REVLON

Annual Report 1996

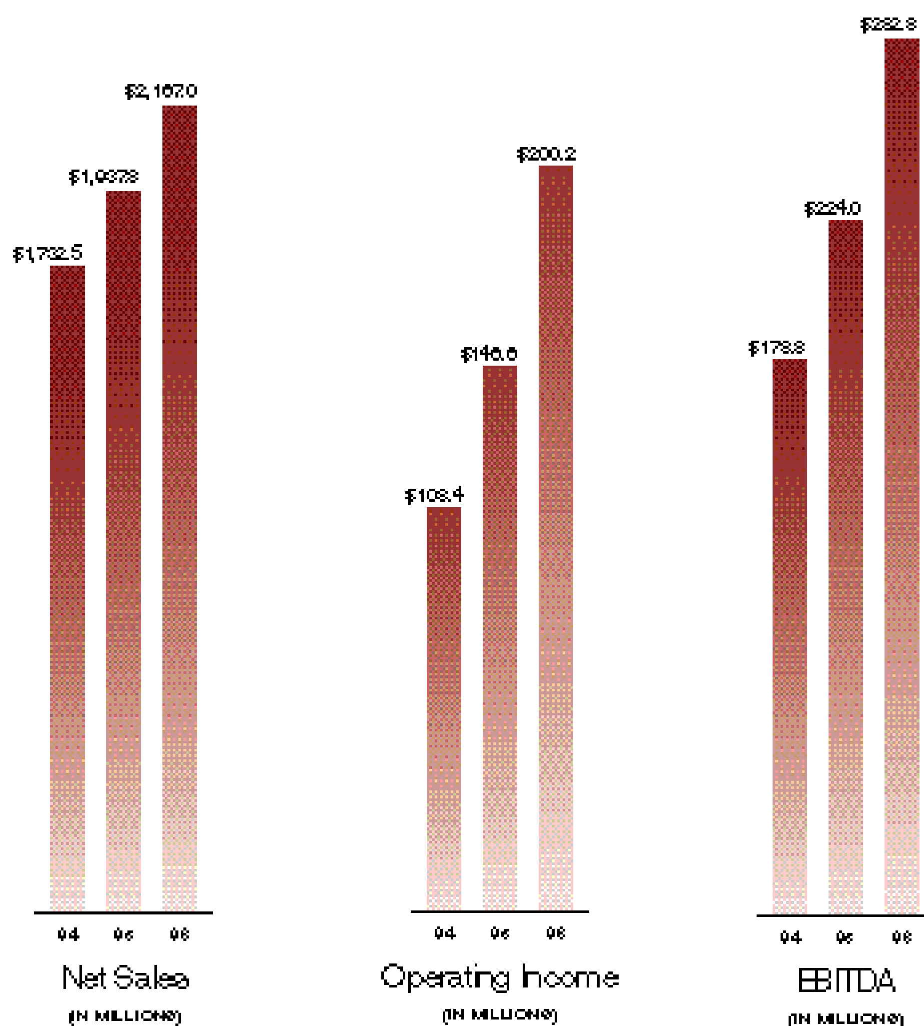
The Revlon Profile

Revlon is a world 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, Age Defying, Almay, Ultima II, Charlie and Flex.

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS UNDER THE CAPTIONS "LETTER TO SHAREHOLDERS," "A CONTINUOUS PURSUIT OF INNOVATION," "LEADING THE WAY IN THE MASS MARKET," "ON TOP OF THE WORLD," AND "FINANCIAL REVIEW - 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 NEW PRODUCTS AND INCREASE DISTRIBUTION; PLANS TO GROW THE BEAUTY CARE AND PROFESSIONAL PRODUCTS BUSINESS 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 REFINANCINGS. 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 STATEMENTS" FOR A FULL DESCRIPTION OF SUCH FACTORS.

Results-at-a-Glance

REVLON, INC.



	YEAR ENDED DECEMBER 31,		
(DOLLARS IN MILLIONS), EXCEPT PER SHARE DATA	**1996**	1995	1994
Net Sales	**$ 2167.0**	$ 1,937.8	$ 1,732.5
Operating income	**200.2**	146.6	108.4
EBITDA	**282.8**	224.0	178.8
Net income (loss)	**17.8**[b]	(40.2)	(102.8)[c]
Income (loss) per share	**$ 0.49**[b]	$ (0.95)	$ 2.42
Number of employees	**14,300**		

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

(b) Reflects an extraordinary charge of $6.6 million, or $.13 per share for the write-off of deferred financing costs in the first quarter of 1996.

(c) Effective January 1, 1994, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The Company recognized a charge of $28.8 million, or $.68 per share, in the first quarter of 1994 to reflect the cumulative effect of the accounting change, net of income tax benefit.

Welcome to Revlon

Jerry W. Levin

George Fellows

By every measure, it was an outstanding year. The focused, long-term business plan we instituted six years ago continues to yield excellent results and provides a solid platform for future growth.

Through a combination of innovation, disciplined management and enormous dedication from our employees, we have reestablished Revlon as a global leader in color cosmetics. Revlon today also is the industry's preeminent force in the development of advanced-technology products that meet the needs of consumers worldwide. Over the past four years, Revlon has revolutionized the entire industry, creating whole new categories of products and convincing consumers to change where they shop. In the process, we created new and valuable consumer brand franchises for Revlon, such as ColorStay and Age Defying. Today these brands, along with other color cosmetics in our classic Revlon line, are market leaders.

Our record financial performance in 1996 underscores these achievements. Net sales for the year totaled $2.17 billion, an 11.8% increase compared with $1.94 billion in 1995. Operating income rose 36.6% to $200.2 million, and EBITDA grew 26.3% to $282.8 million, both as compared with 1995 results. Income in 1996 was $.49 per share, or $24.4 million before an extraordinary charge of $6.6 million, or $.13 per share, for the write-off of deferred financing costs, compared to a net loss of $.95 per share, or $40.2 million the previous year.

Through the fourth quarter of 1996, we have recorded 13 consecutive quarters of growth in net sales, operating income and EBITDA compared with the same quarter in the prior year.

Among our most notable accomplishments during 1996:

- With winning products and distribution gains, the Revlon brand achieved the #1 dollar market share in the United States mass market color cosmetics category. Since 1993, the Company has increased its total U.S. dollar market share in this category from 21.2% to 27.6%.
- Internationally, we entered new markets, expanded mass market distribution and rolled out popular new products, which led to a 12.6% increase in international sales in local currencies. In September, we received government approval to manufacture, distribute and market Revlon products in China. The first products rolled off the production lines in December.
- We continued to increase operating efficiency and maximize our use of working capital companywide. Our operating income margin improved from 7.5% in 1995 to 9.2% in 1996 due to operating efficiencies and general administration enhancements, all achieved while increasing consumer advertising and promotion investment by 17.3% compared to 1995.

Effective January 30, 1997 George Fellows was elected Chief Executive Officer, an appointment well deserved as a result of his extraordinary contributions to Revlon. I'm confident that with his leadership Revlon will continue to achieve outstanding results.

Jerry W. Levin

CHAIRMAN

- On February 29, we raised $188 million through a high-profile initial public offering of 8.625 million shares of Class A common shares listed on the New York Stock Exchange. The IPO strengthened our financial position and allows for stock ownership by our employees.
- We increased our commitment to women's health programs and other important community concerns. These programs include such prominent events as the annual Revlon Run/Walk in Los Angeles, which has raised millions of dollars for the Revlon/UCLA Women's Cancer Research Program.

Significant opportunities for growth

Revlon's success has been the product of a consistent long-term strategy which will drive our business for years to come. One of the fundamental principles of this strategy is our commitment to developing proprietary, technologically advanced products that fill clearly identified needs among consumers.

In 1997, we plan to continue to expand our ColorStay and Age Defying franchises with a new generation of enhanced-performance products. In addition, we plan to increase our presence in the skin care market through the introduction of major new Almay- and Revlon-branded products. Scheduled to launch in the first quarter of 1997, our new Almay Time-Off Revitalizer will feature an exclusive, patented technology that visibly rejuvenates skin in a manner similar to a dermatologist approach.

Ultima II, our prestige brand of cosmetics, skin care and fragrance products, will benefit from increased distribution and promotional support. And StreetWear, Revlon's trendy new color cosmetics line which was a huge success when introduced in 1996, will be expanded.

We also plan to grow our personal care and professional products business by applying the same rigorous R&D methods we have used to build a leadership position in color cosmetics. Personal care new product development will continue to be a focus for 1997 with expected new product introductions in the second half of the year.

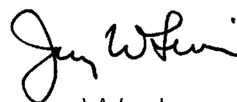
Across the board, we will also evaluate potential acquisition opportunities that complement our existing businesses and enable us to build our brand portfolio.

International markets, which accounted for 42% of our net sales in 1996, represent one of our largest opportunities for growth. We believe international sales will continue to grow as we expand distribution worldwide and leverage the benefits of globalizing our operations. Established markets, such as Europe and Japan, should lead this growth as we increase our penetration of mass market retail outlets with our glamorous self-selection merchandising displays. Eastern Europe, Russia, China and other emerging markets also offer significant potential as economic development in these regions increases consumer buying power and stimulates demand.

Building on our success

Perhaps our most distinctive achievement over the past several years has been the development of an outstanding team of professionals to manage our businesses and operations throughout the world. Their unique skill, creativity and dedication to building strong relationships with consumers and retail customers are the real driving force behind the "Revlon Revolution." We cannot thank our employees enough for their extraordinary contributions to our business. Nothing is more rewarding to us than watching employees develop and grow, and sharing the rewards of Revlon's success with them.

Looking ahead, we are moving from an era of transforming our organization to a new era of transforming the beauty industry. We believe our strategies are on target. Our business plan is sound. And our organization and resources are up to the challenge of expanding our leadership across a broader spectrum of products and markets. We are still at the beginning of a long and exciting journey, and we look forward to reporting our progress to you in the months and years ahead.



Jerry W. Levin

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

George Fellows

PRESIDENT AND CHIEF OPERATING OFFICER

Brands

REVLON

ALMAY

ULTIMA II

REGIONAL BRANDS

Cosmetics

REVLON
Revlon
ColorStay
Revlon Age Defying
Super Lustrous
Moon Drops
Velvet Touch
New Complexion
Touch & Glow
Lashful
Lengthwise
Naturally Glamorous
Custom Eyes
Softstroke Timeliner
StreetWear
Revlon Implements

ALMAY
Almay
Time-Off
Almay Clear Complexion
  Makeup
Amazing
One Coat

ULTIMA II
Ultima II
Wonderwear
The Nakeds

SIGNIFICANT REGIONAL BRANDS
Colorama[2]
Juvena[2]
Jeanne Gatineau[2]

Skin Care

REVLON
Moon Drops
Revlon Results
Eterna 27

ALMAY
Time-Off
Moisture Balance
Moisture Renew
Almay Clear Complexion
  Skin Care

ULTIMA II
Ultima II
Interactives
CHR

SIGNIFICANT REGIONAL BRANDS
Jeanne Gatineau[2]
Natural Honey

Fragrances

REVLON
Charlie
Charlie Red
Charlie White
Charlie Sunshine
Cherish
Fire & Ice
Fire & Ice Cool
Lasting
StreetWear Scents
Jontue
Ciara

ULTIMA II
Madly
UII

SIGNIFICANT REGIONAL BRANDS
Floid(2)
Versace(1)
Charlie Gold
La Perla(1)
Myrurgia(1)
Trussardi(1)

Personal Care

REVLON
Flex
Flex Balsam
Outrageous
Aquamarine
Mitchum
Lady Mitchum
Hi & Dri
Colorsilk
Frost & Glow
Revlon Shadings
Jean Naté
Roux Fanci-full
Realistic
Creme of Nature
Herba Rich
Fabu-laxer

ALMAY
Almay

SIGNIFICANT REGIONAL BRANDS
Bozzano(2)
Juvena(2)
Geniol(2)
Colorama(2)
Llongueras(2)
Bain de Soleil(2)
ZP-11

Professional

REVLON
Revlon Professional
Roux Fanci-full
Realistic
Creme of Nature
Arosci
Sensor Perm
Perfect Perm
Fermodyl
Perfect Touch
Salon Perfection
Revlonissimo
Voilà
True Cystem
Young Color
Creative Nail Design Systems
Contours
American Crew
R Pro

SIGNIFICANT REGIONAL BRANDS
Colomer(2)
Intercosmo(2)
Personal Bio Point
Natural Wonder
Llongueras(2)

(1) License held for distribution in certain countries outside the United States.
(2) Trademark owned in certain markets outside the United States.

A Continuous Pursuit of Innovation

"What if...?" That's the question that motivates people at Revlon. Through the continuous pursuit of innovation, we have launched a new generation of color cosmetics that combine high technology and high fashion to meet the changing needs of consumers worldwide. To build on this success, we are applying the same intensive effort to our broad line of consumer and professional products.

Consumers drive our new product development efforts. Through interviews and other market research, we are constantly listening to what's on consumers' minds, seeking insights into their real desires, and probing for new opportunities. Working collaboratively, our marketing, sales, R&D and operations teams identify and evaluate those opportunities with the greatest market potential.

Based on this research, we create product concepts with a unique consumer appeal. And, through our Revlon Research Center, we pursue advanced, proprietary technologies to bring them to market. Our intimate knowledge of color and fashion plays an important role in the development of new cosmetics products, enabling us to create complementary eye, face, lip and nail colors that are tuned into global fashion trends and consumer needs.

"Innovation is sustainable. It's a continuous process that starts by listening to consumers and having the desire to fulfill their needs. Innovative product ideas are the fusion of information, imagination and technology. Combine these, and you've got a winner."

