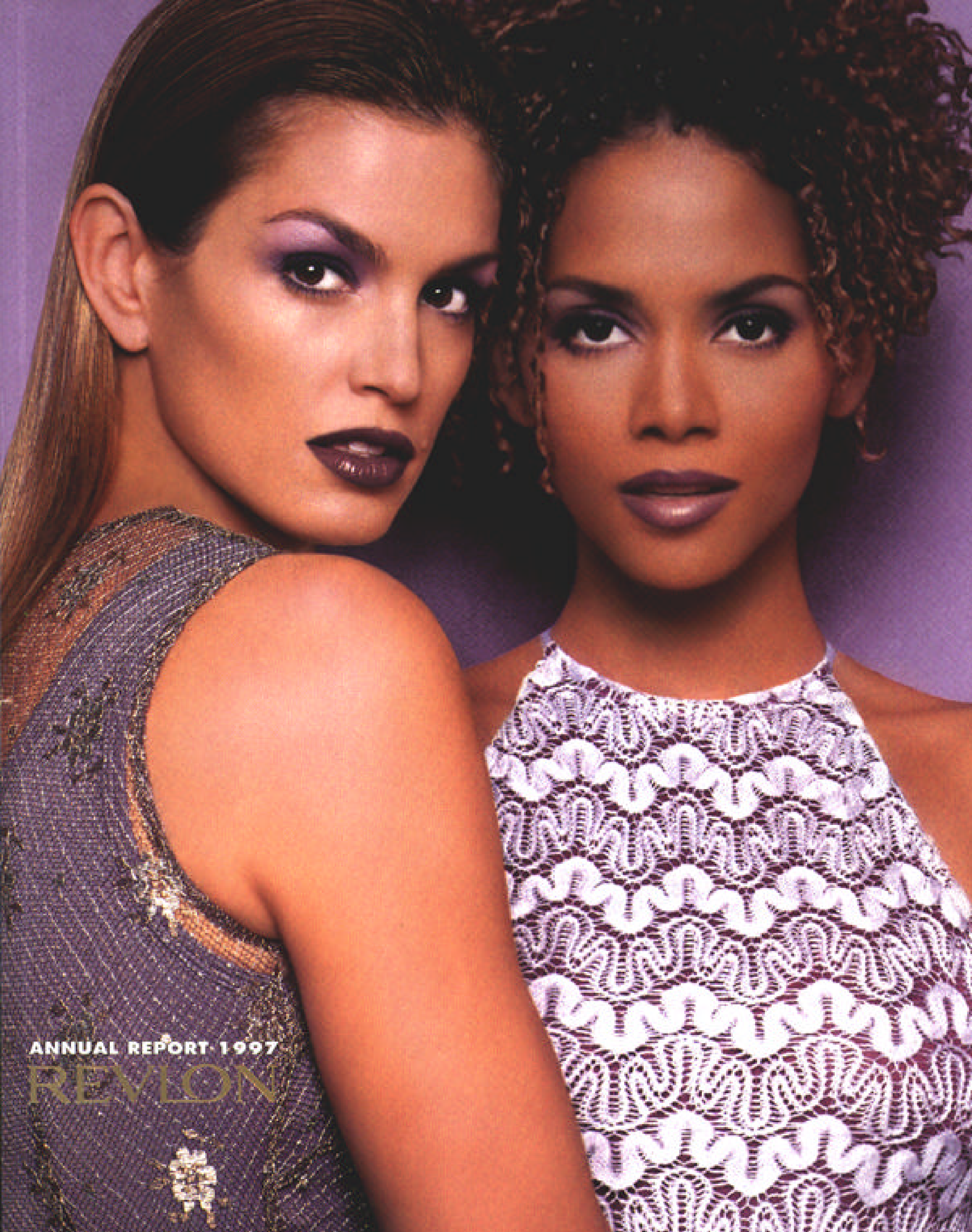

ANNUAL REPORT 1997
REVLON

ON THE COVER, From the Spring 1998 LavenDare Collection:

Cindy Crawford is wearing ColorStay Makeup in Natural Beige, Naturally Glamorous Blush-On in Softspoken Pink, Super Lustrous Lipstick in LavenDare and Custom Eyes Shadow in LavenDare.

Halle Berry is wearing New Complexion Liquid Makeup in Caramel, Naturally Glamorous Blush-On in Wine With Everything, Super Lustrous Lipstick in Lavenlight and Custom Eyes Shadow in LavenLight.

This annual report contains forward-looking statements under the captions "letter to shareholders," "knowing the consumer," "knowing the market," "knowing the science," 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 plans to expand existing product franchises, introduce and support new products and expectations as to their success, plans to increase distribution; and to expand internationally; expectations as to growth in net sales and earnings, cash flows from operations, capital expenditures and the availability of funds from refinan-cings. Additionally, statements which use the terms "believes," "no reason to believe," "expects," "plans," "intends," "anticipated" or "anticipates" are uncertain and forward-looking. These forward-looking statements are subject to certain risks and uncertainties and a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements made by the Company. Please see "management's discussion and analysis – forward-looking statments" for a full description of such factors. The Company assumes no responsibility to update forward-looking information contained herein.

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, StreetWear, Charlie and Flex.

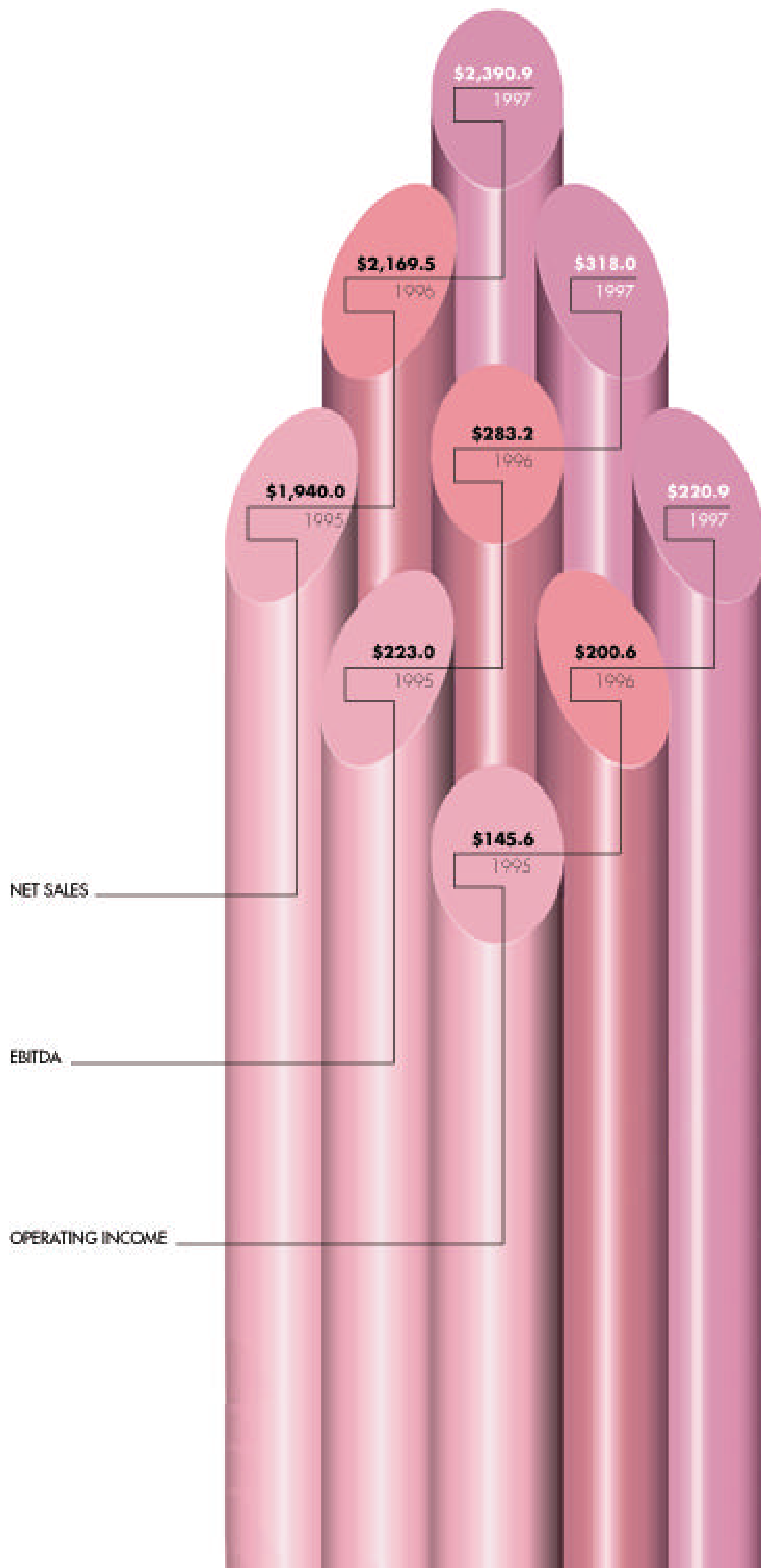
REVLON RESULTS AT A GLANCE

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	YEAR ENDED DECEMBER 31,		
	1997	**1996**	**1995**
Net sales	$2,390.9	$2,169.5	$1940.0
EBITDA[a]	318.0	283.2	223.0
Operating income[b]	220.9	200.6	145.6
Net income (loss)[c]	58.5	24.8	(41.2)
Income (loss) per share[c]	$1.14	$0.50	$(0.97)

(a) Defined as operating income before business consolidation costs and other, net, plus depreciation and amortization other than that relating to early extinguishment of debt and debt issuance costs.

(b) Defined as operating income before business consolidation costs and other, net of $7.6 million in 1997.

(c) Before an extraordinary charge related to the early extinguishment of debt of $14.9 million, or $.29 per share in 1997 and $6.6 million, or $.13 per share in 1996.


$2,390.9
1997
$2,169.5
1996
$318.0
1997
$283.2
1996
$1,940.0
1995
$220.9
1997
$223.0
1995
$200.6
1996
$145.6
1995
NET SALES
EBITDA
OPERATING INCOME

REVLON WELCOME

Dear Fellow Shareholders:

I'm pleased to report that Revlon had another excellent year in 1997. It was a year of strong results and real progress in building a company that we believe is better, faster and more creative than ever before.

As we continue to build Revlon, we also continue to change our industry. Our talented teams of marketers, scientists and business managers have created whole new categories of products and have given our consumers new levels of product performance and delivery systems. We have pioneered new technologies that are platforms for still greater product performance and market opportunity in the future.

We did all this – and we continue to do it – by knowing three things extremely well: **the consumer, the market and the science**. In this year's report, we look at our strengths in each of these areas, and how those strengths enable us continually to reinvent ourselves around what our consumers want.

1997 a record year

Our momentum is clear in our financial performance for 1997 and in the value we have created for shareholders. Net sales for the year were $2.4 billion, up more than 10% over a very solid 1996. The fourth quarter marked 17 consecutive quarters of growth in net sales, operating income and EBITDA. Operating income increased 10.1% for the year to $220.9 million, and EBITDA increased 12.3% to $318 million, both before $7.6 million of non-recurring items. Net income more than doubled from $24.8 million to $58.5 million and net income per share rose to $1.14 from $.50, excluding extraordinary charges in 1997 and 1996.

Behind this record performance was a very active year. We brought to market a host of major new products that helped produce double digit growth and strengthen our lead positions in U.S. mass market color cosmetics. We refocused our fragrance business on maintaining our successful core brands like Charlie and consolidated our efforts behind Revlon's color cosmetics business. We also streamlined operations and drove still more cost out of the business through global consolidation, sourcing and new management information systems.

In line with our targeted acquisition strategy, we purchased Bionatura, the leading value-priced hair products marketer in Argentina, expanding our business base in that market. We also merged our Prestige Fragrance & Cosmetics retail business into The Cosmetic Center, Inc., a NASDAQ-listed chain of specialty retail stores that offer a broad range of brand name prestige and mass-merchandised cosmetics, fragrance and beauty products at value prices. The merger creates a nationwide chain of specialty stores operating primarily in suburban and outlet malls and establishes our retail business as an independent operating subsidiary.

We continued to expand our international distribution. We increased the number of doors in our top 25 markets by over 15%. We backed that expansion with aggressive marketing, applying what has worked so well in the United States in selected markets outside the U.S. As international markets continue to move toward mass merchandising formats, our leadership in U.S. cosmetics mass merchandising, as well as our global brand names, puts us in a very strong position for future growth.

1997 was a great year for innovative new products ...

The bottom line for a company like Revlon is: What did we put on the shelf, and how did it perform? On both counts, 1997 was an exceptional year.

For Revlon, ColorStay haircolor and Top Speed nail enamel were major new product successes. ColorStay haircolor gained immediate acceptance, offering consumers a long-wearing hair color based on breakthrough, proprietary technology that delivers the ColorStay promise of long wear. Top Speed nail enamel was another new technology hit, giving us strong sales gains in its first months on the market and capturing the momentum in the fast-drying nail color category. Another big success was Line & Shine, an innovative product form that combines lip liner and lip gloss in a single package.

