

# **Intercos Europe S.p.A.**

(company with a sole shareholder)

Registered Office in Milan - Piazza Eleonora Duse 2

Share capital €3,000,000 fully paid-in

Milan REA No. 1125524

Subject to direction and coordination by INTERCOS S.p.A.

Companies Register and Tax Code No. 00712410190

## **FINANCIAL STATEMENTS AT DECEMBER 31, 2015**

**PREPARED IN CONFORMITY WITH IFRS  
ADOPTED BY THE EUROPEAN UNION**

**Independent auditor's report  
in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010  
(Translation from the original Italian text)**

To the Sole Shareholder of Intercos Europe S.p.A.

**Report on the financial statements**

We have audited the accompanying financial statements of Intercos Europe S.p.A., which comprise the statement of financial position as at December 31, 2015, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' responsibility for the financial statements*

The Directors of Intercos Europe S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Intercos Europe S.p.A. as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Report on other legal and regulatory requirements**

#### *Opinion on the consistency of the Report on Operations with the financial statements*

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations with the financial statements. The Directors of Intercos Europe S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. In our opinion the Report on Operations is consistent with the financial statements of Intercos Europe S.p.A. as at December 31, 2015.

Milan, April 8, 2016

Reconta Ernst & Young S.p.A.

Signed by: Paolo Zocchi, Partner

*This report has been translated into the English language solely for the convenience of international readers.*

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## Financial Statements for the year ended December 31, 2015

### REPORT ON OPERATIONS

Intercos Europe S.p.A. is a leading company in the manufacture of cosmetics for the most important brands in the world. The company ended the year 2015 with a profit of €11,521 thousand.

The year 2015 featured significant growth in revenues in terms of orders received and sales in all geographical areas and business lines.

The key highlights for the year 2015 are the following:

<i>(in € thousands)</i>	2015	2014	Change
Revenues	206,351	191,606	14,745
Adjusted EBITDA (1)	23,734	22,712	1,022
Operating profit	19,704	17,361	2,343
Pre-tax profit	17,571	15,744	1,827
Profit for the year	11,521	10,602	919

<i>(in € thousands)</i>	12/31/2015	12/31/2014	Change
Net invested capital (2)	51,810	62,493	(10,683)
Employee benefit obligations	3,891	4,983	(1,092)
Equity	32,252	25,519	6,733
Net financial position	(17,013)	(36,975)	19,962

<i>(in € thousands)</i>	12/31/2015	12/31/2014	Change
Capital expenditures	6,013	3,098	2,915
Employees (number at year-end)	672	713	(41)

- (1) Adjusted EBITDA is calculated as Profit for the year before depreciation, amortization and writedowns, impairment reversals (losses), nonrecurring expenses, financial income and expenses, dividends and income taxes.
- (2) Net invested capital is calculated as (+) total non-current assets (+) inventories (+) trade receivables (+) other current assets (-) provisions (-) deferred tax liabilities (-) trade payables (-) other payables.

### ***World Economic Overview***

Global economic growth continues, although it has been slightly penalized by the difficulties encountered by the larger emerging economies.

In the United States, the services and construction segments are growing more than the manufacturing segment and unemployment continues to fall. In December, the rise in interest rates on Federal Funds implemented by the U.S. Federal Reserve, motivated by the significant improvement in the labor market, marks the end of the United States policy of zero interest rates adopted since 2008.

The slowdown of the Chinese economy had a negative impact on the prices of raw materials and on business in emerging countries. The fact that high levels of investment and indebtedness have returned in China is a sign of the fragility of the country itself and poses a threat to the global economy.

In the Eurozone, the recovery of economic activity continued. Until now, the global slowdown has had a limited effect on the area but, in terms of the future outlook, constitutes a risk for a fall in growth and inflation, triggered by the weakness of foreign demand and the fall in oil prices of the last few months. In December, the Governing Council of the ECB introduced further expansive measures and extended the securities markets program, and is prepared to intervene again if necessary.

In Italy, the recovery is continuing gradually. Exports, which have sustained activity over the last four years, were affected by the weakness of extra-European markets, and are gradually being replaced by domestic demand. In the fourth quarter GDP increased in a similar way to that of the third quarter (when it grew by 0.2%).

Unemployment in Italy dropped to 11.4% in the two months of October and November, the lowest level since the end of 2012.