M. Katherine Dwyer

PRESIDENT, REVLON COSMETICS USA

New brand franchises. The development of ColorStay LipColor is a good example of how the process works. Talking to women worldwide, we heard the same challenge: "Can't you invent a lipstick that won't rub off, so I don't have to keep applying it all day?" Through the development of a unique, patented polymer, we pioneered the first "won't rub off, won't kiss off"

lipstick in 1993 under the Ultima II LipSexxxy brand. It was so well received, we decided to broaden its distribution and introduced it to the mass market in 1994 as Revlon ColorStay. ColorStay quickly became the best-selling brand in the U.S. mass market. Each year since then, we have introduced successful new ColorStay Collection products for face, eyes and cheeks using similar transfer-resistant technologies.

The result: an entirely new category of long-lasting cosmetics that reenergized the market and dramatically increased sales. The ColorStay Collection has quickly become one of the industry's top mass-market color cosmetics franchises. The launch and roll-out of our Age Defying Collection — the product of a U.S.-patented technology which conceals fine facial lines without drying or settling into skin — followed a similar path, and today, all new Revlon concepts are developed with an eye toward building a broad franchise of related products.

Expanding our leadership. The enthusiastic response to our new color cosmetic collections reinforces a principle that guides all of our efforts: Consumers desire more than glamour and beauty; they want products that provide real benefits and performance. Over the next several years, we plan to introduce new products that meet the standard across all our business lines, including revolutionary skin and hair care products, hair coloring, personal care products and fragrances.

"We're as tough to satisfy as our consumers are. We constantly ask ourselves: 'Is this what our consumers really want or what we think they should have?' 'Isn't there a better solution?' We are always seeking new technological innovations."

Harvey Gedeon

EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, REVLON RESEARCH CENTER

ALMAY
TIME-OFF
Revitalizer
Daily
Solution
ALMAY
TIME-OFF
Revitalizer
REVLON
AGE
DEFYING
MAKEUP

Leading the Way in the Mass Market

The retail cosmetic industry is changing. Department and specialty stores staffed by product demonstrators once dominated the U.S. market. Today, growing numbers of women prefer the convenience and value of shopping at drug stores, mass volume retailers and supermarkets, where they can purchase products without the assistance of a beauty advisor.

Revlon has not just responded to this trend, we are driving it. The majority of our U.S. sales, and a growing portion of our sales worldwide, were generated through distribution channels without beauty advisors in 1996. Through innovative product development and marketing, we have consistently increased our total share of U.S. mass-market color cosmetics sales — from 21.2% in 1993 to 27.6% in 1996. During this same period, the Revlon brand rose from the #3 to the #1 brand in the category.

Connecting with consumers. Achieving these results has required a highly coordinated campaign to communicate directly with consumers. Television and print ads create excitement and educate consumers about our products. Merchandise displays and point-of-sale marketing materials provide "how-to" advice, taking the place of in-store demonstrators. Product testers, "shade samplers" and other promotions invite women to experience our products, stimulating increased trial and impulse purchases. Since 1993, we have increased advertising and consumer promotion spending by a compounded annual growth rate of 20% a year, and we plan to continue to make a significant investment to support our growth.

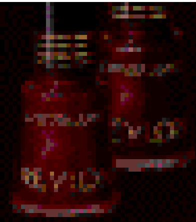
"To succeed in the competitive mass market, you have to create a commotion—not only with your products, but around your products!"

Tanya Mandor

EXECUTIVE VICE PRESIDENT,
REVLON COSMETICS USA

To strengthen our market leadership, we also worked closely with retailers to increase category sales. Recently, these efforts have included installing new systems to simplify order processing and improve inventory management. As a result, we believe we have built some of the strongest retail relationships in the industry.

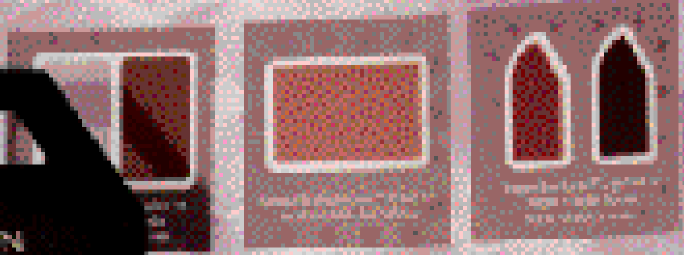
THE REVLON REPORT SAYS:
very
currant



NEW
Revlon ColorStay™ Makeup
WON'T RUB OFF! 不脫色

REVLON

THE REVLON REPORT SAYS:
VIRTUAL
VIOLET



On Top of the World

Revlon is one of the strongest brand franchises in the world. Our cosmetics, fragrances, skincare, personal care and professional products are sold in approximately 175 countries and territories. International sales represented 42% of our net sales in 1996. Still, we have only begun to realize our potential. By "globalizing" our business strategy and implementation, and expanding distribution, we believe we can accelerate our growth.

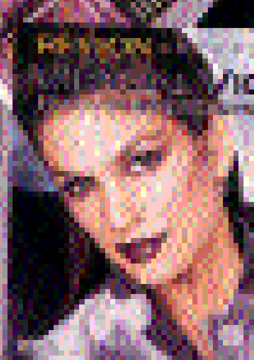
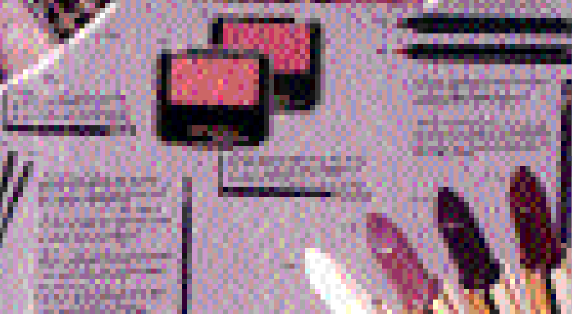
Globalization isn't a corporate buzzword for selling products outside of the United States. It is a strategy of managing our business based on worldwide opportunities, resources and consumer needs. For example, we design global brands with a distinctive but uniform image, while allowing sufficient flexibility to tailor products to local and regional preferences. Then we market these brands around the world using consistent packaging, in-store merchandising and advertising. This disciplined strategy enables us to transfer successful concepts from one market to another to build global franchises. Applying this strategy, our ColorStay Collection, which originated in the U.S., has now been rolled out successfully in more than 100 countries.

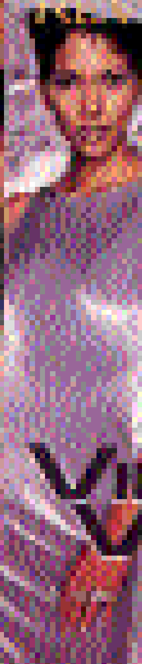
Over the past several years, we have expanded mass-market distribution internationally, enabling us to leverage our merchandising and promotion expertise. One example: The "Revlon Report," our popular consumer guide to new fashions, color trends and Revlon products, is now distributed free in 30 countries, and published in 16 languages. By coordinating our marketing efforts in this way, we are well positioned to take advantage of the global shift to mass-market retailing. We plan to continue to expand our distribution in established and new markets, including Eastern

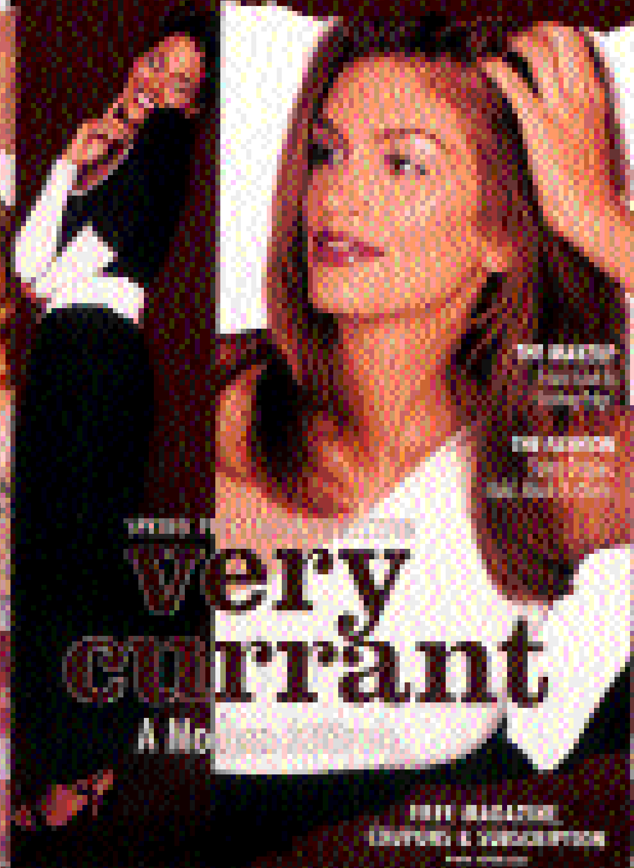
"Globalization is a dynamic idea-sharing process that enables us to leverage the best ideas and practices of Revlon businesses all over the world."

Alex Kumar

PRESIDENT, INTERNATIONAL
REVLON CONSUMER PRODUCTS

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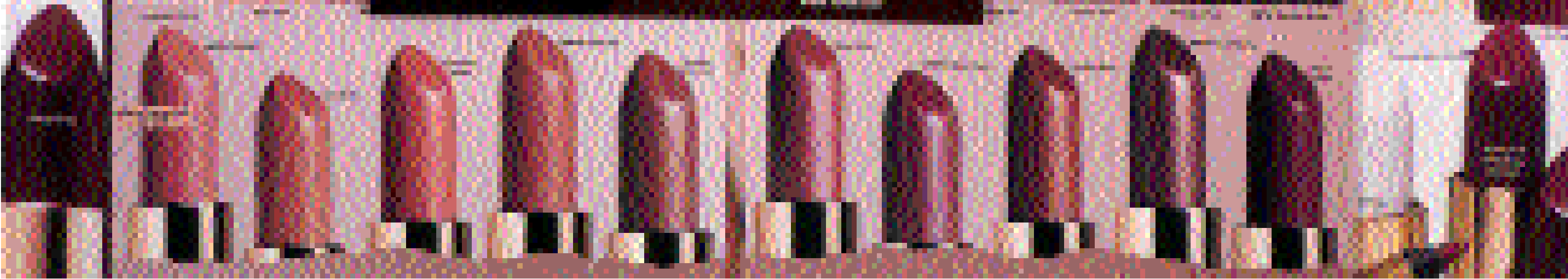


Europe, Russia and India, as well as China, where we opened manufacturing and distribution facilities in 1996 and hope to establish a solid base in years ahead.

In Europe and Japan, our focus is on the rapidly expanding self-select distribution channel, as drug stores and mass volume retailers become more popular with consumers. In other parts of the world, like Latin America, regional brands play an important role in our business. For example, in Brazil, the Colorama brand of toiletries and cosmetics accounts for a major share of a rapidly growing market. In South Africa, where Revlon is the leading cosmetics brand, the Company also markets products exclusive to that region. By leveraging our strength in South Africa, we plan to increase our presence in other African countries. In virtually every part of the world, Revlon brings consumers beauty products that meet their specific needs.

Enhanced use of capital. Globalization has also improved our operating efficiency and asset utilization worldwide. By rationalizing our manufacturing operations, we have been able to centralize the production and distribution of our products into core regions, and reduce the number of primary production sites. Additionally, through global procurement and rigorous process controls, we have decreased our cost of raw materials, packaging supplies and components.

"By globalizing our operations, we can move faster and more efficiently, reducing the time and expense required to respond to new market opportunities."

Elias Hebeka

EXECUTIVE VICE PRESIDENT, OPERATIONS WORLDWIDE

These initiatives have not only increased our productivity, they have helped us enhance product quality and improve customer service to retail stores. Through planned investments in new equipment, processes and technologies we intend to build upon these improvements and increase our manufacturing efficiency to meet the growing demand for our products worldwide.

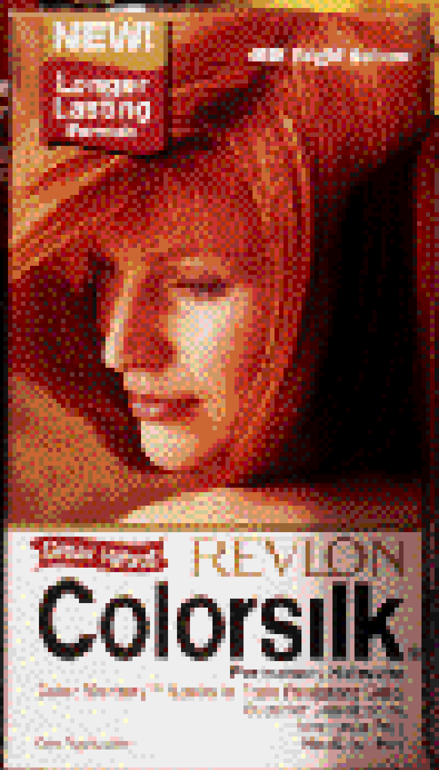
SHAMPOO
Clásico
coloroma

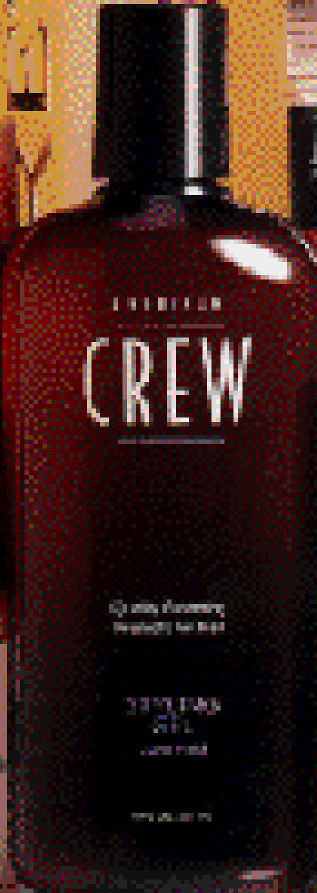
OUTRAGEOUS

OUTRAGEOU

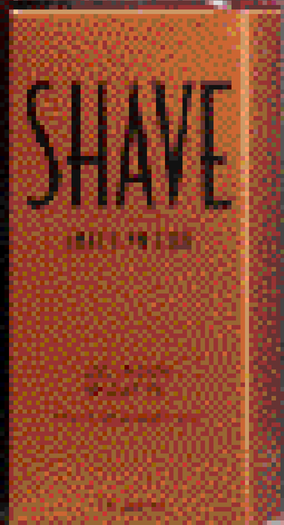
CREME
NATUR

FLEX


NEW!
Longer
Lasting
REVLON
Colorsilk


CREW

Mitchum
CLEAR GEL


SHAVE

Cultivating a Culture of Success

Our company has always been extremely intuitive and creative, a global fashion leader. Today, we also have the vision, marketing savvy and discipline of a well-run packaged goods firm. This combination distinguishes us in the industry.