The continuing momentum of our Almay line of healthy, natural-looking cosmetics was a major highlight in 1997. Almay became the fastest growing major brand in the U.S. mass cosmetics market. We increased marketing support and new product introductions and propelled the development of the franchise. Almay One Coat, Clear Complexion and Amazing products all showed impressive growth.

But innovation is not enough – we also have to be nimble. Reflecting our ability to spot consumer trends and move quickly with the market is our highly successful StreetWear line. In 1997 we added mascara, eyeliner and lip gloss to the already "hot" line of nail enamels. StreetWear was introduced in 1996 as a promotion, aimed at the most trend-conscious consumers, but has captured permanent shelf space and is showing growth and real staying power.

We also continued our expansion into categories beyond color cosmetics, such as the introduction of advanced technology skin care products to our Revlon Age Defying, Almay and Ultima II brands.

... and 1998 will be even better

The product activity in 1997 was just a warm up to 1998. For example, we are building on our leadership in lip color. Joining our ColorStay and Super Lustrous brands – the top two lipsticks in the U.S. mass market in 1997 – are two major advances in lip technology. Revlon MoistureStay, a lip color with moisturizing benefits that last even longer than the color itself, will arrive on the shelves with more marketing support than any other introduction since ColorStay – including an advertising debut on the Academy Awards. We will also build on the powerful Almay line with Stay Smooth Anti-Chap lip color, the first anti-chap lipstick with SPF 25 protection. We expect these new products to be major consumer successes and look forward to more excitement in 1998, which we discuss in the following pages.

Giving back to our consumers

As a company that markets mainly to women, Revlon has a natural, on-going concern for the well-being of our consumers. Working with the Revlon Foundation, we support a wide range of women's health causes, to which more than $20 million have been committed since 1989. A particular focus is the Revlon/UCLA Women's Cancer Research Program, which achieved a breakthrough in breast cancer treatment by identifying the role of the Her-2/neu gene, which drives the most aggressive forms of breast and ovarian cancer. Gene therapy based on this discovery is in clinical trials, and scientists credit Revlon's

support for getting the treatment to patients seven years sooner than would otherwise have been possible.

We added to that support in 1997 with the fourth annual Revlon Run/Walk in Los Angeles, and the eighth annual Fire & Ice Ball, a major Hollywood event that this year raised over $3 million for the Revlon/UCLA program. Also in 1997, we became a founding sponsor of the Women's Cancer Research Alliance, a consortium of leading breast cancer research facilities throughout the country.

We also support a wide range of other causes, such as the United Negro College Fund. The UNCF/Revlon Women's Research Scholars Program provides assistance to third-year female college students to enter the women's health field. We were also proud in 1997 to be the corporate sponsor of the Girls Choir of Harlem's national debut concert at Lincoln Center.

Momentum and confidence

We look back at 1997 with a sense of accomplishment; it was a great year. We're looking ahead to 1998 with real confidence. We're a company with a line up of some of the industry's best known, most trusted brand names. We're a company that knows how to listen closely to our consumers. We're a company with a strong technological base and a proven ability to market.

Most important, with the exceptional teamwork of our employees and the confidence of our shareholders, consumers and retail partners, we're a company that is just getting warmed up. We've accomplished much. But there is still much more to come.

Sincerely,

George Fellows

PRESIDENT AND CHIEF EXECUTIVE OFFICER

KNOWING THE CONSUMER

Women's concepts of beauty are changing, becoming more diverse. Most of the 41 million U.S. female baby boomers will be over 50 in ten years. The need for products that deal with effects of aging will grow. At the other end of the spectrum, there are 13.1 million teenage women, with diverging tastes and a need to experiment. A population that is growing ever more diverse is creating a need for cosmetics that fit a wide range of skin tones. And around the world, while there are regional differences, women are attracted to trends set by major American brands. The mass market has become fragmented, made up of consumers who want different products for dif-

KNOWING THE CONSUMER

ferent needs. Our strength is in giving co
of needs, products that are "right for me

Any major Revlon product that r
got there after thousands of hours of cor
constantly asking "What's on your mir
want?" "What can we do better?" We s
"need gap" – the window of opportuni
cosmetics and beauty products women
what their current products actually deliver

The customer speaks. We listen.

Like all of our recent proc
successes, our 1997 and 1998 produc
introductions respond directly to clearly
identified consumer needs, using the m
advanced technology. Different cons
want different benefits – coven-ience,
tion,natural appearance, fashi
tives and help in deciding
for them. Here's how we
Revlon MoistureSt
and conditioning in a
tains vitamin C and k

wears off.

Almay Stay Smooth Anti-Chap lip color is the first anti-chap lipstick with SPF protection.

Top Speed nail ena-mel gives w o m e n - o n - the-go Revlon's patented fast-drying technology in a wide range of fash-ion colors.

ColorStay, Revlon Age Defying and New Complexion – the top three foundations in the U.S. mass market – provide choices for a diverse range of skin tones and consumer needs. ColorStay is expanding to add more finish choices for different skin types.

StreetWear now offers more fashion forward nail colors – with shades like Schmutz and

e

e

bring the elements of a successful product team together.

KNOWING THE CONSUMER

Splash – for women who want to experiment. Lip pencils, mascara, eye liner and lipstick expand the line further.

Mitchum Clear products provide perspiration protection without residue – with new fragrances for both men and women.

True Cystem permanent wave gives professional salon customers a permanent wave based on our patented technology that works without dryer heat.

The Revlon Report, published in 18 lang- uages and distributed in 34 countries, uses Revlon's color authority to turn fashion trends into beau-

STREET WEAR
REVLON
STREET WEAR
REVLON

KNOWING THE CONSUMER

ty information our consumers can use. The spring LavenDare Report features luminous lavenders in pale to deep shades. The summer In the Buff Report presents understated color for warm weather fashions.

Listening and responding has given Revlon a brand portfolio that crosses the full spectrum of consumer needs. For those who want glamour and innovation, there is Revlon. For the trendy, experimental consumer, we offer StreetWear. For healthy, natural-looking beauty, there is Almay. For elegance and ageless appeal, we offer Ultima II. For hair, body and bath needs, there is our extensive range of beauty care products. For salon pro-

DAISY FUENTES

KAREN DUFFY

KIM DELANEY

MELANIE GRIFFITH

CINDY CRAWFORD

HALLE BERRY

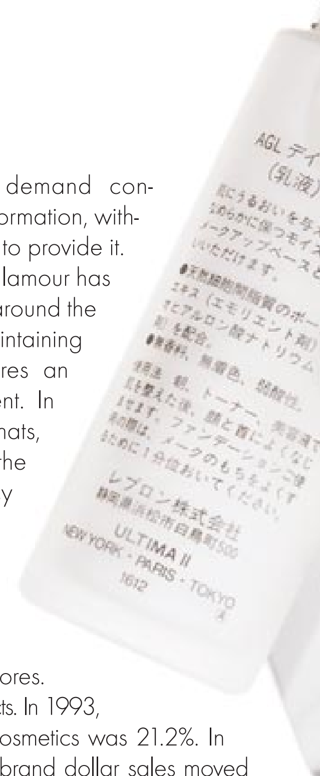
SALMA HAYEK

KNOWING THE CONSUMER

fessionals, we offer Revlon Professional, Creative Nail and American Crew – a line of professional men's grooming products.

AMERICAN CREW
AMERICAN CREW

KNOWING THE MARKET



Shopping habits are changing. Consumers demand convenience, quality and value. They want product information, without having to rely on someone behind the counter to provide it. The market is also expanding globally. American glamour has proven to be highly transportable to new markets around the world. And the market is more demanding. Maintaining margins in a highly competitive business requires an obsession with productivity and cost improvement. In response, we have pioneered new store formats, expanded aggressively in key markets around the world and are continually fine tuning the efficiency of our business.

Today, time-pressured women have less inclination to shop in specialty and department stores. More are turning to the speed, convenience and value of buying their cosmetics in drug stores, mass retailers or large super/combo stores.

And when they do, they are turning to Revlon products. In 1993, the Company's dollar share of U.S. mass market cosmetics was 21.2%. In 1997, it rose to 28%. In that time frame the Revlon brand dollar sales moved from number three to number one in the category. Both the Revlon and Almay brands increased share in a growing market.

Leadership in self-select helps change retailing

We're on the leading edge of the mass merchandising trend in cosmetics because we helped create it. We have helped

drive growth in the category by leading in the creation of self-select store formats and pioneering new ways to educate consumers. In addition, we generate contin-ual excitement with powerful advertising campaigns. We are also constantly looking for new ways to provide shopping convenience. For example, Revlon's Travel Retail business is meeting the needs of women travelers and gift-buying men who have a few minutes shopping time at airports, on planes or at sea. We believe we are one of the fastest-growing cosmetics vendors in the burgeoning travel retailing business around the world.

We have made a commitment to retailers to be among the best partners in the industry.

Creating partnerships in category management

Another key strength is our solid relationship with retailers. As consolidations continue, and as retailers amass ever more size and leverage, it takes a company with size, experience and flexibility to be a working partner in the profitable management of their categories. We have made a commitment to be among the best partners in the industry. And we're living up to that commitment through wide-ranging efforts such as investing in simplified order processing, improved inventory management and other steps to make us a company that is easy – and profitable – to do business with.

Reflecting the vitality of those partnerships, we gained significant shelf space for both Revlon and Almay in

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Leadership in self-select helps change retailing

We're on the leading edge of the mass merchandising trend in cosmetics because we helped create it. We have helped drive growth in the category by leading in the crea-

Revlon is helping shape the self-select market as it develops around the world.

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Reflecting the vitality of those partnerships, we gained significant shelf space for both Revlon and Almay in 1997 and expect further gains in 1998. We are able to achieve those gains because retailers recognize that Revlon is driving category growth. Over the past few years, we have earned major recognition from

KNOWING THE SCIENCE

Our patented and proprietary formulas have made Revlon the industry's technology leader. Today's sophisticated consumers want products that make a difference. Marketing can promise that difference, but only technological innovation can deliver it. Every day, we're innovating – learning more about the skin, the nature of color and the possibilities of product performance. Our record of innovation has led to a significant number of patents that have changed the face of the industry.

No cosmetics company has been more effective in bringing together fashion and technology. A patented, transfer-resistant technology helped create ColorStay lip color, which became the basis for a whole line of ColorStay products, including the new ColorStay haircolor and ColorStay powder. New products for Almay and Ultima II also were developed from this technology.

Market-winning Revlon Age Defying makeup was based on another patented technology that gave women a makeup that hides fine lines by not settling into them. That same sense of innovation led to the 1997 introduction of Revlon Age Defying skin care products that promise to smooth and brighten skin in just eight days.

KNOWING THE SCIENCE

Revlon scientists also work continuously to innovate, strengthen and expand our successful line of professional products, which include hair relaxers and permanents that are favored by salon professionals.

Revlon's innovation also drives our packaging. Our search for better ways to decorate glass bottles, for example, led to the creation of our technology licensing division called Revlon Technologies. The division's first technology system is Envirogluv, which uses patented and proprietary inks in a glass-decorating technology based on ultra-violet light, rather than old-fashioned, costly heat curing ovens. The process offers superior color, greater speed and flexibility, environmental benefits and reduced manufacturing costs.

Continuing success - time after time

Revlon's growth is powered by a continual stream of new product winners -- products that bring a rapid-fire succession of new and better ideas to market – season after season, year after year. Behind that industry-leading success is creative marketing, and the willingness to support new products with a major, ongoing investment in technology. One of the centers of innovation at Revlon is our Advanced Concepts Group, a select cross-functional team assigned to investigate a wide range of areas. They are on a constant search for new technologies that can evolve into the next ColorStay, Revlon Age Defying or Top Speed line.

We believe that our research center in Edison, New Jersey is one of the industry's largest and best-equipped R&D facilities. The center works closely with our facilities in France, Spain and other points around the world. While most of our product and process technologies are home-grown, we also search for ideas through joint projects with major universities and commercial research centers worldwide.

Revlon's technology base has been at the heart of many of our most important successes, and is one of the most critical factors in keeping us on the leading edge of the industry.

Revlon's technology base … is one of the most critical factors in keeping us on the leading edge of the industry.

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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 business 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 also operates retail and outlet stores and 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").

The Company presents its business geographically as its United States operation, which comprises the Company's business in the United States, and its International operation, which comprises its business outside of the United States.

RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	1997*	1996*	1995*
NET SALES:			
UNITED STATES	$ 1,452.5	$ 1,259.7	$ 1,115.4
INTERNATIONAL	938.4	909.8	824.6
	$ 2,390.9	$ 2,169.5	$ 1,940.0

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

	YEAR ENDED DECEMBER 31,		
	1997**	1996**	1995**
COST OF SALES	34.8%	33.5%	33.7%
GROSS PROFIT	65.2	66.5	66.3
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	56.0	57.3	58.8
BUSINESS CONSOLIDATION COSTS AND OTHER, NET	0.3	-	-
OPERATING INCOME	8.9	9.2	7.5

*On April 25, 1997, Prestige Fragrance & Cosmetics, Inc. ("PFC"), a wholly owned subsidiary of Products Corporation, and The Cosmetic Center, Inc. ("CCI") completed the merger of PFC with and into CCI (the "Cosmetic Center Merger") with CCI (subsequent to the Cosmetic Center Merger, "Cosmetic Center") surviving the Cosmetic Center Merger. The results of Cosmetic Center, after giving effect to certain intercompany adjustments for 1997, 1996 and 1995, were as follows, respectively: Net sales of $152.3, $77.4 and $72.7, cost of sales of $89.5, $37.6 and $38.0, S,G&A expenses of $61.9, $38.4 and $36.5, and operating (loss) income of ($3.1), $1.4 and ($1.8). 1997 includes business consolidation costs of $4.0 in the operating (loss).

