpoint to Products Corporation.

On February 2, 1998, Revlon Escrow Corp., an affiliate of Products Corporation, issued and sold in a private placement $650.0 aggregate principal amount of 8 5/8% Notes and $250.0 aggregate principal amount of 8 1/8% Notes, with the net proceeds deposited into escrow. The proceeds from the sale of the 8 5/8% and 8 1/8% Notes were used to finance the redemption of Products Corporation's $555.0 aggregate principal amount of 10 1/2% Senior Subordinated Notes due 2003 (the "Senior Subordinated Notes") and $260.0 aggregate principal amount of 9 3/8% Senior Notes due 2001 (the "Senior Notes" and, together with the Senior Subordinated Notes, the "Old Notes"). Products Corporation delivered a redemption notice to the holders of the Senior Subordinated Notes for the redemption of the Senior Subordinated Notes on March 4, 1998, at which time Products Corporation assumed the obligations under the 8 5/8% Notes and the related indenture (the "8 5/8% Notes Assumption"), and to the holders of the Senior Notes for the redemption of the Senior Notes on April 1, 1998, at which time Products Corporation assumed the obligations under the 8 1/8% Notes and the related indenture (the "8 1/8% Notes Assumption" and, together with the 8 5/8% Notes Assumption, the "Assumption"). A nationally recognized investment banking firm rendered its written opinion that the Assumption, upon consummation of the redemptions of the Old Notes, and the subsequent release from escrow to Products Corporation of any remaining net proceeds from the sale of the 8 5/8% and 8 1/8% Notes are fair from a financial standpoint to Products Corporation under the 1999 Notes Indenture.

Products Corporation leases certain facilities to MacAndrews & Forbes or its affiliates pursuant to occupancy agreements and leases. These included space at Products Corporation's New York headquarters and at Products Corporation's offices in London during 1998, 1997 and 1996; in Tokyo during 1996 and in Hong Kong during 1997 and the first half of 1998. The rent paid to Products Corporation for 1998, 1997 and 1996 was $2.9, $3.8 and $4.6, respectively.

In June 1997, Products Corporation borrowed from Holdings approximately $0.5, representing certain amounts received by Holdings from the sale of a brand and inventory relating thereto. Such amounts are evidenced by noninterest-bearing promissory notes. Holdings agreed not to demand payment under such notes so long as any indebtedness remains outstanding under the Credit Agreement.

During 1998, approximately $5.7 due to Products Corporation from Holdings was offset against certain notes payable to Holdings.

Products Corporation's Credit Agreement is supported by, among other things, guarantees from Holdings and certain of its subsidiaries. The obligations under such guarantees are secured by, among other things, (i) the capital stock and certain assets of certain subsidiaries of Holdings and (ii) until the disposition of the Edison facility in August 1998, a mortgage on the Edison facility.

Products Corporation borrows funds from its affiliates from time to time to supplement its working capital borrowings. No such

borrowings were outstanding as of December 31, 1998, 1997 or 1996. The interest rates for such borrowings are more favorable to Products Corporation than interest rates under the Credit Agreement and, for borrowings occurring prior to the execution of the Credit Agreement, the credit facilities in effect at the time of such borrowing. The amount of interest paid by Products Corporation for such borrowings for 1998, 1997 and 1996 was $0.8, $0.6 and $0.5, respectively.

During 1998, the Company made advances of $0.25 and $0.3 to Mr. Fellows and Ms. Dwyer, respectively. During 1998, the Company made an advance of $0.4 to Mr. Levin, which advance was repaid in January 1999.

In November 1993, Products Corporation assigned to Holdings a lease for warehouse space in New Jersey (the "N.J. Warehouse") between Products Corporation and a trust established for the benefit of certain family members of the Chairman of the Board. The N.J. Warehouse had become vacant as a result of divestitures and restructuring of Products Corporation. The lease has annual lease payments of approximately $2.3 and terminates on June 30, 2005. In consideration for Holdings assuming all liabilities and obligations under the lease, Products Corporation paid Holdings $7.5 (for which a liability was previously recorded) in three installments of $2.5 each in January 1994, January 1995 and January 1996. A nationally recognized investment banking firm rendered its written opinion that the terms of the lease transfer were fair from a financial standpoint to Products Corporation. During 1996 Products Corporation paid certain costs associated with the N.J. Warehouse on behalf of Holdings and was reimbursed by Holdings for such amounts. The amounts reimbursed by Holdings to the Company for such costs were $0.2 for 1996.