Our working environment is fast-moving, action-oriented and thrives on challenge. We champion collaboration and team management. Professionals from throughout our company — R&D, operations, marketing, sales, advertising and other departments — work in cross-functional teams to achieve our common goals. Employees are encouraged to speak out and make their opinions heard.

We are a company that excels at both innovation and execution; an organization with a strong foundation for growth. Our focus as marketers is to create new products that excite the market and build consumer brand loyalty. Our responsibility as managers is to increase shareholder value, foster respect for all individuals and uphold the highest standards of corporate integrity.

How did we do it? We began six years ago by recruiting a strong multi-disciplinary team of experienced managers dedicated to achieving beauty industry leadership. At the same time we developed our Vision — Glamour * Excitement * Innovation — which helped us become an organization of creative, hardworking professionals who share that goal. We created the Revlon Learning Center,ww designed training programs that communicate our Strategic Principles and set in place our core values of respect for the individual and the integrity of the firm.

These programs are working, and our organization will only grow stronger and more efficient with experience. With all of our people focused on the same business objectives, and in tune with each other's needs and capabilities, we believe our most significant growth opportunities still lie ahead of us.

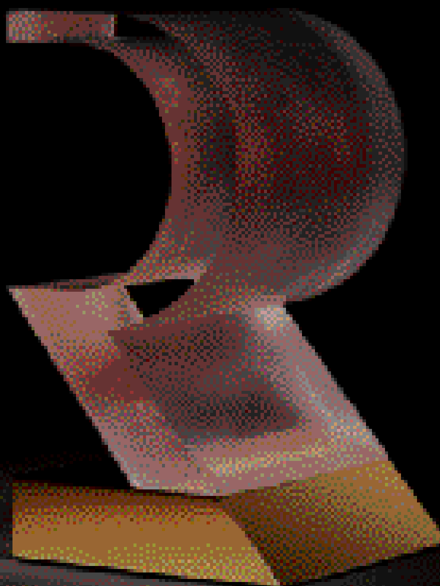
"We are focused on enhancing shareholder value; our employees have thoroughly embraced the Company's strategy and have clear incentives to improve performance."

William J. Fox

SENIOR EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER

Charlie Award Winners

THE CHARLIE AWARDS WERE ESTABLISHED IN 1994 TO RECOGNIZE EMPLOYEES, IN TEAMS OR AS INDIVIDUALS, WHOSE EXCEPTIONAL CREATIVE ACCOMPLISHMENTS HAVE HAD A SIGNIFICANT IMPACT ON BUSINESS.



1994

LIPSEXXXY LAB TEAM
Sal Barone
Joseph Calello
Antoinetta Corrigan
Bertha Donegan
Harvey Gedeon
Ann Krog
Renee Ordino

LIPSEXXXY MARKETING TEAM
Ira Applebaum
Kathy Hagan
Richard Jonas
Tanya Mandor
Marion Roland
James Schultz
Diana Yoder

ABSOLUTES EUROPEAN MARKETING
Jacques Poret

INDIVIDUAL AWARD
Poucette Doublet

1995

NORTH AMERICAN OPERATING GROUP
Gary Boylan
Bill Conover
Mike Edie
Elias Hebeka
David Hoenig
Jerry Pelosi
Mike Radice
Nick Sileo

MICROCONTROL TEAM
David Blumenthal
Steve Bordes
Bonnie Bowden
Don Bryant
Ben Cacace
Sylvie Cenee
Don Eng
Larry Kreider
Harry Meeker
Ariceli Nael
Brian O'Loughlin
Mike Robertson

1996

INDIVIDUAL AWARDS
Gilberto de Andrade
Lace Brandao
Kathy Dwyer
Isaura Garcia
Joe Porcelli
Melanie Smigel

IPO TEAM
Steven Berns
AnnaMarie DellaFave
Don Eng
Annette Esposito
Deena Fishman
Brian Meyer
Tim Irwin
Larry Kreider
Bob Kretzman
Paul Nickl
Bruce Prashker
Marc Shiffman

WAL-MART TEAM
Diana Brenna
Mike DeVivo
Fred Duffner
Mike Edie
Stew Fernandez
Vic Gaudet
Jack Hall
Mark Herron
Susan Lee
Tanya Mandor
Jerry Pelosi
Evangeline Sarafoglou
Grace Tallon
Terry Wiggin

COLORSTAY COLLECTION TEAM
Mike Arecchi
Bill Boraczek
Ken Cavenaugh
Cindy Cirlin
Jamie Cygielman
Stew Fernandez
Steve Gebb
Kathy Hagan
Gar Litton
Tanya Mandor
Dave Maurer
Paola Pistello-Jones
Jim Radler
Bobbie Rhoades
Toni Riggi
Julio Russ
Elizabeth Sammons
Ida Sandewicz
Elaine Sheng
Richard Tassone
Robert Werner

INDIVIDUAL AWARDS
Stan Dessen
Harvey Gedeon

Financial Information

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Management's Discussion and Analysis of Financial Condition and Results of Operations

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)

Overview

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 outlet stores and has a licensing group.

To reflect the integration of management reporting responsibilities culminating in the third quarter of 1996, 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. The Company previously presented its business as the Consumer Group, which comprised the Company's consumer products operations throughout the world (except principally Spain, Portugal and Italy) and professional products operations in certain markets, principally in South Africa and Argentina, and the Professional Group, which comprised the Company's professional products operations throughout the world (except principally South Africa and Argentina) and consumer products operations in Spain, Portugal and Italy. The Company has restated the management's discussion and analysis data for prior periods to conform to the presentation for 1996.

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,		
	1996	1995	1994
Net sales:			
United States	**$ 1,257.2**	$ 1,113.2	$ 983.2
International	**909.8**	824.6	749.3
	$ 2,167.0	$ 1,937.8	$ 1,732.5

The following sets forth certain statements of operations data as a percentage of net sales:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Cost of sales	**33.5%**	33.7%	34.5%
Gross profit	**66.5**	66.3	65.5
Selling, general and administrative expenses	**57.3**	58.8	59.3
Operating income	**9.2**	7.5	6.2

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

Net sales

Net sales were $2,167.0 and $1,937.8 for 1996 and 1995, respectively, an increase of $229.2, 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 $1,257.2 for 1996 from $1,113.2 for 1995, an increase of $144.0, 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-branded cosmetics in the color cosmetics business in the United States self-select distribution channel to 21.5% for 1996 from 19.8% 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. The International operation's sales are 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. Additionally, Mexico will be considered a hyperinflationary economy beginning in 1997. 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. 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. The aforementioned increases in sales that negatively impacted cost of sales were, however, more profitable to the Company's overall operating results.

Selling, general and administrative ("SG&A") expenses

As a percentage of net sales, SG&A expenses were 57.3% for 1996, an improvement from 58.8% for 1995. SG&A expenses other than advertising expense, 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. In accordance with its business strategy, the Company increased advertising and consumer-directed promotion 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 expense increased by 17.3% to $355.2, or 16.4% of net sales, for 1996 compared to $302.7, or 15.6% of net sales, for 1995.

Operating income

As a result of the foregoing, operating income increased by $53.6, or 36.6%, to $200.2 for 1996 from $146.6 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 Credit Agreement and under the Former Credit Agreement with the use of proceeds from the Company's Initial Public Offering in the 1996 period (the "Offering") and lower interest rates under the Credit Agreement than under the Former 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 extinguishment of the Former Credit Agreement prior to its maturity with the net proceeds from the Offering and borrowings under the Credit Agreement.

Year ended December 31, 1995 compared with year ended December 31, 1994

Net sales

Net sales were $1,937.8 and $1,732.5 for 1995 and 1994, respectively, an increase of $205.3, or 11.8%, primarily as a result of successful new product introductions worldwide, increased demand in the United States, increased distribution internationally into the expanding self-select distribution channel, the development of new international markets and a weaker U.S. dollar versus most foreign currencies.

United States. The United States operation's net sales increased to $1,113.2 for 1995 from $983.2 for 1994, an increase of $130.0, or 13.2%. Net sales improved primarily as a result of continued consumer acceptance of new product offerings and general improvement in consumer demand for the Company's color cosmetics in the United States, contributing to the Company's improved share of the color cosmetics business in the United States

self-select distribution channel, as well as increased net sales at the retail outlet stores. New product introductions (including, in 1995, certain products launched during 1994) generated incremental net sales in 1995, principally as a result of the June 1994 launch of **ColorStay** lipcolor, the 1994 first quarter launch of **Revlon Age Defying** makeup, the 1995 second and third quarter launches of **ColorStay** lip makeup line extensions and eye and face makeup, respectively, which are part of the **ColorStay** collection, the 1995 second quarter launches of **Revlon Age Defying** line extensions, **Charlie White** fragrance and **Almay Clear Complexion** makeup, and the 1995 third quarter launches of **Almay Time-Off** line extensions and **Lasting** fragrance.

International. The International operation's net sales increased to $824.6 for 1995 from $749.3 for 1994, an increase of $75.3, or 10.0%. Net sales improved principally as a result of successful new product introductions, increased distribution into the expanding self-select distribution channel, the development of new international markets and the favorable effect on sales of a weaker U.S. dollar versus most foreign currencies, partially offset by lower unit volume in Mexico and Argentina resulting from recessionary conditions. Net sales were also favorably affected by the continued roll-out of **ColorStay** lipcolor, **Revlon Age Defying** makeup and **Charlie White** fragrance into various international markets, the continued expansion during the third quarter of 1994 of the **Almay** cosmetics line outside the United States and the expansion during the third quarter of 1994 of the **Charlie Red** fragrance outside the United States. Introduction of the **ColorStay** cosmetics collection began in the fourth quarter of 1995 and continued in the first part of 1996. The International operation's sales are divided into the following geographic areas: Europe, which is comprised of Europe, the Middle East and Africa (in which net sales increased to $374.6 for 1995 from $334.8 for 1994, an increase of $39.8, or 11.9%); the Western Hemisphere, which is comprised of Canada, Mexico, Central America, South America and Puerto Rico (in which net sales increased to $275.4 for 1995 from $269.7 for 1994, an increase of $5.7, or 2.1%); and the Far East (in which net sales increased to $174.6 for 1995 from $144.8 for 1994, an increase of $29.8, or 20.6%).

The Company's operations in Brazil and Mexico have been subject to significant political and economic uncertainties. Operations in Brazil were significantly improved for 1995 over 1994 primarily as a result of higher unit volume in the first half of 1995. Unit volume in the second half of 1995 declined from the unit volume for the second half of 1994 due to the strong unit volume in the second half of 1994 as a result of the Brazilian government's July 1, 1994 introduction of a new economic and monetary policy, which resulted in increased consumer purchasing. In Brazil, net sales, operating income and income before taxes were $118.6, $22.8 and $19.8, respectively, for 1995 compared with $108.1, $29.5 and $14.9, respectively, for 1994. However, net sales and operating income for 1994 benefited from the hyperinflationary pricing component included in these accounts until the Brazilian government's July 1, 1994 introduction of a new economic and monetary policy and related issuance of a new currency, which significantly reduced inflation. The Company's income before taxes and cash flow from operations in Brazil for 1994 were not affected to the same extent as operating income because of a corresponding charge in the foreign currency translation account. In Mexico, net sales and operating income were $20.5 and $1.6, respectively, for 1995 compared with $31.1 and $3.2, respectively, for 1994. While the December 1994 devaluation of the Mexican peso did not have a significant adverse effect on 1994 operating results in Mexico, 1995 operating results in Mexico were, and future operating results may continue to be, adversely affected by this devaluation and other factors such as decreases in unit volume, limitations on price increases and higher relative costs of products sourced outside of Mexico. The Company has taken measures to mitigate the effect of these conditions by increasing prices in line with inflation, where possible, and efficiently managing its working capital levels.

Cost of sales

As a percentage of net sales, cost of sales was 33.7% for 1995, an improvement from 34.5% for 1994. This improvement resulted from the benefits on overhead absorption of higher production volumes allocated over a fixed manufacturing base, and globalization benefits such as more efficient production and purchasing performance in 1995 compared with 1994, partially offset by changes in the product mix involving increases in 1995 compared to 1994 in sales of lower margin products sold in Brazil and by the Company's retail outlet stores. The first half of 1994 included the benefit of the inflationary component of pricing in Brazil, partially offset by the adverse impact of higher transition costs associated with factory consolidations charged to cost of sales for inventory produced in 1993 and sold during 1994.