**Excluding the results of Cosmetic Center, after giving effect to certain intercompany adjustments for 1997, 1996 and 1995, the above percentages would have been, respectively: cost of sales of 33.2%, 32.9% and 32.9%, gross profit of 66.8%, 67.1% and 67.1%, S,G&A expenses of 57.0%, 57.6% and 59.2%, business consolidation costs and other, net, of 0.1%, 0% and 0% and operating income of 9.7%, 9.5% and 7.9%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVLON, INC. AND SUBSIDIARIES

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

NET SALES

Net sales were $2,390.9 and $2,169.5 for 1997 and 1996, respectively, an increase of $221.4, or 10.2% or 12.6% on a constant U.S. dollar basis, primarily as a result of successful new product introductions worldwide, increased demand in the United States, the impact of the Cosmetic Center Merger, increased distribution internationally into the expanding self-select distribution channel and the further development of new international markets.

UNITED STATES. The United States operation's net sales increased to $1,452.5 for 1997 from $1,259.7 for 1996, an increase of $192.8, or 15.3%. Net sales improved for 1997, primarily as a result of continued consumer acceptance of new product offerings, general improvement in consumer demand for the Company's color cosmetics and the impact of the Cosmetic Center Merger. 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. The International operation's net sales 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. During 1997, the International operation's sales 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVLON, INC. AND SUBSIDIARIES

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 34.8% for 1997 compared to 33.5% for 1996. The increase in cost of sales as a percentage of net sales is due primarily to the impact of the Cosmetic Center Merger. Excluding the results of Cosmetic Center, as a percentage of net sales, cost of sales would have been 33.2% for 1997 compared to 32.9% for 1996. Other factors which increased 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.

S,G&A EXPENSES

As a percentage of net sales, S,G&A expenses were 56.0% for 1997, an improvement from 57.3% for 1996. S,G&A expenses other than advertising and consumer-directed promotion expenses, as a percentage of net sales, improved to 39.3% for 1997 compared with 40.9% 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 in the International operation. Advertising and consumer-directed promotion expenses increased by 11.8% to $397.4, or 16.6% of net sales, for 1997 from $355.5, or 16.4% of net sales, for 1996.

BUSINESS CONSOLIDATION COSTS AND OTHER, NET

Business consolidation costs and other, net, in 1997 include severance and other costs in connection with the consolidation of certain warehouse, distribution and headquarter operations related to the Cosmetic Center Merger, 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 from 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 $12.7, or 6.3%, to $213.3 for 1997 from $200.6 for 1996.

OTHER EXPENSES/INCOME

Interest expense was $136.2 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVLON, INC. AND SUBSIDIARIES

Gain on sale of subsidiary stock of $6.0 was recognized in the second quarter of 1997 as a result of the Cosmetic Center Merger.

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 $9.4 and $25.5 for 1997 and 1996, respectively. The decrease was primarily attributable to lower taxable income in certain International operations, partially as a result of the implementation of tax planning, including the utilization of net operating loss carryforwards in certain International operations, and benefits from net operating loss carryforwards domestically.

EXTRAORDINARY ITEM

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 credit agreement in effect at that time (the "1996 Credit Agreement") prior to maturity with proceeds from the credit agreement entered into in May 1997 (the "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 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.

Year ended December 31, 1996 compared with year ended December 31, 1995

NET SALES

Net sales were $2,169.5 and $1,940.0 for 1996 and 1995, respectively, an increase of $229.5, or 11.8%, primarily as a result of successful new product introductions worldwide, increased demand in the United States, acquisitions of certain exclusive line professional product businesses, increased distribution internationally into the expanding self-select distribution channel and the further development of new international markets.

UNITED STATES. The United States operation's net sales increased to $1,259.7 for 1996 from $1,115.4 for 1995, an increase of $144.3, or 12.9%. Net sales improved for 1996 primarily as a result of continued consumer acceptance of new product offerings, general improvement in consumer demand for the Company's color cosmetics in the United States and acquisitions of certain exclusive line professional product businesses, partially offset by overall softness in the fragrance industry and lower sales of one of the Company's prestige brands. The Company improved the dollar share of its **Revlon** brand cosmetics in the color cosmetics business in the United States self-select distribution channel to 21.4% for 1996 from 19.5% for 1995, moving into the leading position in market share. 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 1996, certain products launched during 1995) generated incremental net sales in 1996, principally as a result of launches of products in the **ColorStay** collection, including **ColorStay** foundation, lip makeup, eye makeup and **ColorStay Lashcolor** mascara, launches of products in the **Almay Amazing** collection, including lip makeup, eye

makeup, face makeup and concealer, and launches of **Cherish** fragrance and **Mitchum Clear** and **Almay Clear Complexion** line extensions.

INTERNATIONAL. The International operation's net sales increased to $909.8 for 1996 from $824.6 for 1995, an increase of $85.2, or 10.3% on a reported basis or 12.6% on a constant U.S. dollar basis. Net sales improved principally as a result of successful new product introductions, including the continued roll-out of the **ColorStay** cosmetics collection and **Revlon Age Defying** makeup, increased distribution into the expanding self-select distribution channel, the further development of new international markets, partially offset, on a reported basis, by the unfavorable effect on sales of a stronger U.S. dollar against certain foreign currencies, primarily the South African rand, Japanese yen, and several European currencies. During 1996, the International operation's sales were divided into the following geographic areas: Europe, which is comprised of Europe, the Middle East and Africa (in which net sales increased to $404.0 for 1996 from $374.6 for 1995, an increase of $29.4, or 7.8%); the Western Hemisphere, which is comprised of Canada, Mexico, Central America, South America and Puerto Rico (in which net sales increased to $311.9 for 1996 from $275.4 for 1995, an increase of $36.5, or 13.3%); and the Far East (in which net sales increased to $193.9 for 1996 from $174.6 for 1995, an increase of $19.3, or 11.1%).

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 $132.7, $25.1 and $20.0, respectively, for 1996 compared to $118.6, $22.8 and $19.8, respectively, for 1995. In Mexico, net sales for 1996 and 1995 were adversely affected by the December 1994 devaluation of the Mexican peso and related economic weakness. In Venezuela, net sales and income before taxes for 1996 and 1995 were adversely affected by high inflation and in the 1996 period by a currency devaluation.

COST OF SALES

As a percentage of net sales, cost of sales was 33.5% for 1996 compared to 33.7% for 1995, respectively. The improvement for 1996 resulted from the benefits of improved overhead absorption against higher production volumes and more efficient global production and purchasing. This improvement was partially offset by changes in product mix involving an increase in sales of the Company's higher cost technology-based products, an increase in export sales, lower margin products (such as those products sold in Brazil), 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 in Europe and the Far East. The aforementioned increases in sales that negatively impacted cost of sales were, however, more profitable to the Company's overall operating results.

S,G&A EXPENSES

As a percentage of net sales, S,G&A expenses were 57.3% for 1996, an improvement from 58.8% for 1995. S,G&A expenses other than advertising and consumer-directed promotion expenses, as a percentage of net sales, improved to 40.9% for 1996 compared with 43.2% for 1995 primarily as a result of reduced general and administrative expenses, improved productivity and lower distribution costs in 1996 compared with 1995, partially offset by additional costs incurred in Japan in 1996 in connection with the Company's strategy of exiting the demonstrator-assisted distribution channel. In accordance with its business strategy, the Company increased advertising and consumer-directed promotion expenditures in 1996 compared with 1995 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 in the International operation. Advertising and consumer-directed promotion expenses increased by 17.4% to $355.5, or 16.4% of net sales, for 1996 compared to $302.9, or 15.6% of net sales, for 1995.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVLON, INC. AND SUBSIDIARIES

OPERATING INCOME

As a result of the foregoing, operating income increased by $55.0, or 37.8%, to $200.6 for 1996 from $145.6 for 1995.

OTHER EXPENSES/INCOME

Interest expense was $133.4 for 1996 compared to $142.6 for 1995. The reduction in interest expense is attributable to lower average outstanding borrowings as a result of the paydown of debt under the 1996 Credit Agreement and under the 1995 Credit Agreement with the use of proceeds from the Revlon IPO in the 1996 period and lower interest rates under the 1996 Credit Agreement than under the 1995 Credit Agreement.

Foreign currency losses, net, were $5.7 for 1996 compared to $10.9 for 1995. The reduction in the foreign currency loss in 1996 as compared to 1995 was due to lower foreign currency losses primarily in Mexico and Venezuela and the Company's simplification of its international corporate structure, which resulted in $2.1 of gains, previously deferred in the currency translation account, partially offset by the strengthening of the U.S. dollar against the Spanish peseta and the strengthening of the U.K. pound against several European currencies.

Miscellaneous, net, was $6.3 for 1996 compared to $1.8 for 1995. The increase relates primarily to the Company's continued investment in certain emerging markets.

EXTRAORDINARY ITEM

The extraordinary item resulted from the write-off recorded in the first quarter of 1996 of deferred financing costs associated with the early extinguishment of the 1995 Credit Agreement prior to its maturity with the net proceeds from the Revlon IPO and borrowings under the 1996 Credit Agreement.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by (used for) operating activities was $6.9, ($9.6) and ($52.1) for 1997, 1996 and 1995, respectively. 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, partially offset by increased spending on merchandise display units in connection with the Company's continued expansion into the self-select distribution channel. The decrease in net cash used for operating activities for 1996 compared with 1995 resulted primarily from higher operating income, lower restructuring payments ($13.3 for 1996 compared with $24.2 for 1995) and improved management of inventory relative to business growth, partially offset by higher trade receivable balances as a result of higher net sales and increased spending on merchandise display units in connection with the Company's continued expansion into the self-select distribution channel.

Net cash used for investing activities was $108.4, $65.1 and $72.5 for 1997, 1996 and 1995, respectively. Net cash used for investing activities for 1997, 1996 and 1995 included capital expenditures of $56.5, $58.0 and $54.3, respectively, and $60.4, $7.1 and $21.2, respectively, used for acquisitions. Net cash used for acquisitions in 1997 consisted primarily of cash paid to the CCI shareholders in connection with the cash election pursuant to the Cosmetic Center Merger and cash paid for the acquisition of a South American hair care manufacturer and its distributor.

Net cash provided by financing activities was $109.3, $77.9 and $125.6 for 1997, 1996 and 1995, respectively. Net cash provided by financing activities for 1997 included cash drawn under the 1996 Credit Agreement, the Credit Agreement and Cosmetic Center's credit facility, 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 Company's Japanese yen-denominated credit agreement (the "Yen Credit Agreement"), the repayment of borrowings under CCI's former 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. Net cash provided by financing activities for 1995 consisted primarily of borrowings under the credit agreement of Products Corporation in effect prior to the 1995 Credit Agreement and borrowings under the 1995 Credit Agreement, partially offset by repayments of cash drawn under those credit agreements, repayments under the Yen Credit Agreement and payment of debt issuance costs under the 1995 Credit Agreement.

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 for the purpose of repaying the loans outstanding under the 1996 Credit Agreement and to redeem the Sinking Fund Debentures and were and will be used for general corporate purposes or, in the case of the Acquisition Facility, the financing of acquisitions. See Note 10(a) to the Consolidated Financial Statements. At December 31, 1997 Products Corporation had approximately $200.0 outstanding under the Term Loan Facilities, $102.7 outstanding under the Multi-Currency Facility, $41.9 outstanding under the Acquisition Facility and $34.8 of issued but undrawn letters of credit under the Special LC Facility.

A subsidiary of Products Corporation is the borrower under the Yen Credit Agreement, which had a principal balance of approximately ¥4.3 billion as of December 31, 1997 (approximately $33.3 U.S. dollar equivalent as of December 31, 1997). In accordance with the terms of the Yen Credit Agreement, approximately ¥539 million (approximately $5.2 U.S. dollar equivalent) was paid in January 1996 and approximately ¥539 million (approximately $4.6 U.S. dollar equivalent) was paid in January 1997. In June 1997, Products Corporation amended and restated the Yen Credit Agreement to extend the term to December 31, 2000 subject to earlier termination under certain circumstances. In accordance with the terms of the Yen Credit Agreement, as amended and restated, approximately ¥539 million (approximately $4.2 U.S. dollar equivalent as of December 31, 1997) is due in each of March 1998, 1999 and 2000 and ¥2.7 billion (approximately $20.7 U.S. dollar equivalent as of December 31, 1997) is due on December 31, 2000.

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, 1997.