During 1997 and 1996, Products Corporation used an airplane owned by a corporation of which Messrs. Gittis, Drapkin and, during 1996, Levin, were the sole stockholders, for which Products Corporation paid approximately $0.2 and $0.2 for 1997 and 1996, respectively.

During 1998 and 1997, Products Corporation purchased products from a company that was an affiliate of the Company during part of 1998, for which it paid approximately $0.4 and $0.9, respectively.

During 1997, Products Corporation provided licensing services to a company that was an affiliate of the Company during 1997 and part of 1998, for which Products Corporation was paid approximately $0.7 in 1997. In connection with the termination of the licensing arrangement and its agreement to provide consulting services during 1998, Products Corporation received payments of $2.0 in 1998 and is entitled to receive an additional $1.0 in 1999.

A company that was an affiliate of the Company during 1996, 1997 and 1998 assembled lipstick cases for Products Corporation. Products Corporation paid approximately $1.1, $0.9 and $1.0 for such services for 1998, 1997 and 1996, respectively.

17. COMMITMENTS AND CONTINGENCIES

The Company currently leases manufacturing, executive, including research and development, and sales facilities and various types of equipment under operating lease agreements. Rental expense was $43.7, $46.1 and $46.7 for the years ended December 31, 1998, 1997 and 1996, respectively. Minimum rental commitments under all noncancelable leases, including those pertaining to idled facilities, with remaining lease terms in excess of one year from December 31, 1998 aggregated $164.0; such commitments for each of the five years subsequent to December 31, 1998 are $37.4, $33.4, $27.4, $24.6 and $12.8, respectively. Such amounts exclude the minimum rentals to be received by the Company in the future under noncancelable subleases of $5.1.

The Company and its subsidiaries are defendants in litigation and proceedings involving various matters. In the opinion of the Company's management, based upon advice of its counsel handling such litigation and proceedings, adverse outcomes, if any, will not result in a material effect on the Company's consolidated financial condition or results of operations.

18. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations:

	YEAR ENDED DECEMBER 31, 1998			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
NET SALES	$ 497.8	$ 575.3	$ 548.6	$ 630.5
GROSS PROFIT	334.5	381.3	362.5	408.2
(LOSS) INCOME FROM CONTINUING OPERATIONS	(15.3)	11.7	12.7 [a]	(36.4) [a]
LOSS FROM DISCONTINUED OPERATIONS	(4.6)	(26.9)	–	(32.7)
EXTRAORDINARY ITEMS-EARLY EXTINGUISHMENTS OF DEBT	(38.2)	(13.5)	–	–
NET (LOSS) INCOME	(58.1)	(28.7)	12.7	(69.1)
BASIC (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (0.30)	$ 0.23	$ 0.25	$ (0.71)
LOSS FROM DISCONTINUED OPERATIONS	(0.09)	(0.53)	–	(0.64)
EXTRAORDINARY ITEMS	(0.75)	(0.26)	–	–
NET (LOSS) INCOME PER COMMON SHARE	$ (1.14)	$ (0.56)	$ 0.25	$ (1.35)
DILUTED (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (0.30)	$ 0.22	$ 0.24	$ (0.71)
LOSS FROM DISCONTINUED OPERATIONS	(0.09)	(0.51)	–	(0.64)
EXTRAORDINARY ITEMS	(0.75)	(0.26)	–	–
NET (LOSS) INCOME PER COMMON SHARE	$ (1.14)	$ (0.55)	$ 0.24	$ (1.35)