Selling, general and administrative expenses

As a percentage of net sales, SG&A expenses were 58.8% for 1995 and 59.3% for 1994. SG&A expenses, other than advertising expense, as a percentage of net sales improved to 43.2% for 1995 compared with 45.4% for 1994, primarily as a result of reduced general and administrative expenses and improved productivity in 1995 compared with 1994, partially offset by higher European regional headquarters expenses and severance costs in 1995. The Company increased advertising and consumer directed promotion during 1995 compared with 1994, principally in the United States and Europe, to support growth in existing product lines, new product launches and increased distribution in the self-select distribution channel in Europe in 1995. Advertising expense increased by 26.2% to $302.7, or 15.6% of net sales, for 1995 from $239.9, or 13.8% of net sales, for 1994.

Operating income

As a result of the foregoing, operating income increased by $38.2, or 35.2%, to $146.6 for 1995 from $108.4 for 1994.

Other expenses/income

Interest expense was $142.6 for 1995 and $136.7 for 1994, an increase of $5.9, or 4.3%. The increase in 1995 was due to higher outstanding borrowings under the Company's credit facilities.

Foreign currency losses, net, were $10.9 for 1995 and $18.2 for 1994. Results improved in 1995 primarily as a result of reduced inflation associated with the Brazilian government's July 1, 1994 introduction of a new economic and monetary policy and related issuance of a new currency and the January 1995 repayment of approximately $26.9 under the Company's Japanese yen-denominated credit agreement (the "Yen Credit Agreement"), partially offset by the adverse effect of currency devaluation in Venezuela primarily in the fourth quarter of 1995.

Provision for income taxes

The provision for income taxes was $25.4 and $22.8 for 1995 and 1994, respectively. The increase in the provision for income taxes was primarily attributable to higher taxable earnings of certain foreign operations.

Financial Condition, Liquidity and Capital Resources

Net cash used for operating activities was $10.1, $51.7 and $1.1 for 1996, 1995 and 1994, respectively. 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. The increase in net cash used for operating activities

for 1995 compared with 1994 resulted primarily from an increase in inventories associated with expected sales volume, higher trade receivable balances, increased spending on merchandise display units in connection with the Company's continued expansion into the self-select distribution channel and higher income taxes paid, net of refunds, offset in part by higher operating income, lower restructuring payments ($24.2 for 1995 compared with $37.2 for 1994) and lower severance payments.

Net cash used for investing activities was $65.1, $72.5 and $51.0 for 1996, 1995 and 1994, respectively. Net cash used for investing activities for 1996, 1995 and 1994 consisted primarily of capital expenditures and in 1996 and 1995 included $7.1 and $21.2, respectively, used for acquisitions. The Company's capital expenditures for 1996, 1995 and 1994 were $58.0, $54.3 and $52.5, respectively. The increase in capital expenditures through 1996 was primarily attributable to significant information system enhancements in accordance with the Company's business strategy.

Net cash provided by (used for) financing activities was $78.4, $125.2 and $(49.0) for 1996, 1995 and 1994, respectively. Net cash provided by financing activities for 1996 included the net proceeds from the Offering, cash drawn under the Former Credit Agreement and under the Credit Agreement, partially offset by the repayment of borrowings under the Former Credit Agreement, the payment of fees and expenses related to the Credit Agreement and repayment of approximately $5.2 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 at that time and borrowings under the Former Credit Agreement, partially offset by repayments of cash drawn under those credit agreements, repayment of $26.9 under the Yen Credit Agreement and payment of debt issuance costs under the Former Credit Agreement. Net cash used for financing activities for 1994 consisted primarily of repayments of borrowings under the credit agreement of Products Corporation in effect at that time and a repayment of $12.0 under the Yen Credit Agreement.

In February 1995, Products Corporation entered into the Former Credit Agreement, which provided up to $500.0 comprised of three senior secured facilities: a $100.0 term loan facility, a $225.0 revolving credit facility and a $175.0 multi-currency facility. Borrowings under the Former Credit Agreement were used to refinance Products Corporation's previous $150.0 credit agreement, refinance then existing lines of credit outside of the United States and refinance approximately $26.9 paid under the Yen Credit Agreement in January 1995. The Former Credit Agreement was scheduled to terminate on June 30, 1997. The net proceeds of $187.8 from the Offering were contributed to Products Corporation and were used to repay borrowings under the Former Credit Agreement and to pay fees and expenses related to the Credit Agreement.

In January 1996, Products Corporation entered into the Credit Agreement, which became effective upon consummation of the Offering on March 5, 1996. The Credit Agreement provides, among other things, (i) an extension of the term of the facilities from June 30, 1997 to December 31, 2000, subject to earlier termination in certain circumstances, (ii) a reduction of the interest rates, (iii) an increase in the aggregate amount of the credit facilities from $500.0 to $600.0 and (iv) the release of security interests in assets of certain foreign subsidiaries of Products Corporation which were then pledged. The Credit Agreement is 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 special standby letter of credit facility. As of December 31, 1996, Products Corporation had approximately $130.0 outstanding under the term loan facility, $57.2 outstanding under the multi-currency facility, nothing outstanding under the revolving acquisition facility and $33.5 outstanding under the special standby letter of credit facility. In January, 1997, the Credit Agreement was amended to, among other things, permit the merger of Prestige Fragrance & Cosmetics, Inc., a subsidiary of the Company, into The Cosmetic Center, Inc. and to generally exclude The Cosmetic Center, Inc. (as the survivor of the merger) from the definition of "subsidiary" under the Credit Agreement. See Note 7(a) to the Consolidated Financial Statements.

A subsidiary of Products Corporation is the borrower under the Yen Credit Agreement, which had a principal balance of approximately ¥4.8 billion as of December 31, 1996 (approximately $41.7 U.S. dollar equivalent as of December 31, 1996). In accordance with the terms of the Yen Credit Agreement, approximately ¥2.7 billion (approximately $26.9 U.S. dollar equivalent) was paid in January 1995 and approximately ¥539 million (approximately $5.2 U.S. dollar equivalent) was paid in January 1996. A payment of approximately ¥539 million (approximately $4.6 U.S. dollar equivalent as of December 31, 1996) was paid in January 1997 and the balance of the Yen Credit Agreement of approximately ¥4.3 billion (approximately $37.1 U.S. dollar equivalent as of December 31, 1996) is currently due on December 31, 1997. The Company is currently renegotiating an extension of the 0terms of the Yen Credit Agreement. In the event that such extension is not obtained, the Company is able and intends to refinance the Yen Credit Agreement under existing long-term credit facilities. Accordingly, the Company's obligation under the Yen Credit Agreement has been classified as long-term as of December 31, 1996.

The $61.0 aggregate principal amount of Products Corporation's 10⅞% Sinking Fund Debentures due 2010 previously purchased on the open market by Products Corporation (which was not previously used for sinking fund payments, including the payment in July 1996) and no longer outstanding will be used to meet future sinking fund requirements of such issue. $9.0 aggregate principal amount of previously purchased debentures was used for the sinking fund payment due July 15, 1996.

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, 1996.

In June 1996, $10.9 in notes due to Products Corporation from Holdings under the Financing Reimbursement Agreement was offset against an $11.7 demand note payable by Products Corporation to Holdings.

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 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 1997 will be approximately $60, including approximately $10 for upgrades to the Company's management information systems. In addition, cash payments related to the 1991 and 1992 restructuring charges are estimated to be approximately $9 for 1997. Pursuant to a tax sharing agreement, the Company may be required to make tax sharing payments to Mafco Holdings Inc. as if the Company were filing separate income tax returns, except that no payments are required by the Company if and to the extent that Products Corporation is prohibited under the Credit Agreement from making tax sharing payments to the Company. The Credit Agreement prohibits Products Corporation from making any cash tax sharing payments other than in respect of state and local income taxes. The Company anticipates that, as a result of net operating tax losses and prohibitions under the Credit Agreement, no federal tax payments or payments in lieu of taxes pursuant to the tax sharing agreement will be required for 1997.

As of December 31, 1996, Products Corporation was party to a series of interest rate swap agreements (which expire at various dates through December 2001) 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 London Inter-Bank Offered Rate (5.602% per annum at February 11, 1997) 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 considers to be held for other than trading purposes, on December 31, 1996, a loss of approximately $3.5 would have been realized. Certain other swap agreements were terminated in 1993 for a gain of $14.0. The amortization of the realized gain on these agreements for 1996 and 1995 was approximately $3.2 in each of the years. The remaining unamortized gain, which is being amortized over the original lives of the agreements, is $3.1 as of December 31, 1996. Although cash flow from the presently outstanding agreements was positive for 1996, future positive or negative cash flows from these agreements will depend upon the trend of short-term interest rates during the remaining lives of such agreements. Based on current interest rate levels, Products Corporation expects to have a positive cash flow of $0.6 from these agreements in 1997, although no assurances can be given. In the event of nonperformance by the counterparties at any time during the remaining lives of the agreements, Products Corporation could lose some or all of any possible future positive cash flows from these agreements. However, Products Corporation does not anticipate nonperformance by such counterparties, although no assurances can be given.

Products Corporation enters into forward foreign exchange contracts from time-to-time to hedge certain cash flows denominated in foreign currencies. At December 31, 1996, Products Corporation had forward foreign exchange contracts denominated in various currencies, predominantly the U.K. pound, of approximately $62.0 (U.S. dollar equivalent). If Products Corporation had terminated these contracts on December 31, 1996, no material gain or loss would have been realized.

Based upon the Company's current level of operations and anticipated growth in net sales and earnings as a result of its business strategy, the Company expects that cash flows from operations and funds from currently available credit facilities and refinancings of existing indebtedness will be sufficient to enable the Company to meet its anticipated cash requirements for the foreseeable future on a consolidated basis, including for debt service. 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 the Company. The Company, 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 the Company. The terms of the Credit Agreement, the Senior Subordinated Notes, the 1999 Senior Notes and the Senior Notes generally restrict Products Corporation from paying dividends or making distributions, except that Products Corporation is permitted to pay dividends and make distributions to the Company, among other things, to enable the Company 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 in certain circumstances to finance the purchase by the Company of its Class A Common Stock in connection with the delivery of such Class A Common Stock to grantees under the Revlon, Inc. 1996 Stock Plan. 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.

Forward-Looking Statements

This annual report for the year ended December 31, 1996 as well as other public documents of the Company contains 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 expectation and estimates as to future financial performance, including growth in net sales and earnings, cash flows from operations, capital expenditures and the availability of funds from refinancings of indebtedness. Readers are urged to consider statements which use the terms "believes," "no reason to believe," "expects," "plans," "intends," "estimates," "anticipated" or "anticipates," to be uncertain and forward-looking. In addition to factors that may be described in the Company's Commission filings and this report, 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 development of new markets; (iv) unanticipated costs or difficulties or delays in completing projects associated with the Company's strategy to improve operating efficiencies, including information system upgrades; (v) 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; (vi) actions by competitors, including business combinations, technological breakthroughs, new product offerings and marketing and promotional successes; and (vii) combinations among significant customers or the loss, insolvency or failure to pay its debts by a significant customer or customers.

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, that have experienced hyperinflation in the past three years. This hyperinflation has had a material effect on the Company's results of operations in Brazil and may, in the future, have a material effect on results of operations in Mexico. 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, 1996	DECEMBER 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 38.6**	$ 36.3
Trade receivables, less allowances of $24.9 and $23.7, respectively	**426.3**	363.1
Inventories	**281.0**	277.8
Prepaid expenses and other	**74.5**	62.4
Total current assets	**820.4**	739.6
Property, plant and equipment, net	**381.1**	367.1
Other assets	**139.2**	142.9
Intangible assets related to businesses acquired, net	**280.6**	285.7
Total assets	**$ 1,621.3**	$ 1,535.3
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Short-term borrowings – third parties	**$ 27.1**	$ 22.7
Current portion of long-term debt – third parties	**8.8**	9.2
Accounts payable	**161.9**	151.6
Accrued expenses and other	**365.2**	370.6
Total current liabilities	**563.0**	554.1
Long-term debt – third parties	**1,321.8**	1,426.2
Long-term debt – affiliates	**30.4**	41.3
Other long-term liabilities	**202.8**	215.7
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 A Common Stock, par value $.01 per share; 350,000,000 shares authorized, 19,875,000 and 11,250,000 issued and outstanding, respectively	**0.2**	0.1
Class B Common Stock, par value $.01 per share; 200,000,000 shares authorized, 31,250,000 issued and outstanding	**0.3**	0.3
Capital deficiency	**(233.2)**	(416.8)
Accumulated deficit since June 24, 1992	**(300.4)**	(318.2)
Adjustment for minimum pension liability	**(12.4)**	(17.0)
Currency translation adjustment	**(5.8)**	(5.0)
Total stockholders' deficiency	**(496.7)**	(702.0)
Total liabilities and stockholders' deficiency	**$ 1,621.3**	$ 1,535.3