On February 2, 1998, Revlon Escrow Corp. ("Revlon Escrow"), 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 deposited into escrow. The proceeds from the sale of the Notes will be used to finance the redemption of Product 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 will assume 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 will assume 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"). On or before March 19, 1998 either Revlon Escrow or Products Corporation is required to file a registration statement with the Securities and Exchange Commission (the "Commission") with respect to an offer to exchange the Notes for registered notes with substantially identical terms (the "Exchange Offer"). The Exchange Offer is expected to occur on or before July 2, 1998. In connection with the early redemptions of the Old Notes, the Company expects to record an extraordinary loss of up to $52 in 1998. The indentures governing the 8 5/8% Notes (the "8 5/8% Notes Indenture") and the 8 1/8% Notes (the "8 1/8% Notes Indenture" and, together with the 8 5/8% Notes Indenture, the "Notes Indentures") contain covenants that, after the Assumption 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, (v) the sale of assets and subsidiary stock, (vi) transactions with affiliates, (vii) consolidations, mergers and transfers of all or substantially all Products Corporation assets and (viii) in the case of the 8 5/8% Notes Indenture, the issuance of additional subordinated debt that is senior in right of payment to the 8 5/8% Notes. The Notes Indentures also prohibit certain restrictions on distributions from Products Corporation and subsidiaries of Products Corporation. All of these limitations and prohibitions, however, are subject to a number of important qualifications.

The Company's principal sources of funds are expected to be cash flow generated from operations and borrowings under the Credit Agreement and other existing working capital lines. The Credit Agreement and the Senior Notes, the 9 1/2% Senior Notes Due 1999 (the "1999 Notes") and the Senior Subordinated Notes currently contain, and, following the Assumption, the Notes will 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 and debt service payments.

The Company estimates that capital expenditures for 1998 will be approximately $65, including upgrades to the Company's management information systems. 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 1998 (See Note 15 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. If Products Corporation had terminated these agreements, which Products Corporation considered to be held for other than trading purposes, on December 31, 1997 and 1996, a loss of approximately $0.1 and $3.5,

respectively, would have been realized. Certain other swap agreements were terminated in 1993 for a gain of $14.0 and were amortized over the original lives of the agreements through 1997. The amortization of the 1993 realized gain in 1997, 1996 and 1995 was approximately $3.1, $3.2 and $3.2, respectively. Cash flow from the agreements outstanding at December 31, 1997 was approximately break even for 1997. Products Corporation
terminated these agreements in January 1998 and realized a gain of approximately $1.6, which will be recognized upon repayment of the hedged indebtedness.

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, 1997 and 1996, Products Corporation had forward foreign exchange contracts denominated in various currencies of approximately $90.1 and $62.0, respectively, and option contracts of approximately $94.9 outstanding at December 31, 1997. Such contracts are entered into to hedge transactions predominantly occurring within twelve months. If Products Corporation had terminated these contracts on December 31, 1997 and 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. 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, 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 dividends or distributions on 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 Senior Subordinated Notes, the 1999 Notes and the Senior Notes generally restrict and, after the Assumption, the terms of the Notes generally will 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 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.

FORWARD-LOOKING STATEMENTS

This annual report for the year ended December 31, 1997 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, and the effect on sales of inventory balancing and consolidation in the chain drugstore industry in the U.S., cash flows from operations, improved results from business consolidations, information system upgrades and globalization of the Company's manufacturing operations, capital expenditures, the availability of funds from currently available credit facilities and refinancings of indebtedness, capital contributions or loans from affiliates, the sale of assets or additional shares of Revlon, Inc., and the cost and timely implementation of the Company's Year 2000 compliance modifications. Readers are urged to consider that statements which use the terms "believes," "does not believe," "no reason to believe," "expects," "plans," "intends," "estimates," "anticipated," "anticipates" and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. In addition to factors that may be described in the Company's Commission filings, including this filing, 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, and to globalize its manufacturing operations; (v) the inability to refinance indebtedness, secure capital contributions or loans from affiliates or sell assets or additional shares of Revlon, Inc.; (vi) effects of and changes in economic conditions, including inflation and monetary conditions, and in trade, monetary, fiscal and tax policies in countries outside of the U.S. in which the Company operates, including Brazil; (vii) actions by competitors, including business combinations, technological breakthroughs, new product offerings and marketing and promotional successes; (viii) combinations among significant customers or the loss, insolvency or failure to pay its debts by a significant customer or customers; (ix) difficulties or delays in realizing improved results from business consolidations; (x) lower than expected sales as a result of inventory balancing and consolidation in the chain drugstore industry in the U.S.; and (xi) unanticipated costs or difficulties or delays in implementing the Company's Year 2000 compliance modifications. The Company assumes no responsibility to update forward-looking information contained herein.

EFFECT OF NEW ACCOUNTING STANDARD

In June 1997, the Financial Accounting Standards Board issued SFAS 130 "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. The Company will adopt SFAS 130 in fiscal 1998.

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. 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.

CONSOLIDATED BALANCE SHEETS

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	DECEMBER 31, 1997	DECEMBER 31, 1996
ASSETS		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$ 42.8	$ 38.6
TRADE RECEIVABLES, LESS ALLOWANCES OF $25.9 AND $24.9, RESPECTIVELY	493.9	426.8
INVENTORIES	349.3	281.1
PREPAID EXPENSES AND OTHER	97.5	74.5
TOTAL CURRENT ASSETS	983.5	821.0
PROPERTY, PLANT AND EQUIPMENT, NET	378.2	381.1
OTHER ASSETS	143.7	139.2
INTANGIBLE ASSETS, NET	329.2	280.6
TOTAL ASSETS	$ 1,834.6	$ 1,621.9
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
SHORT-TERM BORROWINGS - THIRD PARTIES	$ 42.7	$ 27.1
CURRENT PORTION OF LONG-TERM DEBT - THIRD PARTIES	5.5	8.8
ACCOUNTS PAYABLE	195.5	161.9
ACCRUED EXPENSES AND OTHER	366.1	366.2
TOTAL CURRENT LIABILITIES	609.8	564.0
LONG-TERM DEBT - THIRD PARTIES	1,427.8	1,321.8
LONG-TERM DEBT - AFFILIATES	30.9	30.4
OTHER LONG-TERM LIABILITIES	224.6	202.8
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, 19,886,575 AND 19,875,000 ISSUED AND OUTSTANDING, RESPECTIVELY	0.2	0.2
CAPITAL DEFICIENCY	(231.1)	(231.6)
ACCUMULATED DEFICIT SINCE JUNE 24, 1992	(258.8)	(302.4)
ADJUSTMENT FOR MINIMUM PENSION LIABILITY	(4.5)	(12.4)
CURRENCY TRANSLATION ADJUSTMENT	(19.2)	(5.8)
TOTAL STOCKHOLDERS' DEFICIENCY	(458.5)	(497.1)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 1,834.6	$ 1,621.9

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

REVLON, INC. AND SUBSIDIARIES

	YEAR ENDED DECEMBER 31,		
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	1997	1996	1995
NET SALES	$ 2,390.9	$ 2,169.5	$ 1,940.0
COST OF SALES	832.1	726.5	653.0
GROSS PROFIT	1,558.8	1,443.0	1,287.0
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,337.9	1,242.4	1,141.4
BUSINESS CONSOLIDATION COSTS AND OTHER, NET	7.6	-	-
OPERATING INCOME	213.3	200.6	145.6
OTHER EXPENSES (INCOME):			
INTEREST EXPENSE	136.2	133.4	142.6
INTEREST AND NET INVESTMENT INCOME	(3.0)	(3.4)	(4.9)
GAIN ON SALE OF SUBSIDIARY STOCK	(6.0)	-	-
AMORTIZATION OF DEBT ISSUANCE COSTS	6.7	8.3	11.0
FOREIGN CURRENCY LOSSES, NET	6.4	5.7	10.9
MISCELLANEOUS, NET	5.1	6.3	1.8
OTHER EXPENSES, NET	145.4	150.3	161.4
INCOME (LOSS) BEFORE INCOME TAXES	67.9	50.3	(15.8)
PROVISION FOR INCOME TAXES	9.4	25.5	25.4
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	58.5	24.8	(41.2)
EXTRAORDINARY ITEMS - EARLY EXTINGUISHMENT OF DEBT	(14.9)	(6.6)	-
NET INCOME (LOSS)	$ 43.6	$ 18.2	$ (41.2)
BASIC INCOME (LOSS) PER COMMON SHARE:			
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	$ 1.14	$ 0.50	$ (0.97)
EXTRAORDINARY ITEMS	(0.29)	(0.13)	-
NET INCOME (LOSS) PER COMMON SHARE	$ 0.85	$ 0.37	$ (0.97)
DILUTED INCOME (LOSS) PER COMMON SHARE:			
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	$ 1.14	$ 0.50	$ (0.97)
EXTRAORDINARY ITEMS	(0.29)	(0.13)	-
NET INCOME (LOSS) PER COMMON SHARE	$ 0.85	$ 0.37	$ (0.97)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
BASIC	51,131,440	49,687,500	42,500,000
DILUTIVE	51,544,318	49,818,792	42,500,000

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)	PREFERRED STOCK	COMMON STOCK	CAPITAL DEFICIENCY	ACCUMULATED DEFICIT (a)	OTHER ADJUSTMENTS	CURRENCY TRANSLATION ADJUSTMENT
BALANCE, JANUARY 1, 1995	$ 54.6	$ 0.4	$ (415.1)	$ (279.4)	$ (10.9)	$ (5.8)
NET LOSS				(41.2)		
ADJUSTMENT FOR MINIMUM PENSION LIABILITY					(6.1)	
NET CAPITAL CONTRIBUTION			0.4 (d)			
CURRENCY TRANSLATION ADJUSTMENT						0.8
BALANCE, DECEMBER 31, 1995	54.6	0.4	(414.7)	(320.6)	(17.0)	(5.0)
NET INCOME				18.2		
NET PROCEEDS FROM INITIAL PUBLIC OFFERING		0.1	187.7			
ADJUSTMENT FOR MINIMUM PENSION LIABILITY					4.6	
NET CAPITAL DISTRIBUTION			(0.5) (d)			
CURRENCY TRANSLATION ADJUSTMENT						(0.8) (c)
ACQUISITION OF BUSINESS			(4.1) (b)			
BALANCE, DECEMBER 31, 1996	54.6	0.5	(231.6)	(302.4)	(12.4)	(5.8)
NET INCOME				43.6		
ISSUANCE OF COMMON STOCK			0.2			
ADJUSTMENT FOR MINIMUM PENSION LIABILITY					7.9	
NET CAPITAL CONTRIBUTION			0.3 (d)			
CURRENCY TRANSLATION ADJUSTMENT						(13.4)
BALANCE, DECEMBER 31, 1997	$ 54.6	$ 0.5	$ (231.1)	$ (258.8)	$ (4.5)	$ (19.2)

(a) Represents net loss since June 24, 1992, the effective date of the transfer agreements referred to in Note 15.

(b) Represents amounts paid to Revlon Holdings Inc. for the Tarlow Advertising Division ("Tarlow") (see Note 15).

(c) Includes $2.1 of gains related to the Company's simplification of its international corporate structure.

(d) Represents changes in capital from the acquisition of the Bill Blass business (see Note 15).

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)	YEAR ENDED DECEMBER 31, 1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME (LOSS)	$ 43.6	$ 18.2	$ (41.2)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH			
PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION	103.8	90.9	88.4
EXTRAORDINARY ITEM	14.9	6.6	-
GAIN ON SALE OF SUBSIDIARY STOCK	(6.0)	-	-
GAIN ON SALE OF CERTAIN FIXED ASSETS, NET	(4.4)	-	(2.2)
CHANGE IN ASSETS AND LIABILITIES:			
INCREASE IN TRADE RECEIVABLES	(70.3)	(67.7)	(44.1)
INCREASE IN INVENTORIES	(21.4)	(5.3)	(15.1)
DECREASE (INCREASE) IN PREPAID EXPENSES AND OTHER CURRENT ASSETS	2.3	(7.1)	4.5
INCREASE IN ACCOUNTS PAYABLE	21.6	10.8	10.2
DECREASE IN ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES	(4.2)	(10.2)	(12.2)
OTHER, NET	(73.0)	(45.8)	(40.4)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	6.9	(9.6)	(52.1)
CASH FLOWS FROM INVESTING ACTIVITIES:			
CAPITAL EXPENDITURES	(56.5)	(58.0)	(54.3)
ACQUISITION OF BUSINESSES, NET OF CASH ACQUIRED	(60.4)	(7.1)	(21.2)
PROCEEDS FROM THE SALE OF CERTAIN FIXED ASSETS	8.5	-	3.0
NET CASH USED FOR INVESTING ACTIVITIES	(108.4)	(65.1)	(72.5)
CASH FLOWS FROM FINANCING ACTIVITIES:			
NET INCREASE (DECREASE) IN SHORT-TERM BORROWINGS - THIRD PARTIES	18.0	5.8	(122.9)
PROCEEDS FROM THE ISSUANCE OF LONG-TERM DEBT - THIRD PARTIES	802.3	266.4	493.7
REPAYMENT OF LONG-TERM DEBT - THIRD PARTIES	(707.5)	(366.6)	(236.3)
NET PROCEEDS FROM ISSUANCE OF COMMON STOCK	0.2	187.8	-
NET CONTRIBUTION FROM (DISTRIBUTION TO) PARENT	0.3	(0.5)	0.4
PROCEEDS FROM THE ISSUANCE OF DEBT - AFFILIATES	120.7	115.0	157.4
REPAYMENT OF DEBT - AFFILIATES	(120.2)	(115.0)	(151.0)
ACQUISITION OF BUSINESS FROM AFFILIATE	-	(4.1)	-
PAYMENT OF DEBT ISSUANCE COSTS	(4.5)	(10.9)	(15.7)
NET CASH PROVIDED BY FINANCING ACTIVITIES	109.3	77.9	125.6
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3.6)	(0.9)	(0.1)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4.2	2.3	0.9
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	38.6	36.3	35.4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 42.8	$ 38.6	$ 36.3
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:			
CASH PAID DURING THE PERIOD FOR:			
INTEREST	$ 142.2	$ 139.0	$ 148.2
INCOME TAXES, NET OF REFUNDS	10.6	15.4	18.8
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:			
IN CONNECTION WITH BUSINESS ACQUISITIONS, LIABILITIES WERE ASSUMED (INCLUDING MINORITY INTEREST) AS FOLLOWS:			
FAIR VALUE OF ASSETS ACQUIRED	$ 132.7	$ 9.7	$ 27.3
CASH PAID	(64.5)	(7.2)	(21.6)
LIABILITIES ASSUMED	$ 68.2	$ 2.5	$ 5.7

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES
(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

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 business 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, operates retail outlet stores 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, 1997, 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 income (loss) has historically consisted predominantly of its equity in the net income (loss) of Products Corporation and in 1997 and 1996 included approximately $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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES

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, 1997 and 1996, the amounts reflected in the Company's Consolidated Balance Sheets aggregated a net liability of $23.3 and $23.6, respectively, of which $4.9 and $5.2, respectively, are included in accrued expenses and other and $18.4 as of both dates is included in other long-term liabilities.