	YEAR ENDED DECEMBER 31, 1997			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
NET SALES	$ 480.0	$ 537.7	$ 581.0	$ 639.9
GROSS PROFIT	319.6	356.5	389.3	430.1
(LOSS) INCOME FROM CONTINUING OPERATIONS	(22.6)	8.4	34.6	37.4
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(2.8)	1.0	(1.5)	4.0
EXTRAORDINARY ITEMS-EARLY EXTINGUISHMENTS OF DEBT	–	(14.9)	–	–
NET (LOSS) INCOME	(25.4)	(5.5)	33.1	41.4
BASIC (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (0.44)	$ 0.16	$ 0.68	$ 0.73
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(0.06)	0.02	(0.03)	0.08
EXTRAORDINARY ITEMS	–	(0.29)	–	–
NET (LOSS) INCOME PER COMMON SHARE	$ (0.50)	$ (0.11)	$ 0.65	$ 0.81
DILUTED (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (0.44)	$ 0.16	$ 0.67	$ 0.72
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(0.06)	0.02	(0.03)	0.08
EXTRAORDINARY ITEMS	–	(0.29)	–	–
NET (LOSS) INCOME PER COMMON SHARE	$ (0.50)	$ (0.11)	$ 0.64	$ 0.80

(a) Includes a non-recurring gain of $7.1 in the third quarter and non-recurring charges, net, of $42.9 in the fourth quarter (See Note 4).

19. GEOGRAPHIC INFORMATION

The Company manages its business on the basis of one reportable operating segment. See Note 1 for a brief description of the Company's business. As of December 31, 1998, the Company had operations established in 26 countries outside of the United States and its products are sold throughout the world. The Company is exposed to the risk of changes in social, political and economic conditions inherent in foreign operations and the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates. The Company's operations in Brazil have accounted for approximately 5.4%, 5.8% and 6.3% of the Company's net sales for 1998, 1997 and 1996, respectively. Net sales by geographic area are presented by attributing revenues from external customers on the basis of where the products are sold. During 1998, 1997 and 1996, one customer and its affiliates accounted for approximately 10.1%, 10.3% and 10.5% of the Company's consolidated net sales, respectively.

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
GEOGRAPHIC AREAS:			
NET SALES:			
UNITED STATES	$ 1,338.5	$ 1,300.2	$1,182.3
INTERNATIONAL	913.7	938.4	909.8
	$ 2,252.2	$ 2,238.6	$2,092.1

	DECEMBER 31,	
	1998	1997
LONG-LIVED ASSETS:		
UNITED STATES	$ 637.9	$ 545.4
INTERNATIONAL	287.4	280.5
	$ 925.3	$ 825.9

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CLASSES OF SIMILAR PRODUCTS:			
NET SALES:			
COSMETICS, SKIN CARE AND FRAGRANCES	$ 1,309.7	$ 1,319.6	$1,216.3
PERSONAL CARE AND PROFESSIONAL	942.5	919.0	875.8
	$ 2,252.2	$ 2,238.6	$2,092.1

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
REVLON, INC.:

We have audited the accompanying consolidated balance sheets of Revlon, Inc. and its subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' deficiency and comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Revlon, Inc. and its subsidiaries as of December 31, 1998 and 1997 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

New York, New York
January 25, 1999

FIVE-YEAR FINANCIAL HIGHLIGHTS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31, 1998	1997	1996	1995	1994
STATEMENTS OF OPERATIONS DATA:					
NET SALES	$ 2,252.2	$ 2,238.6	$ 2,092.1	$ 1,867.3	$ 1,674.0
OPERATING INCOME	124.6 (a)	214.9 (b)	199.2	147.5	108.1
(LOSS) INCOME FROM CONTINUING OPERATIONS	(27.3)	57.8	24.4	(37.2)	(73.0)
BASIC (LOSS) INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE	$ (0.53)	$ 1.13	$ 0.49	$ (0.88)	$ (1.72)
DILUTED (LOSS) INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE	$ (0.53)	$ 1.13	$ 0.49	$ (0.88)	$ (1.72)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: (c)					
BASIC	51,217,997	51,131,440	49,687,500	42,500,000	42,500,000
DILUTIVE	51,217,997	51,544,318	49,818,792	42,500,000	42,500,000
EBITDA (d)	$ 266.6	$ 311.6	$ 279.6	$ 222.9	$ 177.0

(DOLLARS IN MILLIONS)	DECEMBER 31, 1998	1997	1996	1995	1994
BALANCE SHEET DATA:					
TOTAL ASSETS	$ 1,830.0	$ 1,756.0	$ 1,617.3	$ 1,532.6	$ 1,414.3
LONG-TERM DEBT, INCLUDING CURRENT PORTION	1,660.0	1,425.2	1,361.0	1,476.7	1,330.4
TOTAL STOCKHOLDERS' DEFICIENCY	(648.0)	(458.5)	(497.1)	(702.3)	(656.2)

(a) Includes non-recurring charges, net, of $35.8. See Note 4 to the Consolidated Financial Statements.