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31, 1996	1995	1994
Net sales	**$ 2,167.0**	$ 1,937.8	$ 1,732.5
Cost of sales	**725.7**	652.1	597.3
Gross profit	**1,441.3**	1,285.7	1,135.2
Selling, general and administrative expenses	**1,241.1**	1,139.1	1,026.8
Operating income	**200.2**	146.6	108.4
Other expenses (income):			
Interest expense	**133.4**	142.6	136.7
Interest and net investment income	**(3.4)**	(4.9)	(6.3)
Amortization of debt issuance costs	**8.3**	11.0	8.4
Foreign currency losses, net	**5.7**	10.9	18.2
Miscellaneous, net	**6.3**	1.8	2.6
Other expenses, net	**150.3**	161.4	159.6
Income (loss) before income taxes	**49.9**	(14.8)	(51.2)
Provision for income taxes	**25.5**	25.4	22.8
Income (loss) before extraordinary item and cumulative effect of accounting change	**24.4**	(40.2)	(74.0)
Extraordinary item – early extinguishment of debt	**(6.6)**	–	–
Cumulative effect of accounting change:			
Postemployment benefits, net of income tax benefit of $1.3	**–**	–	(28.8)
Net income (loss)	**$ 17.8**	$ (40.2)	$ (102.8)
Income (loss) per common share:			
Income (loss) before extraordinary item and cumulative effect of accounting change	**$ 0.49**	$ (0.95)	$ (1.74)
Extraordinary item	**(0.13)**	–	–
Cumulative effect of accounting change	**–**	–	(0.68)
Net income (loss)	**$ 0.36**	$ (0.95)	$ (2.42)
Weighted average common shares outstanding	**49,687,500**	42,500,000	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, 1994	$ 54.6	$ 0.4	$ (416.8)	$ (175.2)		$ (4.4)
Net loss				(102.8)[b]		
Adjustment for minimum pension liability					$ (10.9)	
Currency translation adjustment						(1.4)
Balance, December 31, 1994	54.6	0.4	(416.8)	(278.0)	(10.9)	(5.8)
Net loss				(40.2)		
Adjustment for minimum pension liability					(6.1)	
Currency translation adjustment						0.8
Balance, December 31, 1995	54.6	0.4	(416.8)	(318.2)	(17.0)	(5.0)
Net income				17.8		
Net proceeds from initial public offering		0.1	187.7			
Adjustment for minimum pension liability					4.6	
Currency translation adjustment						(0.8)[d]
Acquisition of business			(4.1)[c]			
Balance, December 31, 1996	$ 54.6	$ 0.5	$ (233.2)	$ (300.4)	$ (12.4)	$ (5.8)

(a) Represents net loss since June 24, 1992, the effective date of the transfer agreements referred to in Note 12.

(b) Includes cumulative effect of change to new accounting standard for postemployment benefits as of January 1, 1994.

(c) Represents amounts paid to Revlon Holdings Inc. for the Tarlow Advertising Division ("Tarlow"). See Note 12.

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

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS)	YEAR ENDED DECEMBER 31, 1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 17.8**	$ (40.2)	$ (102.8)
Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities:			
Depreciation and amortization	**90.9**	88.4	78.8
Extraordinary item	**6.6**	–	–
Gain on sale of business interests and certain fixed assets, net	**–**	(2.2)	–
Cumulative effect of accounting change	**–**	–	28.8
Change in assets and liabilities:			
Increase in trade receivables	**(67.5)**	(44.5)	(22.1)
(Increase) decrease in inventories	**(5.5)**	(15.3)	14.1
(Increase) decrease in prepaid expenses and other current assets	**(7.2)**	4.5	19.1
Increase in accounts payable	**10.8**	10.2	23.4
Decrease in accrued expenses and other current liabilities	**(10.2)**	(12.2)	(22.8)
Other, net	**(45.8)**	(40.4)	(17.6)
Net cash used for operating activities	**(10.1)**	(51.7)	(1.1)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(58.0)**	(54.3)	(52.5)
Proceeds from the sale of business interests and certain fixed assets	**–**	3.0	4.6
Acquisition of businesses, net of cash acquired	**(7.1)**	(21.2)	(3.1)
Net cash used for investing activities	**(65.1)**	(72.5)	(51.0)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings – third parties	**5.8**	(122.9)	(5.8)
Proceeds from the issuance of long-term debt – third parties	**266.4**	493.7	157.6
Repayment of long-term debt – third parties	**(366.6)**	(236.3)	(197.8)
Net proceeds from initial public offering	**187.8**	–	–
Proceeds from the issuance of debt – affiliates	**115.0**	157.4	141.7
Repayment of debt – affiliates	**(115.0)**	(151.0)	(141.7)
Acquisition of business from affiliate	**(4.1)**	–	–
Payment of debt issuance costs	**(10.9)**	(15.7)	(3.0)
Net cash provided by (used for) financing activities	**78.4**	125.2	(49.0)
Effect of exchange rate changes on cash	**(0.9)**	(0.1)	0.9
Net increase (decrease) in cash and cash equivalents	**2.3**	0.9	(100.2)
Cash and cash equivalents at beginning of period	**36.3**	35.4	135.6
Cash and cash equivalents at end of period	**$ 38.6**	$ 36.3	$ 35.4
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	**$ 139.0**	$ 148.2	$ 138.5
Income taxes, net of refunds	**15.4**	18.8	3.9
Supplemental schedule of noncash investing activities:			
In connection with business acquisitions, liabilities			

Note 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 glamourous, 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 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 are retained by Holdings. Unless the context otherwise requires, all references to the Company mean Revlon, Inc. and its subsidiaries. Through December 31, 1996, 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 1996 included $0.8 in expenses incidental to being a public holding company and the Company has had no cash flows of its own.

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

Although the Retained Brands were not transferred to the Company when the cosmetic and skin care, fragrance and personal care products business of Holdings was transferred to Products Corporation, Products Corporation's bank lenders required that all assets and liabilities relating to such Retained Brands existing on the date of transfer (June 24, 1992), other than the brand names themselves and certain other intangible assets, be transferred to Products Corporation. Any assets and liabilities that had not been disposed of or satisfied by December 31 of the applicable year have been reflected in the Company's consolidated financial position as of such dates. However, any new assets or liabilities generated by such Retained Brands since the transfer date and any income or loss associated with inventory that has been transferred to Products Corporation relating to such Retained Brands have been and will be for the account of Holdings. In addition, certain assets and liabilities relating to divested

businesses were transferred to Products Corporation on the transfer date and any remaining balances as of December 31 of the applicable year have been reflected in the Company's Consolidated Balance Sheets as of such dates. At December 31, 1996 and 1995, the amounts reflected in the Company's Consolidated Balance Sheets aggregated a net liability of $23.6 and $31.2, respectively, of which $5.2 and $6.8, respectively, are included in accrued expenses and other and $18.4 and $24.4, respectively, are 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 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:

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, 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.

Intangible Assets Related to Businesses Acquired:

Intangible assets related to businesses acquired principally represent goodwill, 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 $94.2 and $84.2 at December 31, 1996 and 1995, respectively.

Revenue Recognition:

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

Income Taxes:

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

The Company is included in the affiliated group of which Mafco Holdings is the common parent, and the Company's federal taxable income and loss will be included in such group's consolidated tax return filed by Mafco Holdings. The Company also may be included in certain state and local tax returns of Mafco Holdings or its subsidiaries. For all periods presented, federal, state and local income taxes are provided as if the Company filed its own income tax returns. On June 24, 1992, Holdings, the Company and certain of its subsidiaries and Mafco Holdings entered into a tax sharing agreement which is described in Note 9.

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.

Effective January 1, 1994, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires the Company to accrue for benefits such as severance, disability and health insurance provided to former employees prior to their retirement, if estimable. The cumulative effect of this change was an after-tax charge of $28.8 principally for severance related to benefits previously recorded on an as and when paid basis. Such benefits generally are vested and accumulate over employees' service periods. Effective January 1, 1994, the Company accounts for such benefits on a terminal basis in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies," as amended by SFAS No. 112, 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 is generally when an employee is terminated. The Company does not believe such liabilities can be reasonably estimated prior to termination.

Research and Development:

Research and development expenditures are expensed as incurred. The amounts charged against earnings in 1996, 1995 and 1994 were $26.3, $22.3 and $19.7, 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-highly inflationary economies are recorded as a component of stockholders' deficiency. Foreign subsidiaries and branches operating in highly inflationary economies translate nonmonetary assets and liabilities at historical rates and include translation adjustments in the results of operations.

Income (Loss) per Share and Supplemental Financial Data:

Income (loss) per share is calculated assuming that 42,500,000 shares of Common Stock (as defined below) had been outstanding for the periods presented prior to the consummation of the Company's initial public equity offering on March 5, 1996 (the "Offering"), as a result of the conversion of the outstanding shares of the Company's common stock 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 Company's Offering. Basic income (loss) per share is presented as dilution thereof from common stock equivalents amounts to less than three percent.

The following supplemental financial data give effect to 51,125,000 shares of common stock outstanding after the Offering and the application of the net proceeds from the Offering to repay debt and reduce interest expense by an estimated $2.6 as if such transactions had occurred at the beginning of the period presented.

	YEAR ENDED DECEMBER 31, 1996
Supplemental financial data:	
Income before extraordinary item	**$ 27.0**
Income before extraordinary item per share	**$ 0.53**

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 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 11.

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. Unrealized gains and losses on outstanding contracts designated as hedges are not recognized.

Gains and losses on contracts 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 forward exchange contracts are included in income currently. Transaction gains and losses have not been material.

Note 2
Inventories

	DECEMBER 31,	
	1996	1995
Raw materials and supplies	**$ 76.6**	$ 84.8
Work-in-process	**19.4**	27.9
Finished goods	**185.0**	165.1
	$ 281.0	$ 277.8

Note 3
Prepaid Expenses and Other

	DECEMBER 31,	
	1996	1995
Prepaid expenses	**$ 43.1**	$ 36.5
Other	**31.4**	25.9
	$ 74.5	$ 62.4

Note 4
Property, Plant and Equipment, Net

	DECEMBER 31,	
	1996	1995
Land and improvements	**$ 37.5**	$ 39.4
Buildings and improvements	**207.6**	203.2
Machinery and equipment	**194.9**	192.8
Office furniture and fixtures	**59.4**	47.8
Leasehold improvements	**37.5**	33.6
Construction-in-progress	**43.7**	41.4
	580.6	558.2
Accumulated depreciation	**(199.5)**	(191.1)
	$ 381.1	$ 367.1

Depreciation expense for the years ended December 31, 1996, 1995 and 1994 was $39.1, $38.6 and $34.7, respectively.

Note 5
Accrued Expenses and Other

	December 31,	
	1996	1995
Advertising and promotional costs and accrual for sales returns	**$ 136.4**	$ 127.8
Compensation and related benefits	**95.5**	100.7
Interest	**36.7**	37.9
Taxes, other than federal income taxes	**35.0**	33.8
Restructuring costs	**6.9**	15.2
Net liabilities assumed from Holdings	**5.2**	6.8
Other	**49.5**	48.4
	$ 365.2	$ 370.6

Note 6
Short-term Borrowings

Products Corporation maintained short-term bank lines of credit at December 31, 1996 and 1995 aggregating approximately $72.7 and $69.0, respectively, of which approximately $27.1 and $22.7 were outstanding at December 31, 1996 and 1995, respectively. Compensating balances at December 31, 1996 and 1995 were approximately $7.4 and $7.2, respectively. Interest rates on amounts borrowed under such short-term lines at December 31, 1996 and 1995 varied from 2.2% to 12.1% and 2.0% to 13.4%, respectively.

Note 7
Long-term Debt

	December 31,	
	1996	1995
Working capital lines (a)	**$ 187.2**	$ 277.5
Bank mortgage loan agreement due 1997 (b)	**41.7**	52.4
9½% Senior Notes due 1999 (c)	**200.0**	200.0
9⅜% Senior Notes due 2001 (d)	**260.0**	260.0
10½% Senior Subordinated Notes due 2003 (e)	**555.0**	555.0
10⅞% Sinking Fund Debentures due 2010 (f)	**79.6**	79.2
Advances from Holdings (g)	**30.4**	41.3
Other mortgages and notes payable (8.6% – 13.0%) due through 2001	**7.1**	11.3
	1,361.0	1,476.7
Less current portion	**(8.8)**	(9.2)
	$ 1,352.2	$ 1,467.5

(a) The credit agreement in effect at December 31, 1995 (the "Former Credit Agreement"), which was subsequently amended, provided up to $500.0 comprised of three senior secured facilities: a $100.0 term loan facility, a $225.0 revolving credit facility and a $175.0 multi-currency facility. Products Corporation complied with each of the financial covenants contained in the Former Credit Agreement, as of and for the defined measurement periods ended December 31, 1995. The Former Credit Agreement was scheduled to expire on June 30, 1997.

In connection with repayments of indebtedness under the Former Credit Agreement in 1996, the commitments thereunder were extinguished, representing an early extinguishment of a portion of such facilities. Consequently, in 1996, the Company recognized a loss of approximately $6.6 representing the then unamortized debt issuance costs, which have been reported in the Consolidated Statements of Operations as an extraordinary item.

Loans that were outstanding under the Former Credit Agreement's revolving credit facility and term loan facility bore interest initially at a rate equal to, at Products Corporation's option, either (A) the alternate base rate, defined to mean the highest of (i) the prime rate, (ii) the secondary market rate for certificates of deposit plus 1% and (iii) the federal funds rate plus ½%; in each case plus 2½% or (B) the Eurodollar Rate plus 3½%. The multi-currency facility bore interest at a rate equal to the Eurocurrency Rate, the local lender rate or the alternate base rate, in each case plus 3½%.

In January 1996, Products Corporation entered into a credit agreement (the "Credit Agreement"), which became effective upon consummation of the Offering on March 5, 1996. The Credit Agreement includes, among other things, (i) an extension of the term of the facilities from June 30, 1997 to December 31, 2000 (subject to earlier termination in certain circumstances), (ii) a reduction of the interest rates, (iii) an increase in the amount of the credit facilities from $500.0 to $600.0 (subject to reduction as described below) and (iv) the release of security interests in assets of certain foreign subsidiaries of Products Corporation which were then pledged.