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 development costs, 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.

Included in other assets are permanent displays amounting to approximately $107.7 and $81.8 (net of amortization) as of December 31, 1997 and 1996, respectively, which are amortized over 3 to 5 years.

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 $104.4 and $94.2 at December 31, 1997 and 1996, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES

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 12 and 15.

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, which the Company has concluded is generally when an employee is terminated.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are expensed as incurred. The amounts charged against earnings in 1997, 1996 and 1995 were $29.7, $26.3 and $22.3, 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
REVLON, INC. AND SUBSIDIARIES

BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE AND CLASSES OF STOCK:
In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share," which establishes new standards for computing and presenting basic and diluted earnings per share. As required by SFAS No. 128, the Company adopted the provisions of the new standard with retroactive effect beginning in 1997. Accordingly, all net income (loss) per common share amounts for all prior periods have been restated to comply with SFAS No. 128.

The basic income (loss) per common share has been computed based upon the weighted average of shares of common stock outstanding. Diluted income (loss) per common share has been computed based upon the weighted average 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 dilutive potential common stock outstanding. The amounts of income (loss) used in the calculations of diluted and basic income (loss) per common share were the same for all the years presented. The number of shares used in the calculation of diluted income (loss) per common share increased by 412,878 shares and 131,292 shares, for 1997 and 1996, respectively, to give effect to outstanding stock options in such years.

Basic and diluted income (loss) 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 of shares outstanding as of December 31,1997.

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 Interpretations. 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 14).

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.

2. 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 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.

3. BUSINESS CONSOLIDATION COSTS AND OTHER, NET

Business consolidation costs and other, net in 1997 include severance and other costs in connection with the consolidation of certain warehouse, distribution and headquarter operations related to the Cosmetic Center Merger (See Note 4); severance, writedowns of certain assets to their estimated net realizable value and other related costs to rationalize factory and warehouse operations in certain United States and International operations, partially offset by related gains from the sales of certain factory operations of approximately $4.3 and an approximately $12.7 settlement of a claim in the second quarter of 1997. The business consolidation costs include $15.5 for the termination of approximately 475 factory and administrative employees. By December 31,1997 the Company terminated approximately 260 employees, made cash payments for such terminations of approximately $7.7, and made cash payments for other business consolidation costs of approximately $5.4. As of December 31, 1997, the unpaid balance of the business consolidation accrual approximated $11.5, which amount is included in accrued expenses and other.

4. ACQUISITIONS

On April 25, 1997, Prestige Fragrance & Cosmetics, Inc. ("PFC"), a wholly owned subsidiary of Products Corporation, and The Cosmetic Center, Inc. ("CCI") completed the merger of PFC with and into CCI (the "Cosmetic Center Merger") with CCI (subsequent to the Cosmetic Center Merger, "Cosmetic Center") surviving the Cosmetic Center Merger. In the Cosmetic Center Merger, Products Corporation received in exchange for all of the capital stock of PFC newly issued Class C Common Stock of Cosmetic Center constituting approximately 85.0% of Cosmetic Center's outstanding common stock. Accordingly, the Cosmetic Center Merger was accounted for as a reverse acquisition using the purchase method of accounting, with PFC considered the acquiring entity for accounting purposes even though Cosmetic Center is the surviving legal entity. The deemed purchase consideration for the acquisition was approximately $27.9 and the goodwill associated with the Cosmetic Center Merger was approximately $10.5. The Company recognized a gain of $6.0 resulting from the sale of subsidiary stock pursuant to the Cosmetic Center Merger. The results of the Company for the period ended December 31, 1997 include the results of operations of Cosmetic Center since the effective date of the Cosmetic Center Merger.

The following represents certain summary unaudited pro forma information as if the Cosmetic Center Merger had occurred as of the beginning of the respective periods presented. The summary unaudited pro forma information below combines the actual results of the Company (including Cosmetic Center after the Cosmetic Center Merger) and the results of CCI prior to the Cosmetic Center Merger, excluding non-recurring business consolidation costs directly attributable to the Cosmetic Center Merger of $4.0 in 1997, and reflects increased amortization of goodwill, increased interest expense and certain income tax adjustments related to the Cosmetic Center Merger that would have been incurred had the Cosmetic Center Merger occurred at such dates. The unaudited summary pro forma information is not necessarily indicative of the results of operations of the Company had the Cosmetic Center Merger occurred at such dates, nor is it necessarily indicative of future results.

	YEAR ENDED DECEMBER 31,	
	1997	1996
NET SALES	$ 2,426.5	$ 2,303.3
OPERATING INCOME	215.2	194.3
INCOME BEFORE EXTRAORDINARY ITEMS	59.4	15.5
BASIC INCOME BEFORE EXTRAORDINARY ITEMS PER COMMON SHARE	1.16	0.31
DILUTED INCOME BEFORE EXTRAORDINARY ITEMS PER COMMON SHARE	1.15	0.31

In 1997, the Company consummated other acquisitions for a combined purchase price of $51.6, with resulting goodwill of $35.8. These acquisitions were not significant to the Company's results of operations. Acquisitions consummated in 1996 and 1995 were also not significant to the Company's results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES

5. INVENTORIES

	DECEMBER 31, 1997	DECEMBER 31, 1996
RAW MATERIALS AND SUPPLIES	$ 82.6	$ 76.6
WORK-IN-PROCESS	14.9	19.4
FINISHED GOODS	251.8	185.1
	$ 349.3	$ 281.1

6. PREPAID EXPENSES AND OTHER

	DECEMBER 31, 1997	DECEMBER 31, 1996
PREPAID EXPENSES	$ 40.9	$ 43.1
OTHER	56.6	31.4
	$ 97.5	$ 74.5

7. PROPERTY, PLANT AND EQUIPMENT, NET

	DECEMBER 31, 1997	DECEMBER 31, 1996
LAND AND IMPROVEMENTS	$ 32.5	$ 37.5
BUILDINGS AND IMPROVEMENTS	193.2	207.6
MACHINERY AND EQUIPMENT	208.5	194.9
OFFICE FURNITURE AND FIXTURES AND SOFTWARE DEVELOPMENT COSTS	85.5	59.4
LEASEHOLD IMPROVEMENTS	44.9	37.5
CONSTRUCTION-IN-PROGRESS	30.6	43.7
	595.2	580.6
ACCUMULATED DEPRECIATION	(217.0)	(199.5)
	$ 378.2	$ 381.1

Depreciation expense for the years ended December 31, 1997, 1996 and 1995 was $42.1, $39.1 and $38.6, respectively.

8. ACCRUED EXPENSES AND OTHER

	DECEMBER 31, 1997	DECEMBER 31, 1996
ADVERTISING AND PROMOTIONAL COSTS AND ACCRUAL FOR SALES RETURNS		
COMPENSATION AND RELATED BENEFITS	$ 148.0	$ 137.4
INTEREST	76.6	95.5
TAXES, OTHER THAN FEDERAL INCOME TAXES	32.3	36.7
RESTRUCTURING AND BUSINESS CONSOLIDATION COSTS	32.1	35.0
NET LIABILITIES ASSUMED FROM HOLDINGS	18.6	6.9
OTHER	4.9	5.2
	53.6	49.5
	$ 366.1	$ 366.2

9. SHORT-TERM BORROWINGS

Products Corporation maintained short-term bank lines of credit at December 31, 1997 and 1996 aggregating approximately $82.3 and $72.7, respectively, of which approximately $42.7 and $27.1 were outstanding at December 31, 1997 and 1996, respectively. Interest rates on amounts borrowed under such short-term lines at December 31, 1997 and 1996 varied from 2.5% to 12.0% and 2.2% to 12.1%, respectively. Compensating balances at December 31, 1997 and 1996 were approximately $6.2 and $7.4, respectively. Interest rates on compensating balances at December 31, 1997 and 1996 varied from 0.4% to 8.1% and 0.4% to 7.9%, respectively.

10. LONG-TERM DEBT

	DECEMBER 31,	
	1997	1996
WORKING CAPITAL LINES (a)	$ 344.6	$ 187.2
BANK MORTGAGE LOAN AGREEMENT DUE 2000 (b)	33.3	41.7
9 1⁄2% SENIOR NOTES DUE 1999 (c)	200.0	200.0
9 3⁄8% SENIOR NOTES DUE 2001 (d)	260.0	260.0
10 1⁄2% SENIOR SUBORDINATED NOTES DUE 2003 (e)	555.0	555.0
10 7⁄8% SINKING FUND DEBENTURES DUE 2010 (f)	–	79.6
ADVANCES FROM HOLDINGS (g)	30.9	30.4
OTHER MORTGAGES AND NOTES PAYABLE (8.6%–13.0%) DUE THROUGH 2001	1.4	7.1
COSMETIC CENTER FACILITY (h)	39.0	–
	1,464.2	1,361.0
LESS CURRENT PORTION	(5.5)	(8.8)
	$ 1,458.7	$ 1,352.2

(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 1996 Credit Agreement and to redeem the Sinking Fund Debentures.

The Credit Agreement provides up to $750.0 and is comprised of five senior secured facilities: $200.0 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, 1997 Products Corporation had approximately $200.0 outstanding under the Term Loan Facilities, $102.7 outstanding under the Multi-Currency Facility, $41.9 outstanding under the Acquisition Facility and $34.8 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, 1997 at a rate equal to, at Products Corporation's option, either (A) the Alternate Base Rate plus 1/4 of 1% (or 1.25% for Local Loans); or (B) the Eurodollar Rate plus 1.25%. Loans in foreign currencies bear interest as of December 31, 1997 at a rate equal to the Eurocurrency Rate or, in the case of Local Loans, the local lender rate, in each case plus 1.25%. The applicable margin is reduced (or increased, but not above 3/4 of 1% for Alternate Base Rate Loans not constituting Local Loans and 1.75% for other loans) in the event Products Corporation attains (or fails to attain) certain leverage ratios. Products Corporation pays the lender a commitment fee as of December 31, 1997 of 3/8 of 1% of the unused portion of the Credit Facilities, subject to reduction (or increase, but not above 1/2 of 1%) based on attaining (or failing to attain) certain leverage ratios. 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 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 will commence 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 7.1%, 5.4% and 5.7% per annum, respectively, as of December 31, 1997.

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 and Products Corporation's Phoenix, Arizona facilities; (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 (other than Cosmetic Center) and (y) certain subsidiaries of Holdings; (iv) domestic inventory and accounts receivable of (x) Products Corporation and its domestic subsidiaries (other than Cosmetic Center) 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 "Yen 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.

In January 1996, Products Corporation entered into a credit agreement (the "1996 Credit Agreement"), which became effective upon consummation of the Revlon IPO on March 5, 1996. The 1996 Credit Agreement included, among other things, (i) a term to December 31, 2000 (subject to earlier termination in certain circumstances), and (ii) credit facilities of $600.0 comprised of four senior secured facilities: a $130.0 term loan facility, a $220.0 multi-currency facility, a $200.0 revolving acquisition facility and a $50.0 standby letter of credit facility. The weighted average interest rates on the term loan facility and multi-currency facility were 8.1% and 7.0% per annum, respectively, as of December 31, 1996.