(b) Includes non-recurring charges, net, of $3.6. See Note 4 to the Consolidated Financial Statements.

(c) Represents the weighted average number of common shares outstanding for the period. See Note 1 to the Consolidated Financial Statements.

(d) Defined as operating income before non-recurring charges, net plus depreciation and amortization other than that relating to debt issuance costs.

REVLON DIRECTORS AND OFFICERS

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF
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DEAN, COLUMBIA BUSINESS SCHOOL

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2 COMPENSATION AND STOCK PLAN COMMITTEE
3 AUDIT COMMITTEE

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SENIOR VICE PRESIDENT AND GENERAL TAX COUNSEL

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Revlon Worldwide

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Gioji Okuhara
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Professional International

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Santiago Vila
PRESIDENT, INTERNATIONAL

Spain, Portugal, Italy

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BEAUTY CARE AND COSMETICS

Latin America

Martin Garcia
VICE PRESIDENT AND REGIONAL MANAGER,
PROFESSIONAL DIVISION

Northern Europe

Jerome Lefebvre
VICE PRESIDENT AND REGIONAL MANAGER,
PROFESSIONAL DIVISION

Spain, Italy, Portugal, Germany, Eastern Europe, Middle East

Benito Lena
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PROFESSIONAL DIVISION

Pacific Far East, Canada, Caribbean, Central America

Antonio Nemer
VICE PRESIDENT AND REGIONAL MANAGER,
PROFESSIONAL DIVISION

Licensing

Emily Stone
PRESIDENT

Revlon Technologies

Andrew J. Schlossman
PRESIDENT

Melvin E. Kamen
EXECUTIVE VICE PRESIDENT AND
CHIEF OF TECHNOLOGY

SHAREHOLDER INFORMATION

REVLON, INC. AND SUBSIDIARIES

COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock, par value $.01 per share, is listed and traded on the New York Stock Exchange under the symbol "REV." The following table sets forth the range of high and low closing sales prices as reported by the New York Stock Exchange for the Company's Class A Common Stock for each quarter in 1998 and 1997.

	1998		1997	
QUARTER	HIGH	LOW	HIGH	LOW
First	$51 13/16	$33 5/8	$42 3/8	$29 5/8
Second	56 1/16	47 9/16	51 13/16	33 1/4
Third	54 1/2	30 7/8	54 1/8	45 3/8
Fourth	27 13/16	12 1/2	49	33 1/8

As of the close of business on February 18, 1999 there were 643 holders of record of the Company's Common Stock. As of the close of business on February 18, 1999, the closing sale price as reported by the New York Stock Exchange for the Company's Class A Common Stock was $15 3/16.

The Company has not declared a cash dividend on the Class A Common Stock subsequent to the Company's Initial Public Offering and does not anticipate that any dividends will be declared on the Class A Common Stock in the foreseeable future. The declaration and payment of dividends are subject to the discretion of the Company's Board of Directors and subject to certain limitations under Delaware law, and are also limited by the terms of the Company's Credit Agreement and indentures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 11 of "Notes to Consolidated Financial Statements". The timing, amount and form of dividends, if any, will depend, among other things, on the Company's results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors of the Company.

TRANSFER AGENT & REGISTRAR

American Stock Transfer & Trust
40 Wall Street
New York, New York 10005
718-921-8200

INDEPENDENT AUDITORS

KPMG LLP
New York, New York

NOTICE OF ANNUAL MEETING

The annual meeting of shareholders will be held April 7,1999 at 9:00 a.m. at the Revlon Research Center, 2121 Route 27, Edison, New Jersey 08818

CORPORATE ADDRESS

Revlon, Inc.
625 Madison Avenue
New York, New York 10022
212-527-4000

CORPORATE AND INVESTOR INFORMATION

The Company's annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge upon written request to:

Investor Relations
Revlon, Inc.
625 Madison Avenue
New York, New York 10022

CONTACTS

Investor Relations
212-527-5230

Media
212-527-5791

Consumer Information Center
1-800-4-REVLON

Visit our Web site at
www.revlon.com

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