The Credit Agreement is comprised of four senior secured facilities: a $130.0 term loan facility (the "Term Loan Facility"), a $220.0 multi-currency facility (the "Multi-Currency Facility"), a $200.0 revolving acquisition facility (the "Acquisition Facility") and a $50.0 standby letter of credit facility (the "Special LC Facility" and together with the Term Loan Facility, 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"). The Credit Facilities (other than loans in foreign currencies) bear interest at a rate equal to, at Products Corporation's option, either (A) the Alternate Base Rate plus 1.5% (or 2.5% for Local Loans); or (B) the Eurodollar Rate plus 2.5%. Loans in foreign currencies bear interest at a rate equal to the Eurocurrency Rate or, in the case of Local Loans, the local lender rate, in each case plus 2.5%. The applicable margin is reduced (or increased, but not above 2% for Alternate Base Rate Loans not constituting Local Loans and 3% for other loans) in the event Products Corporation attains (or fails to attain) certain leverage ratios. Products Corporation pays the Lender a commitment fee of ½ of 1% of the unused portion of the Credit Facilities. 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 would 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 Holdings, Products Corporation or any of its subsidiaries of certain additional debt, (iv) 50% of the excess cash flow of Products Corporation and its subsidiaries and (v) certain scheduled reductions in the case of the Term Loan Facility,

which commence on January 31, 1997 in the amount of $1.0 annually over the remaining life of the Credit Agreement, and the Acquisition Facility, which will commence on December 31, 1997 in the amount of $20.0, $50.0 in 1998, $60.0 in 1999 and $70.0 in 2000. In addition, the Credit Agreement requires that the net proceeds from any sale of equity securities of any parent of Products Corporation which has the assets of Products Corporation or certain of its subsidiaries as its only substantial assets be contributed to Products Corporation (except to the extent that such proceeds are applied to repay or refinance the Senior Secured Discount Notes due 1998 (the "Senior Secured Discount Notes") of Revlon Worldwide Corporation or are deposited with the trustee under the Indenture covering such notes) and that Products Corporation use 50% of such proceeds, in certain circumstances, to reduce commitments under the Credit Agreement. The Credit Agreement will terminate on December 31, 2000 (subject to earlier termination on March 31, 1999 if Products Corporation has not refinanced its 9½% Senior Notes due 1999 (the "1999 Senior Notes") before March 31, 1999 or if an alternative plan for the refinancing of the 1999 Senior Notes has not been approved by the majority lenders prior to March 15, 1999). As of December 31, 1996, Products Corporation had approximately $130.0 outstanding under the Term Loan Facility, $57.2 outstanding under the Multi-Currency Facility, none outstanding under the Acquisition Facility and $33.5 outstanding under the Special LC Facility.

The Credit Facilities, subject to certain exceptions and limitations, are supported by guarantees from Holdings and certain of its subsidiaries, the Company 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 and 66% of the capital stock of its first tier foreign subsidiaries and the capital stock of certain subsidiaries of Holdings; (iii) domestic intellectual property and certain other domestic intangibles of (x) Products Corporation and its domestic subsidiaries and (y) certain subsidiaries of Holdings; (iv) domestic inventory and accounts receivable of (x) Products Corporation and its domestic subsidiaries and (y) certain subsidiaries of Holdings; and (v) the assets of certain foreign subsidiary borrowers under the Multi-Currency Facility (to support their borrowings only). The Credit Agreement provides that the liens on the stock and personal property referred to above may be shared from time to time with specified types of other obligations incurred or guaranteed by Products Corporation that were not included in the Former Credit Agreement, such as interest rate hedging obligations, working capital lines and the Yen Credit Agreement (as defined below).

The Credit Agreement contains various restrictive covenants prohibiting Products Corporation and its subsidiaries from, among other things, (i) incurring additional indebtedness, with certain exceptions, (ii) making dividend, tax sharing (see Note 9 "Income Taxes") and other payments or loans to the Company or other affiliates, with certain exceptions, including among others, permitting Products Corporation to pay dividends and make distributions to the Company, among other things, to enable the Company 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 up to $5.0 per annum in certain circumstances to finance the purchase by the Company of its common stock in connection with the delivery of such common stock to grantees under any stock option plan, (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 certain financial covenants including, among other things, covenants requiring Products Corporation and its subsidiaries to maintain minimum consolidated adjusted net worth, minimum EBITDA (defined as earnings before interest, taxes, depreciation and amortization and certain other charges), minimum interest coverage, and covenants which limit the amount of total indebtedness of Products Corporation and the amount of capital expenditures.

In January 1997, the Credit Agreement was amended to, among other things, (i) permit the merger of Prestige Fragrance & Cosmetics, Inc. ("PFC"), a wholly owned subsidiary of Products Corporation, into The Cosmetic Center, Inc. ("Cosmetic Center") and to generally exclude Cosmetic Center (as the survivor of the merger) from the definition of "subsidiary" under the Credit Agreement, (ii) increase the amount of permitted dividends and distributions to finance the purchase by the Company if its common stock in connection with the delivery of such common stock to grantees under any stock option plan to $6.0 per annum, and (iii) permit Products Corporation to purchase capital stock of the Company for purposes of making matching contributions under a proposed Non-Qualified Excess Savings Plan for Key Executives.

(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 ¥4.8 billion as of December 31, 1996 (approximately $41.7 U.S. dollar equivalent as of December 31, 1996). In accordance with the terms of the Yen Credit Agreement, approximately ¥2.7 billion (approximately $26.9 U.S. dollar equivalent) was paid in January 1995 and approximately ¥539 million (approximately $5.2 U.S. dollar equivalent) was paid in January 1996. A payment of approximately ¥539 million (approximately $4.6 U.S. dollar equivalent as of December 31, 1996) was paid in January 1997. The balance of the Yen Credit Agreement of approximately ¥4.3 billion (approximately $37.1 U.S. dollar equivalent as of December 31, 1996) is currently due on December 31, 1997. The Company is currently renegotiating an extension of the term of the Yen Credit Agreement. In the event that such extension is not obtained, the Company is able and intends to refinance the Yen Credit Agreement under existing long-term credit facilities. Accordingly, the Company's obligation under the Yen Credit Agreement has been classified as long-term as of December 31, 1996. The applicable interest rate at December 31, 1996 under the Yen Credit Agreement was the Euro-Yen rate plus 2.5% which approximated 3.1%. The interest rate at December 31, 1995, applicable to the remaining balance, was the Euro-Yen rate plus 3.5%, which approximated 4.1%.

(c) 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 9½% 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 the Company, among other things, to enable the Company 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 in certain circumstances to finance the purchase by the Company 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 9⅜% 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 of 9⅜% 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 therein, 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 the Company, among other things, to enable the Company 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 in certain circumstances to finance the purchase by the Company 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.

(e) 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 of 10½% 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 therein, 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 the Company, among other things, to enable the Company 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 $5.0 per annum in certain circumstances to finance the purchase by the Company 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.

(f) Holdings' 10⅞% Sinking Fund Debentures due 2010 (face value of $85.0, net of repurchases) (the "Sinking Fund Debentures") are redeemable, in whole or in part, at 101.96% of the principal amount for the year beginning July 15, 1996, decreasing evenly each year on July 15, to par by July 15, 2000. Mandatory sinking fund redemptions of $9.0 per year commenced in 1991. Optional sinking fund redemptions of up to an additional $13.5 per year may be made annually and may be applied to reduce any subsequent mandatory sinking fund redemption. Interest is payable on January 15 and July 15. Holdings purchased $115.0 of the Sinking Fund Debentures in the open market prior to 1985, $9.0 of which had been used in each of the years 1991 through 1996 to satisfy sinking fund payment obligations and approximately $61.0 of which is creditable to future sinking fund requirements. The indenture relating to the Sinking Fund Debentures contains various restrictive covenants prohibiting Products Corporation and its subsidiaries from (i) incurring indebtedness in excess of 5% of the consolidated net tangible assets, where such indebtedness is secured by any manufacturing plant in the United States owned or leased by Products Corporation, the book value of which exceeds 2% of the consolidated net tangible assets of Products Corporation, unless the Sinking Fund Debentures are equally and ratably secured, (ii) entering into

certain sale and leaseback transactions or (iii) consolidating or merging with or into, or selling or transferring all or substantially all of their properties and assets to, another corporation, unless certain conditions are satisfied.

(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 12, was offset against the $25.0 note and Holdings agreed not to demand payment under the resulting $11.7 note so long as indebtedness remains outstanding under the Credit Agreement. 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 accordance with the Credit Agreement, such amounts, as adjusted, are evidenced by noninterest-bearing promissory notes payable to Holdings that are subordinated to Products Corporation's obligations under the Credit Agreement.

Products Corporation borrows funds from its affiliates from time to time to supplement its working capital borrowings at interest rates more favorable to Products Corporation than the rate under the Credit Agreement. No such borrowings were outstanding at December 31, 1996 or 1995.

The aggregate amounts of long-term debt maturities and sinking fund requirements (at December 31, 1996), in the years 1997 through 2001 are $8.8, $40.6, $201.2, $214.9 and $260.9, respectively, and $634.6 thereafter.

Note 8
Financial Instruments

As of December 31, 1996, Products Corporation was party to a series of interest rate swap agreements (which expire at various dates through December 2001) 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 London Inter-Bank Offered Rate (5.6875% per annum at January 24, 1997) 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 considers to be held for other than trading purposes, on December 31, 1996, a loss of approximately $3.5 would have been realized. Certain other swap agreements were terminated in 1993 for a gain of $14.0. The amortization of the realized gain on these agreements for 1996 and 1995 was approximately $3.2 in each of the years. The remaining unamortized gain, which is being amortized over the original lives of the agreements, is $3.1 as of December 31, 1996. Although cash flow from the presently outstanding agreements was positive

for 1996, future positive or negative cash flows from these agreements will depend upon the trend of short-term interest rates during the remaining lives of such agreements. In the event of nonperformance by the counterparties at any time during the remaining lives of the agreements, Products Corporation could lose some or all of any possible future positive cash flows from these agreements. However, Products Corporation does not anticipate nonperformance by such counterparties, although no assurances can be given.

Products Corporation enters into forward foreign exchange contracts from time to time to hedge certain cash flows denominated in foreign currencies. At December 31, 1996, Products Corporation had forward foreign exchange contracts denominated in various currencies, predominantly the U.K. pound of approximately $62.0 (U.S. dollar equivalent). If Products Corporation had terminated these contracts on December 31, 1996, no material gain or loss would have been realized. Products Corporation had similar contracts outstanding at December 31, 1995 in the amount of $8.0 (U.S. dollar equivalent).

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, 1996 was approximately $37.3 more than the carrying value of $1,361.0. 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 $40.9 were outstanding at December 31, 1996. Included in this amount are $26.4 in standby letters of credit which support Products Corporation's self-insurance programs. See Note 12. 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.

Note 9

Income Taxes

In June 1992, Holdings, the Company 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 the Company 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 the Company or its subsidiaries) is the common parent for taxable periods beginning on or after January 1, 1992 during which the Company or a subsidiary of the Company is a member of such group. Pursuant to the 1992 Tax Sharing Agreement, for all taxable periods beginning on or after January 1, 1992, the Company will pay to Holdings amounts equal to the taxes that the Company 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 the Company), except that the Company will not be entitled to carry back any losses to taxable periods ending prior to January 1, 1992. No payments are required by the Company if and to the extent that Products Corporation is prohibited under the Credit Agreement from making tax sharing payments to the Company. The Credit Agreement prohibits Products Corporation from making any cash tax sharing payments other than in respect of state and local income taxes. Since the payments to be made by the Company under the Tax Sharing Agreement will be determined by the amount of taxes that the Company 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 the Company 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, no federal tax payments or payments in lieu of taxes pursuant to the Tax Sharing Agreement were required for 1996, 1995 or 1994.

Pursuant to the asset transfer agreement referred to in Note 12, 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,		
	1996	1995	1994
Income (loss) before income taxes:			
Domestic	**$ 9.4**	$ (38.4)	$ (68.0)
Foreign	**40.5**	23.6	16.8
	$ 49.9	$ (14.8)	$ (51.2)
Provision (benefit) for income taxes:			
Federal	**$ –**	$ –	$ –
State and local	**1.2**	3.4	2.8
Foreign	**24.3**	22.0	20.0
	$ 25.5	$ 25.4	$ 22.8
Current	**$ 22.7**	$ 37.1	$ 40.5
Deferred	**6.6**	3.0	1.4
Benefits of operating loss carryforwards	**(4.7)**	(15.4)	(18.1)
Carryforward utilization applied to goodwill	**1.0**	0.8	–
Effect of enacted change of tax rates	**(0.1)**	(0.1)	–
Beginning-of-year valuation allowance adjustment	**–**	–	(1.0)
	$ 25.5	$ 25.4	$ 22.8

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,		
	1996	1995	1994
Statutory federal income tax rate	**35.0%**	(35.0)%	(35.0)%
State and local taxes, net of federal income tax benefit	**1.6**	14.9	3.6
Foreign and U.S. tax effects attributable to operations outside the U.S.	**36.2**	92.8	27.6
Nondeductible amortization expense	**5.9**	16.8	4.8
U.S. loss without benefit	**–**	82.1	43.5
Change in valuation allowance	**(24.2)**	–	–
Other	**(3.4)**	–	–
Effective rate	**51.1%**	171.6%	44.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995 are presented below:

	DECEMBER 31,	
	1996	1995
Deferred tax assets:		
Accounts receivable, principally due to doubtful accounts	**$ 3.9**	$ 3.7
Inventories	**12.5**	12.8
Net operating loss carryforwards	**269.5**	270.3
Restructuring and related reserves	**10.2**	13.4
Employee benefits	**31.7**	36.3
State and local taxes	**12.8**	12.8
Self-insurance	**3.6**	3.9
Advertising, sales discounts and returns and coupon redemptions	**23.6**	19.1
Other	**23.9**	19.7
Total gross deferred tax assets	**391.7**	392.0
Less valuation allowance	**(347.3)**	(357.2)
Net deferred tax assets	**44.4**	34.8
Deferred tax liabilities:		
Plant, equipment and other assets	**(43.0)**	(34.6)
Inventories	**(0.2)**	(0.2)
Other	**(7.2)**	(6.3)
Total gross deferred tax liabilities	**(50.4)**	(41.1)
Net deferred tax liability	**$ (6.0)**	$ (6.3)

The valuation allowance for deferred tax assets at January 1, 1996 was $357.2. The valuation allowance decreased by $9.9 during the year ended December 31, 1996 and increased by $19.2 during the year ended December 31, 1995.