(b) The Pacific Finance & Development Corp., a subsidiary of the Company, is the borrower under a yen denominated credit agreement (the "Yen Credit Agreement"), which had a principal balance of approximately ¥4.3 billion as of December 31, 1997 (approximately $33.3 U.S. dollar equivalent as of December 31, 1997). In accordance with the terms of the Yen Credit Agreement, approximately ¥539 million (approximately $5.2 U.S. dollar equivalent) was paid in January 1996 and approximately ¥539 million (approximately $4.6 U.S. dollar equivalent) was paid in January 1997. In June 1997, Products Corporation amended and restated the Yen Credit Agreement to extend the term to December 31, 2000 subject to earlier termination under certain circumstances. In accordance with the terms of the Yen Credit Agreement, as amended and restated, approximately ¥539 million (approximately $4.2 U.S. dollar equivalent as of December 31, 1997) is due in each of March 1998, 1999 and 2000 and ¥2.7 billion (approximately $20.7 U.S. dollar equivalent as of December 31, 1997) is due on December 31, 2000. The applicable interest rate at December 31, 1997 under the Yen Credit Agreement was the Euro-Yen rate plus 1.25% which approximated 1.9%. The interest rate at December 31, 1996, was the Euro-Yen rate plus 2.5%, which approximated 3.1%.

(c) The Senior Notes due 1999 (the "1999 Senior 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 Senior Notes (the "1999 Senior Note Indenture")). The 1999 Senior Notes bear interest at 9 1/2% per annum. Interest is payable on June 1 and December 1.

The 1999 Senior Notes may not be redeemed prior to maturity. Upon a Change of Control (as defined in the 1999 Senior Note Indenture) and subject to certain conditions, each holder of 1999 Senior Notes will have the

right to require Products Corporation to repurchase all or a portion of such holder's 1999 Senior 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 Senior Note Indenture), Products Corporation will be obligated to make offers to purchase the 1999 Senior Notes.

The 1999 Senior Note 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 Senior 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 Senior Note 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 Senior Note Indenture also prohibits certain restrictions on distributions from subsidiaries. All of these limitations and prohibitions, however, are subject to a number of important qualifications.

(d) The 9 3/8% Senior Notes due 2001 (the "Senior 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 Senior Notes (the "Senior Note Indenture")). The Senior Notes bear interest at 9 3/8% per annum. Interest is payable on April 1 and October 1.

The Senior Notes may be redeemed at the option of Products Corporation in whole or in part at any time on or after April 1, 1998 at the redemption prices set forth in the Senior Note Indenture, plus accrued and unpaid interest, if any, to the date of redemption. Upon a Change of Control (as defined in the Senior Note Indenture), Products Corporation will have the option to redeem the Senior Notes in whole or in part at a redemption price equal to the principal amount thereof plus the Applicable Premium (as defined in the Senior Note Indenture), plus accrued and unpaid interest, if any, to the date of redemption, and, subject to certain conditions, each holder of Senior Notes will have the right to require Products Corporation to repurchase all or a portion of such holder's Senior 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 Senior Note Indenture), Products Corporation will be obligated to make offers to purchase the Senior Notes.

The Senior Note Indenture contains various restrictive covenants that, among other things, limit (i) the issuance of additional indebtedness and redeemable stock by Products Corporation, (ii) the issuance of indebtedness 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 Senior Notes, (iv) the payment of dividends on capital stock of Products Corporation and its subsidiaries and the redemption of capital stock and certain subordinated obligations of Products Corporation, except that the Senior Note 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 Senior Note Indenture also prohibits certain restrictions on distributions from subsidiaries of Products Corporation. All of these limitations and prohibitions, however, are subject to a number of important qualifications (See Note 19).

(e) The Senior Subordinated Notes due 2003 (the "Senior Subordinated Notes") are unsecured obligations of Products Corporation and are subordinated in right of payment to all existing and future Senior Debt (as defined in the indenture relating to the Senior Subordinated Notes (the "Senior Subordinated Note Indenture")). The Senior Subordinated Notes bear interest at 10 1/2% per annum. Interest is payable on February 15 and August 15.

The Senior Subordinated Notes may be redeemed at the option of Products Corporation in whole or in part at any time on or after February 15, 1998 at the redemption prices set forth in the Senior Subordinated Note Indenture, plus accrued and unpaid interest, if any, to the date of redemption. Upon a Change of Control (as defined in the Senior Subordinated Note Indenture), Products Corporation will have the option to redeem the Senior Subordinated Notes in whole or in part at a redemption price equal to the principal amount thereof plus the Applicable Premium (as defined in the Senior Subordinated Note Indenture), plus accrued and unpaid interest, if any, to the date of redemption, and, subject to certain conditions, each holder of Senior Subordinated Notes will have the right to require Products Corporation to repurchase all or a portion of such holder's Senior Subordinated 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 Senior Subordinated Note Indenture), Products Corporation will be obligated to make offers to purchase the Senior Subordinated Notes.

The Senior Subordinated Note Indenture contains various restrictive covenants that, among other things, limit (i) the issuance of additional indebtedness and redeemable stock by Products Corporation, (ii) the issuance of indebtedness and preferred stock by Products Corporation's subsidiaries, (iii) the incurrence of liens on the assets of Products Corporation and its subsidiaries to secure debt other than Senior Debt (as defined in the Senior Subordinated Note Indenture) or debt of a subsidiary, unless the Senior Subordinated Notes are equally and ratably secured, (iv) the payment of dividends on capital stock of Products Corporation and its subsidiaries and the redemption of capital stock and certain subordinated obligations of Products Corporation, except that the Senior Subordinated Note 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 Senior Subordinated Note Indenture also prohibits certain restrictions on distributions from subsidiaries of Products Corporation. All of these limitations and prohibitions, however, are subject to a number of important qualifications (See Note 19).

(f) Products Corporation redeemed all the outstanding $85.0 principal amount of Sinking Fund Debentures during 1997 with the proceeds of borrowings under the Credit Agreement.

(g) During 1992, Holdings made an advance of $25.0 to Products Corporation. This advance was evidenced by a noninterest-bearing demand note payable by Products Corporation, the payment of which was subordinated to the obligations of Products Corporation under the credit agreement in effect at that time. Holdings agreed not to demand payment under the note so long as any indebtedness remained outstanding under the credit agreement in effect at that time. In February 1995, the $13.3 in notes due to Products Corporation under the Financing Reimbursement Agreement, referred to in Note 15, was offset against the $25.0 note and Holdings agreed not to demand payment under the resulting $11.7 note so long as certain indebtedness remains outstanding. In October 1993, Products Corporation borrowed from Holdings approximately $23.2 (as adjusted and subject to further adjustment for certain expenses) representing amounts received by Holdings from an escrow account relating to divestiture by Holdings of certain of its predecessor businesses. In July 1995, Products Corporation borrowed from Holdings approximately $0.8, representing certain amounts received by Holdings relating to an arbitration arising out of the sale by Holdings of certain of its businesses. In 1995, Products Corporation borrowed from Holdings approximately $5.6, representing certain amounts received by Holdings from the sale by Holdings of certain of its businesses. In June 1996, $10.9 in notes due to Products Corporation under the Financing Reimbursement Agreement from Holdings was offset against the $11.7 demand note (referred to above) payable by Products Corporation to Holdings. 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. At December 31, 1997 the balance of $30.9 is evidenced by noninterest-bearing promissory notes payable to Holdings that are subordinated to Products Corporation's obligations under the Credit Agreement.

(h) In connection with the Cosmetic Center Merger, on April 25, 1997 Cosmetic Center entered into a loan and security agreement (the "Cosmetic Center Facility"). Cosmetic Center paid the then outstanding balance of $14.0 on CCI's former credit agreement with borrowings under the Cosmetic Center Facility. On April 28, 1997, Cosmetic Center used approximately $21.2 of borrowings under the Cosmetic Center Facility to fund the cash election associated with the Cosmetic Center Merger. The Cosmetic Center Facility, which expires on April 30, 1999, provides up to $70.0 of revolving credit tied to a borrowing base of 65% of Cosmetic Center's eligible inventory, as defined in the Cosmetic Center Facility. Borrowings under the Cosmetic Center Facility are collateralized by Cosmetic Center's accounts receivable and inventory and proceeds therefrom. Under the Cosmetic Center Facility, Cosmetic Center may borrow at the London Inter-Bank Offered Rate ("LIBOR") plus 2.25% or at the lending bank's prime rate plus 0.5%. Cosmetic Center also pays a commitment fee equal to one-quarter of one percent per annum. Interest is payable on a monthly basis except for interest on LIBOR rate loans with a maturity of less than three months, which is payable at the end of the LIBOR rate loan period and interest on LIBOR rate loans with a maturity of more than three months, which is payable every three months. If Cosmetic Center terminates the Cosmetic Center Facility, Cosmetic Center is obligated to pay a prepayment penalty of $0.7 if the termination occurs before the first anniversary date of the Cosmetic Center Facility and $0.2 if the termination occurs after the first anniversary date. The Cosmetic Center Facility contains various restrictive covenants and requires Cosmetic Center to maintain a minimum tangible net worth and an interest coverage ratio. At December 31, 1997, approximately $39.0 was outstanding under the Cosmetic Center Facility with an interest rate of 8.1%.

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, 1997 or 1996.

The aggregate amounts of long-term debt maturities and sinking fund requirements (at December 31, 1997), in the years 1998 through 2002 are $5.5, $244.4, $26.2, $278.5, and $354.6, respectively, and $555.0 thereafter.

11. 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. If Products Corporation had terminated these agreements, which Products Corporation considered to be held for other than trading purposes, on December 31, 1997 and 1996, a loss of approximately $0.1 and $3.5, respectively would have been realized. 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, 1996 and 1995 was approximately $3.1, $3.2 and $3.2, respectively. Cash flow from the agreements outstanding at December 31, 1997 was approximately break even for 1997. In anticipation of repayment of the hedged indebtedness, Products Corporation terminated these agreements in January1998 and realized a gain of approximately $1.6, which will be recognized upon repayment of the hedged indebtedness.

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, 1997 and 1996, Products Corporation had forward foreign exchange contracts denominated in various currencies of approximately $90.1 and $62.0, respectively, and option contracts of approximately $94.9 outstanding at December 31, 1997. Such contracts are entered into to hedge transactions predominantly occurring within twelve months. If Products Corporation had terminated these contracts on December 31, 1997 and 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, 1997 and 1996 was approximately $39.0 and $37.3 more than the carrying value of $1,464.2 and $1,361.0, 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 $40.6 and $40.9 (including amounts available under credit agreements in effect at that time) were maintained at December 31, 1997 and 1996, respectively. Included in these amounts are $27.7 and $26.4, respectively in standby letters of credit which support Products Corporation's self-insurance programs (See Note 15). The estimated liability under such programs is accrued by Products Corporation.

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

12. 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 1997, 1996 or 1995. 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 15, 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 income (loss) before income taxes and the applicable provision (benefit) for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
INCOME (LOSS) BEFORE INCOME TAXES:			
DOMESTIC			
FOREIGN			
	$ 83.4	$ 9.8	$ (39.4)
PROVISION (BENEFIT) FOR INCOME TAXES:	(15.5)	40.5	23.6
FEDERAL	$ 67.9	$ 50.3	$ (15.8)
STATE AND LOCAL			
FOREIGN	$ 0.9	$ –	$ –
	1.2	1.2	3.4
	7.3	24.3	22.0
CURRENT	$ 9.4	$ 25.5	$ 25.4
DEFERRED			
BENEFITS OF OPERATING LOSS CARRYFORWARDS	$ 30.1	$ 22.7	$ 37.1
CARRYFORWARD UTILIZATION APPLIED TO GOODWILL	10.4	6.6	3.0
EFFECT OF ENACTED CHANGE OF TAX RATES	(32.2)	(4.7)	(15.4)
	1.1	1.0	0.8
	–	(0.1)	(0.1)
	$ 9.4	$ 25.5	$ 25.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
STATUTORY FEDERAL INCOME TAX RATE	35.0%	35.0%	(35.0)%
STATE AND LOCAL TAXES, NET OF FEDERAL INCOME TAX BENEFIT	1.2	1.6	14.0
FOREIGN AND U.S. TAX EFFECTS ATTRIBUTABLE TO OPERATIONS OUTSIDE THE U.S.	13.3	35.9	87.0
NONDEDUCTIBLE AMORTIZATION EXPENSE	4.5	5.8	15.7
U.S. LOSS WITHOUT BENEFIT	-	-	79.1
CHANGE IN DOMESTIC VALUATION ALLOWANCE	(40.3)	(28.8)	-
NONTAXABLE GAIN ON SALE OF SUBSIDIARY STOCK	(3.1)	-	-
OTHER	3.2	1.2	-
EFFECTIVE RATE	13.8%	50.7%	160.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented below:

	DECEMBER 31,	
	1997	1996
DEFERRED TAX ASSETS:		
ACCOUNTS RECEIVABLE, PRINCIPALLY DUE TO DOUBTFUL ACCOUNTS	$ 3.3	$ 3.9
INVENTORIES	11.7	12.5
NET OPERATING LOSS CARRYFORWARDS	223.0	269.5
RESTRUCTURING AND RELATED RESERVES	9.4	10.2
EMPLOYEE BENEFITS	29.0	31.7
STATE AND LOCAL TAXES	13.1	12.8
SELF-INSURANCE	3.8	3.6
ADVERTISING, SALES DISCOUNTS AND RETURNS AND COUPON REDEMPTIONS	26.0	23.6
OTHER	26.2	23.9
TOTAL GROSS DEFERRED TAX ASSETS	345.5	391.7
LESS VALUATION ALLOWANCE	(299.7)	(347.3)
NET DEFERRED TAX ASSETS	45.8	44.4
DEFERRED TAX LIABILITIES:		
PLANT, EQUIPMENT AND OTHER ASSETS	(49.7)	(43.0)
INVENTORIES	(0.2)	(0.2)
OTHER	(4.5)	(7.2)
TOTAL GROSS DEFERRED TAX LIABILITIES	(54.4)	(50.4)
NET DEFERRED TAX LIABILITY	$ (8.6)	$ (6.0)

The valuation allowance for deferred tax assets at January 1, 1997 was $347.3. The valuation allowance decreased by $47.6 and $9.9 during the years ended December 31, 1997 and 1996, respectively, and increased by $19.2 during the year ended December 31, 1995.

During 1997, 1996 and 1995, certain of the Company's foreign subsidiaries used operating loss carryforwards to credit the current provision for income taxes by $4.0, $4.7 and $15.4, respectively. Certain other foreign operations generated losses during the years 1997, 1996 and 1995 for which the potential tax benefit was reduced by a valuation allowance. During 1997, the Company used domestic operating loss carryforwards to credit the current provision for income taxes by $16.2 and the deferred provision for income taxes by $12.0. At December 31, 1997, the Company had tax loss carryforwards of approximately $581.3 which expire in future years as follows: 1998-$21.1; 1999-$25.3; 2000-$9.3; 2001-$15.9; and beyond-$388.8; unlimited-$120.9. The Company will receive a benefit only to the extent it has taxable income during the carryforward periods in the applicable jurisdictions.

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 $18.7 at December 31, 1997, excluding those amounts which, if remitted in the near future, would not result in significant additional taxes under tax statutes currently in effect.

13. POSTRETIREMENT BENEFITS

PENSIONS:

The Company uses a September 30 date for measurement of plan obligations and assets.

The following tables reconcile the funded status of the Company's significant pension plans with the respective amounts recognized in the Consolidated Balance Sheets at the dates indicated:

	DECEMBER 31, 1997		
	OVERFUNDED PLANS	UNDERFUNDED PLANS	TOTAL
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATION:			
ACCUMULATED BENEFIT OBLIGATION AS OF SEPTEMBER 30, 1997, INCLUDES VESTED BENEFITS OF $304.5	$ (269.3)	$ (45.2)	$ (314.5)
PROJECTED BENEFIT OBLIGATION AS OF SEPTEMBER 30, 1997 FOR SERVICE RENDERED	$ (309.3)	$ (55.5)	$ (364.8)
FAIR VALUE OF PLAN ASSETS AS OF SEPTEMBER 30, 1997	305.0	1.9	306.9
PLAN ASSETS LESS THAN PROJECTED BENEFIT OBLIGATION	(4.3)	(53.6)	(57.9)
AMOUNTS CONTRIBUTED TO PLANS DURING FOURTH QUARTER 1997	0.3	0.6	0.9
UNRECOGNIZED NET (ASSETS) OBLIGATION	(1.3)	0.2	(1.1)
UNRECOGNIZED PRIOR SERVICE COST	6.5	3.2	9.7
UNRECOGNIZED NET LOSS	0.2	12.7	12.9
ADJUSTMENT TO RECOGNIZE ADDITIONAL MINIMUM LIABILITY	-	(6.5)	(6.5)
PREPAID (ACCRUED) PENSION COST	$ 1.4	$ (43.4)	$ (42.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES

	DECEMBER 31, 1996		
	OVERFUNDED PLANS	UNDERFUNDED PLANS	TOTAL
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATION:			
ACCUMULATED BENEFIT OBLIGATION AS OF SEPTEMBER 30, 1996, INCLUDES VESTED BENEFITS OF $286.9	$ (163.7)	$ (131.4)	$ (295.1)
PROJECTED BENEFIT OBLIGATION AS OF SEPTEMBER 30, 1996 FOR SERVICE RENDERED	$ (198.1)	$ (141.4)	$ (339.5)
FAIR VALUE OF PLAN ASSETS AS OF SEPTEMBER 30, 1996	173.3	81.6	254.9
PLAN ASSETS LESS THAN PROJECTED BENEFIT OBLIGATION	(24.8)	(59.8)	(84.6)
AMOUNTS CONTRIBUTED TO PLANS DURING FOURTH QUARTER 1996	0.2	0.5	0.7
UNRECOGNIZED NET (ASSETS) OBLIGATION	(1.5)	0.2	(1.3)
UNRECOGNIZED PRIOR SERVICE COST	5.2	3.9	9.1
UNRECOGNIZED NET LOSS	20.2	20.5	40.7
ADJUSTMENT TO RECOGNIZE ADDITIONAL MINIMUM LIABILITY	-	(15.3)	(15.3)
ACCRUED PENSION COST	$ (0.7)	$ (50.0)	$ (50.7)

The weighted average discount rate assumed was 7.75% for 1997 and 1996 for domestic plans. For foreign plans, the weighted average discount rate was 7.1% and 7.9% for 1997 and 1996, respectively. The rate of future compensation increases was 5.3% for 1997 and 1996 for domestic plans and was a weighted average of 5.3% and 5.1% for 1997 and 1996, respectively, for foreign plans. The expected long-term rate of return on assets was 9.0% for 1997 and 1996 for domestic plans and a weighted average of 10.1% for 1997 and 10.4% for 1996 for foreign plans.

Plan assets consist primarily of common stock, mutual funds and fixed income securities, which are stated at fair market value and cash equivalents which are stated at cost, which approximates fair market value.

In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions," the Company recorded an additional liability to the extent that, for certain U.S. plans, the unfunded accumulated benefit obligation exceeded recorded liabilities. At December 31, 1997, the additional liability was recognized by recording an intangible asset to the extent of unrecognized prior service costs of $1.0, a due from affiliates of $1.0 and a charge to stockholders' deficiency of $4.5. At December 31, 1996, the additional liability was recognized by recording an intangible asset to the extent of unrecognized prior service costs of $1.8, a due from affiliates of $1.1, and a charge to stockholders' deficiency of $12.4.

Net periodic pension cost for the pension plans consisted of the following components:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
SERVICE COST-BENEFITS EARNED DURING THE PERIOD	$ 11.7	$ 10.6	$ 8.2
INTEREST COST ON PROJECTED BENEFIT OBLIGATION	26.0	24.3	21.7
ACTUAL RETURN ON PLAN ASSETS	(55.8)	(30.4)	(27.3)
NET AMORTIZATION AND DEFERRALS	35.6	15.1	13.4
	17.5	19.6	16.0
PORTION ALLOCATED TO HOLDINGS	(0.3)	(0.3)	(0.3)
NET PERIODIC PENSION COST OF THE COMPANY	$ 17.2	$ 19.3	$ 15.7

A substantial portion of the Company's employees in the United States are covered by defined benefit retirement plans. To the extent that aggregate pension costs could be identified as relating to the Company or to Holdings, such costs have been so apportioned. The components of the net periodic pension cost applicable solely to the Company are not presented as it is not practical to segregate such information between Holdings and the Company. In 1997 and 1996, there was a settlement loss of $0.2 and $0.3, respectively, and a curtailment loss of $0.1 and $1.0, respectively, resulting from workforce reductions.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:

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. Net periodic postretirement benefit cost for each of the years ended December 31, 1997, 1996 and 1995 was $0.7 which consists primarily of interest on the accumulated postretirement benefit obligation. The Company's date of measurement of Plan obligations is September 30. At December 31, 1997 and 1996, the portion of accumulated benefit obligation attributable to retirees was $7.3 and $6.9, respectively, and to other fully eligible participants, $1.4 and $1.3, respectively. The amount of unrecognized gain at December 31, 1997 and 1996 was $1.9 and $1.2, respectively. At December 31, 1997 and 1996, the accrued postretirement benefit obligation recorded on the Company's Consolidated Balance Sheets was $10.6 and $9.4, respectively. Of these amounts, $1.9 and $2.0 was attributable to Holdings and was recorded as a receivable from affiliates at December 31, 1997 and 1996, respectively. The weighted average discount rate used in determining the accumulated postretirement benefit obligation at September 30, 1997 and 1996 was 7.75%.

14. STOCK COMPENSATION PLAN

At December 31, 1997 and 1996, Revlon, Inc. had a stock-based compensation plan (the "Plan"), which is described below. Revlon, Inc. applies APB Opinion No. 25 and related Interpretations 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 Revlon, Inc.'s Plan been determined consistent with SFAS No. 123, Revlon, Inc.'s net income and net income per diluted share for 1997 of $43.6 and $0.85, respectively, ($18.2 and $0.37, respectively, in 1996) would have been reduced to the pro forma amounts of $31.3 and $0.61 for 1997, respectively, ($15.0 and $0.30, respectively, in 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 39% in 1997 and 31% in 1996; weighted average risk-free interest rate of 6.54% in 1997 and 5.99% in 1996; and a seven year expected average life for the Plan's options issued in 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. other than for "cause," death or "disability" under the applicable employment agreement, such options will vest with respect to 25% of the shares subject thereto (if the termination is between the first and second anniversaries of the grant) and 50% of the shares subject thereto (if the termination is between the second and third anniversaries of the grant). Primarily all other option grants, including options granted to certain executive officers in 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 1997, the Company granted to Mr. Perelman, Chairman of the Executive Committee, an option to purchase 300,000 shares of Class A Common Stock, which will vest in full on the fifth anniversary of the grant date. At December 31, 1997 there were 98,450 options exercisable under the Plan. At December 31, 1996 there were no options exercisable under the Plan.

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

	SHARES (000)	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING AT 2/28/96	–	–
GRANTED	1,010.2	$ 24.37
EXERCISED	–	–
FORFEITED	(119.1)	24.00
OUTSTANDING AT 12/31/96	891.1	24.37
GRANTED	1,485.5	32.64
EXERCISED	(12.1)	24.00
FORFEITED	(85.1)	29.33
OUTSTANDING AT 12/31/97	2,279.4	29.57

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

The following table summarizes information about the Plan's options outstanding at December 31, 1997:

YEAR ENDED DECEMBER 31, 1997			
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING (000)	WEIGHTED AVERAGE YEARS REMAINING	WEIGHTED AVERAGE EXERCISE PRICE
$24.00 TO $29.88	817.9	8.17	$ 24.05
31.38 TO 33.88	1,067.8	9.02	31.40
34.88 TO 50.75	393.7	9.38	36.10
24.00 TO 50.75	2,279.4	8.78	29.57

15. 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 1997, 1996 and 1995 were $0.4, $1.4 and $4.0, 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 manufactures, markets, distributes, warehouses and administers, including the collection of accounts receivable, the Retained Brands for Holdings. Pursuant to the Operating Services Agreement, Products Corporation is 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 reimbursed by Holdings to Products Corporation for such direct and indirect costs for 1997, 1996 and 1995 were $1.4, $5.1 and $8.6, respectively. Holdings also pays Products Corporation a fee equal to 5% of the net sales of the Retained Brands, payable quarterly. The fees paid by Holdings to Products Corporation pursuant to the Operating Services Agreement for services with respect to the Retained Brands for 1997, 1996 and 1995 were approximately $0.3, $0.6 and $1.7, 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. In addition, in connection with certain insurance coverage provided by MacAndrews Holdings, Products Corporation obtained letters of credit under the Special LC Facility (which aggregated approximately $27.7 as of December 31, 1997) to support certain self-funded risks of MacAndrews Holdings and its affiliates, including the Company, associated with such insurance coverage. The costs of such letters of credit are allocated among, and paid by, the affiliates of MacAndrews Holdings, including the Company, which participate in the insurance coverage to which the letters of credit relate. The Company expects that these self-funded risks will be paid in the ordinary course and, therefore, it is unlikely that such letters of credit will be drawn upon. MacAndrews Holdings has agreed to indemnify Products Corporation to the extent amounts are drawn under any of such letters of credit with respect to claims for which neither Revlon, Inc. nor Products Corporation is responsible. The net amounts reimbursed by MacAndrews Holdings to the Company for the services provided under the Reimbursement Agreements for 1997, 1996 and 1995 were $4.0, $2.2 and $3.0, 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 12. 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. The amount of interest to be reimbursed by Holdings for 1994 was approximately $0.8 and was evidenced by noninterest-bearing promissory notes originally due and payable on June 30, 1995. In February 1995, the $13.3 in notes then payable by Holdings to Products Corporation under the Financing Reimbursement Agreement was offset against a $25.0 note payable by Products Corporation to Holdings and Holdings agreed not to demand payment under the resulting $11.7 note payable by Products Corporation so long as any indebtedness remained outstanding under the credit agreement then in effect. 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 1½% 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. The amount of interest to be reimbursed by Holdings for 1995 was approximately $4.2. 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 (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 partici-pate 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 leases 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 are 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 is 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 1997, 1996 and 1995 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. Products Corporation provides certain administrative services, including accounting, for Holdings with respect to the Edison facility pursuant to which Products Corporation pays on behalf of Holdings costs associated with the Edison facility and is reimbursed by Holdings for such costs, less the amount owed by Products Corporation to Holdings pursuant to the Edison Lease and the occupancy agreement. The net amount reimbursed by Holdings to Products Corporation for such costs with respect to the Edison facility for 1997, 1996 and 1995 was $0.7, $1.1 and $1.2, respectively.