During 1996, 1995 and 1994, certain of the Company's foreign operations generated taxable income as to which the related tax liability was offset by the utilization of operating loss carryforwards generated in prior years. Accordingly, credits of $4.7, $15.4 and $18.1 representing the reduction of current foreign taxes payable for the years ended December 31, 1996, 1995 and 1994, respectively, have been recognized in the Consolidated Statements of Operations. Certain other foreign operations generated losses during the years 1996, 1995 and 1994 for which the potential tax benefit was reduced by a valuation allowance as it is more likely than not that such benefit will not be realized. At December 31, 1996, the Company had foreign tax loss carryforwards of approximately $332.2 which expire in future years as follows: 1997-$53.3; 1998-$30.0; 1999-$33.0; 2000-$12.1; 2001 and beyond-$30.4; unlimited-$173.4. The Company will receive a benefit only to the extent it has taxable income during the carryforward periods in the applicable foreign 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 $16.1 at December 31, 1996, excluding those amounts which, if remitted in the near future, would not result in significant additional taxes under tax statutes currently in effect.

Note 10
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 all of the Company's significant pension plans with the respective amounts recognized in the Consolidated Balance Sheets at the dates indicated:

	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 to date	**$ (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)**

	DECEMBER 31, 1995		
	OVERFUNDED PLANS	UNDERFUNDED PLANS	TOTAL
Actuarial present value of benefit obligation:			
Accumulated benefit obligation as of September 30, 1995 includes vested benefits of $269.1	$ (18.8)	$ (257.2)	$ (276.0)
Projected benefit obligation as of September 30, 1995 for service rendered to date	$ (21.9)	$ (294.1)	$ (316.0)
Fair value of plan assets at September 30, 1995	26.3	185.0	211.3
Plan assets in excess of (less than) projected benefit obligation	4.4	(109.1)	(104.7)
Amounts contributed to plans during fourth quarter 1995	0.2	0.9	1.1
Unrecognized net (assets) obligation	(1.3)	0.2	(1.1)
Unrecognized prior service cost	0.3	9.9	10.2
Unrecognized net loss	1.9	45.2	47.1
Adjustment to recognize additional minimum liability	–	(19.9)	(19.9)
Prepaid (accrued) pension cost	$ 5.5	$ (72.8)	$ (67.3)

The weighted-average discount rate assumed was 7.75% for 1996 and 1995 for domestic plans. For foreign plans, the weighted–average discount rate was 7.9% and 7.6% for 1996 and 1995, respectively. The rate of future compensation increases was 5.25% for 1996 and 1995 for domestic plans and was a weighted-average of 5.05% and 4.81% for 1996 and 1995, respectively, for foreign plans. The expected long-term rate of return on assets was 9.0% for 1996 and 1995 for domestic plans and a weighted-average of 10.4% for 1996 and 1995 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, 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. At December 31, 1995, the additional liability was recognized by recording an intangible asset to the extent of unrecognized prior service costs of $1.6, a due from affiliates of $1.3, and a charge to stockholders' deficiency of $17.0.

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

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Service cost-benefits earned during the period	**$ 10.6**	$ 8.2	$ 9.1
Interest cost on projected benefit obligation	**24.3**	21.7	20.8
Actual (return) loss on plan assets	**(30.4)**	(27.3)	2.7
Net amortization and deferrals	**15.1**	13.4	(14.4)
	19.6	16.0	18.2
Portion allocated to Holdings	**(0.3)**	(0.3)	(0.3)
Net periodic pension cost of the Company	**$ 19.3**	$ 15.7	$ 17.9

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 1996 and 1995, there was a settlement loss of $0.3 and $0.1, respectively, and a curtailment loss of $1.0 and $0.1, respectively, resulting from workforce reductions.

Postretirement Benefits Other Than Pensions:

During 1996, 1995 and 1994, the Company sponsored an unfunded retiree benefit plan, which provides death benefits payable to beneficiaries of certain key employees. Participation in this plan is limited to participants enrolled as of December 31, 1993. Net periodic postretirement benefit cost for each of the years ended December 31, 1996, 1995 and 1994 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, 1996 and 1995, the portion of accumulated benefit obligation attributable to retirees was $6.9 and $6.7, respectively, and to other fully eligible participants, $1.3 and $1.0, respectively. The amount of unrecognized gain at December 31, 1996 and 1995 was $1.2 and $1.7, respectively. At December 31, 1996 and 1995, the accrued postretirement benefit obligation recorded on the Company's Consolidated Balance Sheets was $9.4. Of these amounts,

$2.0 and $2.2 was attributable to Holdings and was recorded as a receivable from affiliates at December 31, 1996 and 1995, respectively. The weighted average discount rate used in determining the accumulated postretirement benefit obligation at September 30, 1996 and 1995 was 7.75%.

Note 11
Stock Compensation Plan

At December 31, 1996, the Company has a stock-based compensation plan (the "Plan"), which is described below. The Company applies APB Opinion No. 25 and related Interpretations in accounting for the Plan. Under APB Opinion No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation cost has been recognized. Had compensation cost for the Company's Plan been determined consistent with SFAS No. 123, the Company's net income and net income per share for 1996 of $17.8 and $.36, respectively, would have been reduced to the pro forma amounts of $14.6 and $.29, respectively. The effects of applying SFAS No.123 in this pro forma disclosure are not necessarily indicative of future amounts.

Under the Plan, the Company 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 not be 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 the Company 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). All other initial option grants 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. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for option grants in 1996: no dividend yield; expected volatility of 31%; risk-free interest rate of 5.99%; and an expected average life of seven years for the Plan's options. At December 31, 1996 there were no options exercisable under the Plan.

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

	SHARES (000)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	–	–
Granted	1,010.2	$ 24.33
Exercised	–	–
Forfeited	(119.1)	24.00
Outstanding at end of year	891.1	24.37

The weighted average fair value of each option granted during 1996 approximated $11.00.

The following table summarizes information about the Plan's options outstanding at December 31, 1996:

RANGE OF EXERCISE PRICES:	NUMBER OUTSTANDING (000)	WEIGHTED AVERAGE YEARS REMAINING	WEIGHTED AVERAGE EXERCISE PRICE
$24.00 to $29.88	855.1	9.16	$ 24.06
31.00 to 33.88	36.0	9.79	31.88
24.00 to 33.88	891.1	9.19	24.37

Note 12

Related Party Transactions

Transfer Agreements:

In June 1992, the Company and Products Corporation entered into an asset transfer agreement with Holdings and certain of its wholly owned subsidiaries (the "Asset Transfer Agreement"), and the Company 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 certain small brands that historically had not been profitable ("Retained Brands"). Holdings agreed to indemnify the Company and Products Corporation against losses arising from the Excluded Liabilities, and the Company and Products Corporation agreed to indemnify Holdings against losses arising from the liabilities assumed by Products Corporation. The amounts reimbursed by Holdings to the Company for the Excluded Liabilities for 1996, 1995 and 1994 were $1.4, $4.0 and $7.4, respectively.

Benefit Plans Assumption Agreement:

Holdings, Products Corporation and the Company entered into a benefit plans assumption agreement dated as of July 1, 1992 pursuant to which Products Corporation assumed all rights, liabilities and obligations under all of Holdings' benefit plans, arrangements and agreements, including obligations under the Revlon Employees' Retirement Plan and the Revlon Employees' Savings and Investment Plan. Products Corporation was substituted for Holdings as sponsor of all such plans theretofore sponsored by Holdings.

Operating Services Agreement:

In June 1992, the Company, 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 the Company'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 the Company for such direct and indirect costs for 1996, 1995 and 1994 were $5.1, $8.6 and $11.5, 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 1996, 1995 and 1994 were approximately $0.6, $1.7 and $1.9, respectively.

Reimbursement Agreements:

The Company, Products Corporation and MacAndrews Holdings have entered into reimbursement agreements (the "Reimbursement Agreements") pursuant to which (i) MacAndrews Holdings is obligated to provide certain professional and administrative services, including employees, to the Company and its subsidiaries, including Products Corporation, and purchase services from third party providers, such as insurance and legal and accounting services, on behalf of the Company 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 purchase services from third party providers, such as insurance and legal and accounting services, on behalf of MacAndrews Holdings 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 for reasonable out-of-pocket expenses incurred in connection with the provision of such services. MacAndrews Holdings reimburses the Company for the allocable costs of the services purchased for or provided to MacAndrews Holdings 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 $26.4 as of December 31, 1996) 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 the Company to the extent amounts are drawn under any of such letters of credit with respect to claims for which the Company is not responsible. The net amounts reimbursed by MacAndrews Holdings

to the Company for the services provided under the Reimbursement Agreements for 1996, 1995 and 1994 were $2.2, $3.0 and $1.6, respectively. Each of the Company 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:

The Company, for federal income tax purposes, is included in the affiliated group of which Mafco Holdings is the common parent, and the Company's federal taxable income and loss is 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. In June 1992, Holdings, the Company and certain of its subsidiaries, and Mafco Holdings entered into the Tax Sharing Agreement pursuant to which Mafco Holdings has agreed to indemnify the Company 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 the Company or its subsidiaries) is the common parent for taxable periods beginning on or after January 1, 1992 during which the Company or a subsidiary of the Company is a member of such group. Pursuant to the Tax Sharing Agreement, for all taxable periods beginning on or after January 1, 1992, the Company will pay to Holdings amounts equal to the taxes that the Company 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 the Company), except that the Company will not be entitled to carry back any losses to taxable periods ending prior to January 1, 1992. No payments are required by the Company if and to the extent Products Corporation is prohibited under the Credit Agreement from making cash tax sharing payments to the Company. The Credit Agreement prohibits Products Corporation from making such cash tax sharing payments other than in respect of state and local income taxes. Since the payments to be made by the Company under the Tax Sharing Agreement will be determined by the amount of taxes that the Company 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 the Company against losses and tax credits generated by Mafco Holdings and its other subsidiaries. There were no cash payments by the Company pursuant to the Tax Sharing Agreement for 1996, 1995 or 1994.

Financing Reimbursement Agreement:

Holdings and Products Corporation entered into a financing reimbursement agreement (the "Financing Reimbursement Agreement") in 1992 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 Old Senior 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 Former Credit Agreement. 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 Former Credit Agreement (which portion was approximately $4.7 and was evidenced by a noninterest-bearing promissory note payable on June 30, 1996) and 1 1/2% per annum of the average balance outstanding under the Former Credit Agreement 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 in 1996, under the Financing Reimbursement Agreement from Holdings was offset against an $11.7 demand note payable by Products Corporation to Holdings. The Financing Reimbursement Agreement expired on June 30, 1996.

Registration Rights Agreement:

Prior to the consummation of the Offering, the Company and Revlon Worldwide Corporation ("Revlon Worldwide"), the direct parent of the Company, entered into the Registration Rights Agreement pursuant to which Revlon Worldwide and certain transferees of Common Stock held by Revlon Worldwide (the "Holders") have the right to require the Company 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 the Class B Common Stock owned by such Holders under the Securities Act (a "Demand Registration"); provided that the Company may postpone giving effect to a Demand Registration up to a period of 30 days if the Company believes such registration might have a material adverse effect on any plan or proposal by the Company with respect to any financing, acquisition, recapitalization, reorganization or other material transaction, or the Company 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 the Company. In addition, the Holders have the right to participate in registrations by the Company 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. The Company 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 1996 and 1995 the Company rented a portion of the administration building located at the Edison facility and space for a retail store of the Company. The Company provides certain administrative services, including accounting, for Holdings with respect to the Edison facility pursuant to which the Company 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 the Company for such costs with respect to the Edison facility for 1996, 1995 and 1994 was $1.1, $1.2 and $2.1, respectively.

In the fourth quarter of 1996, Products Corporation and certain of its subsidiaries 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 certain 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.

Effective January 1, 1994, Products Corporation sold the inventory, contracts, dedicated tools, dies and molds, intellectual property and a license agreement relating to the **New Essentials** brand to Holdings for $2.2 (representing the net book value of such brand which Products Corporation believes approximated its fair market value at the time of sale), and the Operating Services Agreement was amended to include **New Essentials** as a "Retained Brand."

During 1996, 1995 and 1994, Products Corporation leased certain facilities to MacAndrews & Forbes or its affiliates pursuant to occupancy agreements and leases including space at Products Corporation's New York headquarters and at Products Corporation offices in London and Tokyo. The rent paid by MacAndrews & Forbes or its affiliates to Products Corporation for 1996, 1995 and 1994 was $4.6, $5.3 and $4.1, 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's borrowed from Holdings approximately $5.6, representing certain amounts received by Holdings from the sale by Holdings of certain of its businesses. 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, 1996, 1995 or 1994. 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 the Company for such borrowings for 1996, 1995 and 1994 was $0.5, $1.2 and $1.1, 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, 1995 and 1994, 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, $0.2 and $0.3 for 1996, 1995 and 1994, respectively.