During 1997, a subsidiary of Products Corporation sold an inactive subsidiary to an affiliate 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.

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 1997, 1996 and 1995; in Tokyo during 1996 and 1995 and in Hong Kong during 1997. The rent paid by MacAndrews & Forbes or its affiliates to Products Corporation for 1997, 1996 and 1995 was $3.8, $4.6 and $5.3, respectively.

In July 1995, Products Corporation borrowed from Holdings approximately $0.8, representing certain amounts received by Holdings relating to an arbitration arising out of the sale by Holdings of certain of its businesses. In 1995, Products Corporation borrowed from Holdings approximately $5.6, representing certain amounts received by Holdings from the sale by Holdings of certain of its businesses. 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.

The 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) a mortgage on Holdings' Edison, New Jersey 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, 1997, 1996 or 1995. 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 facility in effect at the time of such borrowing. The amount of interest paid by Products Corporation for such borrowings for 1997, 1996 and 1995 was $0.6, $0.5 and $1.2, respectively.

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 Executive Committee. 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 and 1995, 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 and $0.2 for 1996 and 1995, respectively.

During 1997, 1996 and 1995, Products Corporation used an airplane owned by a corporation of which Messrs. Gittis, Drapkin and, during 1995 and 1996, Levin were the sole stockholders, for which Products Corporation paid approximately $0.2, $0.2 and $0.4 for 1997, 1996 and 1995, respectively.

During 1997, Products Corporation purchased products from an affiliate, for which it paid approximately $0.9.

During 1997, Products Corporation provided licensing services to an affiliate, for which Products Corporation has been paid approximately $0.7.

An affiliate of the Company assembles lipstick cases for Products Corporation. Products Corporation paid approximately $0.9, $1.0 and $1.0 for such services for 1997, 1996 and 1995, respectively.

In January 1995, the Company agreed to license certain of its trademarks to a former affiliate of MacAndrews & Forbes. The amount paid to the Company pursuant to such license for 1995 was less than $0.1. The affiliate purchased $1.1 of wigs from the Company during 1995. The Company terminated the license with the affiliate during 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVLON, INC. AND SUBSIDIARIES

16. 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 $57.3, $51.7 and $49.3 for the years ended December 31, 1997, 1996 and 1995, respectively. Minimum rental commitments under all noncancelable leases, including those pertaining to idled facilities and the Edison research and development facility, with remaining lease terms in excess of one year from December 31, 1997 aggregated $201.1; such commitments for each of the five years subsequent to December 31, 1997 are $43.2, $39.8, $34.6, $29.3 and $26.7, respectively. Such amounts exclude the minimum rentals to be received in the future under noncancelable subleases of $4.2.

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.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

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

	YEAR ENDED DECEMBER 31, 1997			
	1ST QUARTER[b]	2ND QUARTER[b]	3RD QUARTER	4TH QUARTER
NET SALES	$ 492.9	$ 572.4	$ 623.5	$ 702.1
GROSS PROFIT	326.6	370.5	406.4	455.3
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM	(25.4)	9.4	33.1	41.4
NET (LOSS) INCOME	(25.4)	(5.5) [a]	33.1	41.4
BASIC (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM	$ (0.50)	$ 0.18	$ 0.65	$ 0.81
EXTRAORDINARY ITEM	-	(0.29)	-	-
NET (LOSS) INCOME PER COMMON SHARE	$ (0.50)	$ (0.11)	$ 0.65	$ 0.81
DILUTED (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM	$ (0.50)	$ 0.18	$ 0.64	$ 0.80
EXTRAORDINARY ITEM	-	(0.29)	-	-
NET (LOSS) INCOME PER COMMON SHARE	$ (0.50)	$ (0.11)	$ 0.64	$ 0.80

	YEAR ENDED DECEMBER 31, 1996 [b]			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
NET SALES	$ 464.8	$ 518.3	$ 571.7	$ 614.7
GROSS PROFIT	311.7	347.5	378.4	405.4
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM	(29.0)	1.5	21.0	31.3
NET (LOSS) INCOME	(35.6) [c]	1.5	21.0	31.3
BASIC (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM	$ (0.64)	$ 0.03	$ 0.41	$ 0.61
EXTRAORDINARY ITEM	(0.14)	-	-	-
NET (LOSS) INCOME PER COMMON SHARE	$ (0.78)	$ 0.03	$ 0.41	$ 0.61
DILUTED (LOSS) INCOME PER COMMON SHARE:				
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM	$ (0.64)	$ 0.03	$ 0.41	$ 0.61
EXTRAORDINARY ITEM	(0.14)	-	-	-
NET (LOSS) INCOME PER COMMON SHARE	$ (0.78)	$ 0.03	$ 0.41	$ 0.61

(a) Includes the extraordinary charges of $14.9 resulting from the write-off in the second quarter of 1997 of deferred financing costs associated with the early extinguishment of borrowings and the redemption of Products Corporation's Sinking Fund Debentures.

(b) 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.

(c) Includes an extraordinary charge of $6.6 resulting from the write-off of deferred financing costs associated with the early extinguishment of borrowings.

18. GEOGRAPHIC SEGMENTS

The Company manages its business on the basis of one reportable segment. See Note 1 for a brief description of the Company's business. As of December 31, 1997, 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 5.5%, 6.1% and 6.1% of the Company's net sales for 1997, 1996 and 1995, respectively. Net sales by geographic area are presented by attributing revenues from external customers on the basis of where the products are sold. During 1996, one customer and its affiliates accounted for approximately 10.1% of the Company's consolidated net sales. This data is presented in accordance with SFAS No.131, "Disclosures about Segments of an Enterprise and Related Information," which the Company has retroactively adopted for all periods presented.

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
GEOGRAPHIC AREAS			
NET SALES:			
UNITED STATES			
INTERNATIONAL	$ 1,452.5	$ 1,259.7	$ 1,115.4
	938.4	909.8	824.6
	$ 2,390.9	$ 2,169.5	$ 1,940.0

	AS OF DECEMBER 31,	
	1997	1996
LONG-LIVED ASSETS:		
UNITED STATES	$ 570.6	$ 555.0
INTERNATIONAL	280.5	245.9
	$ 851.1	$ 800.9

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
CLASSES OF SIMILAR PRODUCTS:			
NET SALES:			
COSMETICS, SKIN CARE AND FRAGRANCES	$ 1,408.3	$ 1,262.0	$ 1,080.5
PERSONAL CARE AND PROFESSIONAL	982.6	907.5	859.5
	$ 2,390.9	$ 2,169.5	$ 1,940.0

19. SUBSEQUENT EVENT (UNAUDITED)

On February 2, 1998, an affiliate of the Company, Revlon Escrow Corp., issued notes in the aggregate amount of $900.0 (the "Notes"). The net proceeds of $880 (net of discounts, fees and expenses) were deposited with an escrow agent and substantially all of such proceeds will be used to fund the redemptions by Products Corporation of its Senior Subordinated Notes and the Senior Notes, including prepayment premiums for early redemptions. Products Corporation will assume the obligations of Revlon Escrow Corp. under the Notes upon consummation of such redemptions. In connection with the early redemptions of the Senior Notes and Senior Subordinated Notes, the Company expects to record an extraordinary loss of up to $52 in 1998.

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, 1997 and 1996, and the related consolidated statements of operations, stockholders' deficiency and cash flows for each of the years in the three-year period ended December 31, 1997. 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, 1997 and 1996 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

New York, New York
January 23, 1998

KPMG Peat Marwick LLP

FIVE-YEAR FINANCIAL HIGHLIGHTS
REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31, 1997	1996	1995	1994	1993
STATEMENTS OF OPERATION DATA:					
NET SALES	$ 2,390.9	$ 2,169.5	$ 1,940.0	$ 1,736.7	$ 1,595.2
OPERATING INCOME	$ 213.3 [a]	$ 200.6	$ 145.6	$ 107.4	$ 50.5
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	$ 58.5	$ 24.8	$ (41.2)	$ (75.0)	$ (130.2)
EXTRAORDINARY ITEMS - EARLY EXTINGUISHMENTS OF DEBT	(14.9)	(6.6)	-	-	(9.5)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES	-	-	-	(28.8) [b]	(6.0) [c]
NET INCOME (LOSS)	$ 43.6	$ 18.2	$ (41.2)	$ (103.8)	$ (145.7)
BASIC INCOME (LOSS) PER COMMON SHARE:					
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	$ 1.14	$ 0.50	$ (0.97)	$ (1.76)	$ (3.07)
EXTRAORDINARY ITEMS	(0.29)	(0.13)	-	-	(0.22)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES	-	-	-	(0.68)	(0.14)
NET INCOME (LOSS) PER COMMON SHARE	$ 0.85	$ 0.37	$ (0.97)	$ (2.44)	$ (3.43)
DILUTED INCOME (LOSS) PER COMMON SHARE:					
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	$ 1.14	$ 0.50	$ (0.97)	$ (1.76)	$ (3.07)
EXTRAORDINARY ITEMS	(0.29)	(0.13)	-	-	(0.22)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES	-	-	-	(0.68)	(0.14)
NET INCOME (LOSS) PER COMMON SHARE	$ 0.85	$ 0.37	$ (0.97)	$ (2.44)	$ (3.43)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: [d]					
BASIC	51,131,440	49,687,500	42,500,000	42,500,000	42,500,000
DILUTIVE	51,544,318	49,818,792	42,500,000	42,500,000	42,500,000
EBITDA [e]	$ 318.0	$ 283.2	$ 223.0	$ 177.8	$ 119.5
BALANCE SHEET DATA:					
TOTAL ASSETS	$ 1,834.6	$ 1,621.9	$ 1,536.0	$ 1,419.4	$ 1,551.1
LONG-TERM DEBT, EXCLUDING CURRENT PORTION	1,458.7	1,352.2	1,467.5	1,327.5	1,203.8
TOTAL STOCKHOLDERS' DEFICIENCY	(458.5)	(497.1)	(702.3)	(656.2)	(554.2)

(a) In 1997, the Company incurred business consolidation costs and other, net, of approximately $7.6 in connection with the implementation of its business strategy to rationalize factory and warehouse operations, including primarily severance and other related costs in certain operations and the consolidation of certain warehouse, distribution and headquarter operations related to the Cosmetic Center Merger partially offset by a settlement of a claim of $12.7 and gains associated with the sale of certain facilities related to the rationalizations.

(b) Effective January 1, 1994, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The Company recognized a charge of $28.8 in the first quarter of 1994 to reflect the cumulative effect of the accounting change, net of income tax benefit.

(c) Effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its retiree benefit plan in the United States. Accordingly, the Company recognized a charge of $6.0 in the first quarter of 1993 to reflect the cumulative effect of the accounting change.

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

(e) EBITDA is defined as operating income before business consolidation costs and other, net plus depreciation and amortization other than that relating to early extinguishment of debt and debt issuance costs.

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EXECUTIVE VICE PRESIDENT, MARKETING

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EXECUTIVE VICE PRESIDENT,
ADVANCED TECHNOLOGY

The Cosmetic Center, Inc.

I. Howard Diener
PRESIDENT AND CHIEF EXECUTIVE OFFICER

SHAREHOLDER INFORMATION

REVLON, INC.

STOCK MARKET INFORMATION

Market for the Registrant's Class A 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 1997 and 1996.

	1997		1996	
QUARTER	HIGH	LOW	HIGH	LOW
First	42 3/8	29 5/8	28 1/4	25 1/2
Second	51 13/16	33 1/4	31 3/8	24 3/4
Third 54 1/8	45 3/8	31 1/8	23 1/2	
Fourth	49	33 1/8	36 1/2	28 5/8

As of the close of business on February 18, 1998 there were 525 holders of record of the Company's Common Stock. As of the close of business on February 18, 1998, the closing sale price as reported by the New York Stock Exchange for the Company's Class A Common Stock was $44 7/16 .

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 10 of Notes to the 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 Peat Marwick LLP
New York, New York

NOTICE OF ANNUAL MEETING

The annual meeting of shareholders will be held April 7,1998 at 10:00 a.m. at the Revlon Research Center, 2147 Route 27, Edison, New Jersey 08818

CORPORATE ADDRESS

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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:

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Visit our Web site at
www.revlon.com

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GLAMOUR **EXCITEMENT** INNOVATION

THIS ANNUAL WAS DESIGNED AND PRODUCED BY:
REVLON CREATIVE SERVICES

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PRODUCTION DIRECTOR DIANE ENGEL
CONSULTING DESIGNER ANGELICA ESCOTO

REVLON CORPORATE COMMUNICATIONS

EDITOR NANCY RISDON