During 1996, 1995 and 1994, the Company used an airplane which was owned by a corporation of which Messrs. Gittis, Drapkin and Levin were the sole stockholders. The Company paid approximately $0.2, $0.4 and $0.5 for the usage of the airplane for 1996, 1995 and 1994, respectively. As of December 31, 1996 Mr. Levin no longer holds an ownership interest in the corporation that owned the airplane.

Consolidated Cigar, an affiliate of the Company, assembles lipstick cases for Products Corporation. Products Corporation paid approximately $1.0, $1.0 and $0.6 for such services for 1996, 1995 and 1994, respectively.

During 1994, the Company was retained by an affiliate, Meridian, to act as licensing agent for Meridian's trademarks. The Company will receive a percentage of any royalties generated by such licenses. No royalties were earned by Meridian for 1994, 1995 or 1996. However, Meridian paid the Company approximately $0.1 in 1994 for reimbursement of expenses incurred in connection with such licensing activities.

In January 1995, the Company agreed to license certain of its trademarks to Guthy-Renker Corporation ("Guthy-Renker"), a corporation in which an affiliate of MacAndrews & Forbes held a 37.5% equity interest, to be used by Guthy-Renker in connection with the marketing and sale of hair extensions and hair pieces. The amount paid by Guthy-Renker to the Company pursuant to such license for 1995 was less than $0.1. In connection with this licensing arrangement, Guthy-Renker agreed to use the Company as its exclusive supplier of hair extensions and hair pieces. Guthy-Renker purchased $1.1 of wigs from the Company during 1995. The Company terminated the license with Guthy-Renker during 1995.

Note 13
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 $51.7, $49.3 and $51.0 for the years ended December 31, 1996, 1995 and 1994, 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, 1996 aggregated $230.0; such commitments for each of the five years subsequent to December 31, 1996 are $37.9, $36.4, $31.2, $28.6 and $25.6, respectively. Such amounts exclude the minimum rentals to be received in the future under noncancelable subleases of $16.1.

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

Note 14

Quarterly Results of Operations (Unaudited)

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

	YEAR ENDED DECEMBER 31, 1996			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Net sales	$ 464.3	$ 517.9	$ 571.1	$ 613.7
Gross profit	311.4	347.2	378.1	404.6
(Loss) income before extraordinary item	(29.1)	1.5	21.1	30.9
Net (loss) income	(35.7)[a]	1.5	21.1	30.9
Income (loss) per common share:				
Income (loss) before extraordinary item	(0.64)	0.03	0.41	0.60
Extraordinary item	(0.15)	–	–	–
Net (loss) income	$ (0.79)	$ 0.03	$ 0.41	$ 0.60

	YEAR ENDED DECEMBER 31, 1995[b]			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Net sales	$ 412.2	$ 452.6	$ 514.5	$ 558.5
Gross profit	270.6	299.0	346.8	369.3
Net (loss) income	(33.4)	(14.0)	3.4	3.8
Net (loss) income per share	(0.79)	(0.33)	0.08	0.09

(a) Includes a charge of $6.6 resulting from the write-off of deferred financing costs associated with the extinguishment of the Former Credit Agreement prior to maturity.

(b) 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 presented 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 to capital deficiency.

Note15

Geographic Segments

The Company operates in a single business segment. The Company has operations based in 26 foreign countries 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 enters into forward foreign exchange contracts to hedge certain cash flows denominated in foreign currency. In addition, the Company's operations in Brazil (which accounted for approximately 6.1% of the Company's net sales for 1996) are subject to hyperinflationary conditions. There can be no assurance as to the future effect of changes in social, political and economic conditions on the Company's business or financial condition. During 1996, one customer accounted for approximately 10.1% of the Company's consolidated net sales. Information related to the Company's geographic segments for each of the years in the three-year period ended December 31, 1996 with respect to operating results, and as of December 31, 1996 and 1995 with respect to identifiable assets, is presented below.

Operating profit (loss), as presented below, is operating income, net foreign currency translation (gains) losses and identifiable miscellaneous income and expense; it excludes general corporate income and expenses, net interest and investment income and expense, including amortization of debt issuance costs, and income taxes. Export sales, including those to affiliates, are not significant. Export sales to non-affiliates and related operating profits are reflected in their geographic area of origin.

Identifiable assets, as presented below, are those assets used in each geographic area. Corporate assets are principally cash and cash equivalents, certain property and equipment and nonoperating assets.

Geographic Areas

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Net sales:			
United States	**$ 1,282.2**	$ 1,155.8	$ 1,019.8
Europe, Middle East and Africa	**404.1**	357.1	320.7
Latin America, Canada and Puerto Rico	**297.2**	259.5	253.4
Far East, Australia and other areas of the world	**183.5**	165.4	138.6
	$ 2,167.0	$ 1,937.8	$ 1,732.5
Operating profit (loss):			
United States	**$ 163.9**	$ 121.7	$ 85.7
Europe, Middle East and Africa	**9.9**	7.6	16.2
Latin America, Canada and Puerto Rico	**23.3**	14.9	18.3
Far East, Australia and other areas of the world	**7.5**	7.8	(3.7)
	204.6	152.0	116.5
Unallocated expenses (income):			
Interest expense	**133.4**	142.6	136.7
Interest and net investment income	**(3.4)**	(4.9)	(6.3)
Amortization of debt issuance costs	**8.3**	11.0	8.4
Corporate expenses and miscellaneous, net	**16.4**	18.1	28.9
Income (loss) before income taxes	**$ 49.9**	$ (14.8)	$ (51.2)

	DECEMBER 31,	
	1996	1995
Identifiable assets:		
United States	**$ 944.1**	$ 897.6
Europe, Middle East and Africa	**287.6**	268.3
Latin America, Canada and Puerto Rico	**198.7**	167.8
Far East, Australia and other areas of the world	**130.6**	127.0
Corporate	**60.3**	74.6
	$ 1,621.3	$ 1,535.3

	COSMETICS AND FRAGRANCES	SKIN CARE, PERSONAL CARE AND PROFESSIONAL	TOTAL
Classes of Similar Products (Unaudited):			
1996	**$ 1,263.9**	**$ 903.1**	**$ 2,167.0**
% of net sales	**58%**	**42%**	**100%**
1995	$ 1,075.2	$ 862.6	$ 1,937.8
% of net sales	55%	45%	100%
1994	$ 884.8	$ 847.7	$ 1,732.5
% of net sales	51%	49%	100%

Note16

Pending Acquisition

On November 27, 1996, Products Corporation and PFC entered into an Agreement and Plan of Merger with Cosmetic Center pursuant to which PFC will merge with and into Cosmetic Center, with Cosmetic Center surviving the merger (the "Merger"). In the Merger, Products Corporation would receive newly issued common stock of Cosmetic Center constituting between 74% and 84% of the outstanding common stock. The Merger is subject to a number of significant conditions, including obtaining financing for Cosmetic Center and approval of the transaction by Cosmetic Center stockholders, among other conditions.

Independent Auditors' Report

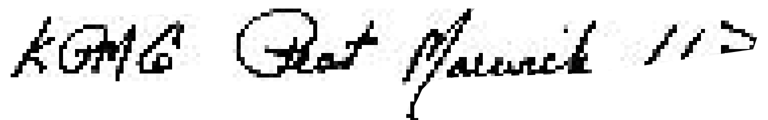
The Board of Directors and Stockholders of Revlon, Inc.:

We have audited the accompanying consolidated balance sheets of Revlon, Inc. and its subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, cash flows and stockholders' deficiency for each of the years in the three-year period ended December 31, 1996. 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, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1994 the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits."



New York, New York
January 28, 1997

Five-Year Financial Highlights

REVLON, INC. AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31 1996	1995[a]	1994[a]	1993[a]	1992
Historical Statements of Operations Data:					
Net sales	**$ 2,167.0**	$ 1,937.8	$ 1,732.5	$ 1,588.3	$ 1,632.2
Gross profit	**$ 1,441.3**	$ 1,285.7	$ 1,135.2	$ 1,019.5	$ 1,076.8
Selling, general and administrative expenses	**1,241.1**	1,139.1	1,026.8	969.6	996.7
Restructuring charges	**–**	–	–	–	162.7[d]
Operating income (loss)	**200.2**	146.6	108.4	49.9	(82.6)
Interest expense, net	**130.0**	137.7	130.4	114.4	94.0
Amortization of debt issuance costs	**8.3**	11.0	8.4	8.0	6.7
Other, net	**12.0**	12.7	20.8	39.3	26.0
Income (loss) before income taxes	**49.9**	(14.8)	(51.2)	(111.8)	(209.3)
Provision for income taxes	**25.5**	25.4	22.8	19.0	14.7
Income (loss) before extraordinary items and cumulative effect of accounting changes	**24.4**	(40.2)	(74.0)	(130.8)	(224.0)
Extraordinary items – Early extinguishments of debt	**(6.6)**	–	–	(9.5)	(2.9)
Cumulative effect of accounting changes	–	–	(28.8)[b]	(6.0)[c]	–
Net income (loss)	**$ 17.8**	$ (40.2)	$ (102.8)	$ (146.3)	$ (226.9)
Income (loss) per common share:					
Income (loss) before extraordinary items and cumulative effect of accounting changes	**$ 0.49**	$ (0.95)	$ (1.74)	$ (3.08)	$ (5.27)
Extraordinary items	**(0.13)**	–	–	(0.22)	(0.07)
Cumulative effect of accounting changes	–	–	(0.68)	(0.14)	–
Net Income (loss)	**$ 0.36**	$ (0.95)	$ (2.42)	$ (3.44)	$ (5.34)
Weighted average common shares outstanding[e]	**49,687,500**	42,500,000	42,500,000	42,500,000	42,500,000
EBITDA[f]	**$ 282.8**	$ 224.0	$ 178.8	$ 118.9	$ 150.1
Balance Sheet Data:					
Total assets	**$ 1,621.3**	$ 1,535.3	$ 1,418.1	$ 1,548.7	$ 1,438.3
Long-term debt, excluding current portion	**1,352.2**	1,467.5	1,327.5	1,203.8	969.0
Total stockholders' deficiency	**(496.7)**	(702.0)	(656.5)	(555.3)	(443.1)

(a) Effective January 1, 1996, Products Corporation acquired from Holdings substantially all of the assets of the Tarlow Advertising Division ("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 beginning with January 1, 1993 have been restated as if the acquisition took place at the beginning of such period. Products Corporation paid $4.1 million to Holdings which was accounted for as an increase to capital deficiency.

(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 1993 first quarter to reflect the cumulative effect of the accounting change.

(d) Includes restructuring charges of $162.7 in 1992, which included (i) consolidation of certain worldwide manufacturing and warehouse facilities, (ii) consolidation in management information systems, (iii) vacating premises under lease, (iv) personnel reductions and (v) discontinuance of certain product lines.

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

(f) EBITDA is defined as operating income (loss) before restructuring charges, plus depreciation and amortization other than that relating to early extinguishment of debt and debt issuance costs.

Revlon Directors and Officers

Board of Directors

Ronald O. Perelman [1]
CHAIRMAN OF THE EXECUTIVE COMMITTEE
CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF MACANDREWS & FORBES HOLDINGS INC.

Jerry W. Levin [1]
CHAIRMAN OF THE BOARD

Donald G. Drapkin [1,2]
VICE CHAIRMAN,
MACANDREWS & FORBES HOLDINGS INC.

George Fellows
PRESIDENT

Meyer Feldberg [3]
DEAN,
COLUMBIA BUSINESS SCHOOL

William J. Fox
SENIOR EXECUTIVE VICE PRESIDENT

Howard Gittis [1,2]
VICE CHAIRMAN,
MACANDREWS & FORBES HOLDINGS INC.

Vernon E. Jordan, Jr.
SENIOR PARTNER, AKIN, GUMP, STRAUSS, HAUER & FELD, LLP

Henry J. Kissinger
CHAIRMAN, KISSINGER ASSOCIATES, INC.,
FORMER SECRETARY OF STATE OF THE UNITED STATES OF AMERICA

Edward Landau [3]
PARTNER, LOWENTHAL, LANDAU, FISCHER & BRING, P.C.

Linda Gosden Robinson [3]
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I. Howard Diener
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Revlon Technologies

Andrew J. Schlossman
PRESIDENT

Shareholder Information

REVLON, INC. AND SUBSIDIARIES

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 1996, commencing February 29, 1996.

QUARTER	HIGH	LOW
First	28 1/4	25 1/2
Second	31 3/8	24 3/4
Third	31 1/8	23 1/2
Fourth	36 1/2	28 5/8

As of the close of business on February 24, 1997 there were 570 holders of record of the Company's Common Stock. As of the close of business on February 24, 1997, the closing sales price as reported by the New York Stock Exchange for the Company's Class A Common Stock was $39 3/8.

The Company has not declared a cash dividend on the Class A Common Stock subsequent to the Company's IPO 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 — Liquidity and Capital Resources" and Note 7 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 8, 1997 at 10:00 a.m. at the Revlon Research Center, 2147 Route 27, Edison, New Jersey, 08818.

Corporate Address

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

Corporate and Investor Information

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

Investor Relations

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

Contacts

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Consumer Product Media

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Senior Vice President, Public Relations

Consumer Information Center

1-800-4-REVLON

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