In December inflation fell to 0.1% year-over-year. In the next few months, the expectations of households and businesses suggest a modest growth in prices. Inflation is being affected by the recent fall in fuel prices, but also by the persisting broad margins of under-utilization of productive capacity, which is contributing to keeping the basic trend of prices at minimum levels.

In the autumn, funding in the private sector was strengthened; loans to businesses increased for the first time in almost four years. The relaxing of loan terms continued: the average cost of new loans to businesses is at a record low and the differential against the corresponding average rate in the Eurozone is now nil: at the end of 2012 it was equal to approximately 1 percentage point.

### ***Market scenario***

The **global market of the Color Cosmetics sector**, which today has a retail value of approximately USD 58 billion, is up 6.5% year-over-year 2015 compared to 5.8% year-over-year 2014.

As for the different geographical areas, Western Europe grew by 3.4% from 2.2% in 2014.

The North American market grew 2.3% compared to 1.6% in the prior year.

The Asian market (excluding Japan) expanded by 11.4% compared to 2014. China in particular is up 11.5% vs 2014 in a market worth USD 3.8 billion.

Emerging markets display a positive trend (+9.7%), including Brazil which records an increase of 9.5% compared to 2014.

## 2. *Significant events in 2015*

A brief description of the significant events which occurred in 2015 is presented below:

- In view of the favorable trend of the financial markets, in March 2015, the parent Intercos S.p.A. decided to refinance its principal debt thus obtaining more favorable terms than those in the renegotiation process of July 2014. This transaction led to the replacement of the senior loan contract of a nominal amount of €181,312,638, last modified on July 28, 2014 with: (1) a non-convertible bond of €120,000,000 due on March 2022 at a fixed rate of 3.875% and (2) a new loan of €80,000,000 due at the end of 2020 at better terms than the old loan contract (fixed rate at 2.10% and variable rate at the 1-month, 3-month and 6-month Euribor/Libor. Then the company, through the parent Intercos S.p.A., repaid the €35 million debt conferred in 2011 and replaced it with a new loan contract for €20 million. At the same time the company received a loan from Intercos S.p.A. for €15 million which partially offsets the loan receivable from Intercos S.p.A. for €5 million.
- A lease contract was signed on July 1, 2015 for an industrial-use building located in the Caponago municipality. After a series of restructuring work, a part of the production now in the Agrate Brianza municipality will be transferred there. Production is expected to start at the beginning of January 2016.
- On December 22, 2015, the company received a loan from the parent Intercos S.p.A. for €5,000 thousand. The loan bears interest at 4.5% plus a spread equal to the 3-month Euribor per year and will be repaid by and not later than December 31, 2016.

## 3. *Profit and financial performance in 2015*

In 2015 the company reported revenues of €206,351 thousand, up 7.7% compared to 2014. Sales increased in the Delivery System and Powders segments, 52% of which is in the Retailers channel.

Revenues by geographical area based on the territory of residence of the customers indicated on the sales invoice are presented below:



<i>(in € thousands)</i>	<b>2015</b>	<b>2014</b>
USA	42,853	36,589
EMEA	157,142	150,229
Asia	6,356	4,788
<b>Total</b>	<b>206,351</b>	<b>191,606</b>

In 2015 the different geographical areas show the following trends in revenues:

- Asia area revenues are up €1,568 thousand, or 32.7% compared to 2014. This increase is the result of the strengthening of control over the market through significant investments in the area and in a market that grew 11.4%.
- EMEA area grew its revenues by €6,913 thousand, or 5% over 2014. Such improvement is attributable to a greater focus on the market where the company has increased its sales in Emerging Brands and Specialty Shop markets.
- Americas area reports higher revenues of 17.1% over the prior year mainly in the Prestige market (+28%) compared to a 2.3% increase of the market.

**Adjusted EBITDA** is a positive €23,734 thousand and an increase of €1,022 thousand over 2014. The increase in profitability is due to strong revenue growth coupled with a curbing of fixed costs and improved productivity in the operations area.

**Operating profit** is €19,704 thousand, up €2,343 thousand compared to the prior year owing to the considerable improvement in productivity and a positive product and geographical mix, in addition to the complete absence of nonrecurring expenses and the recognition of nonrecurring income from the release of provisions in excess of requirements following the definitive closure of the Limbiate factory.

**Profit** for the year comes to €11,521 thousand compared to €10,602 thousand in 2014, with a profit margin of 5.6%.

**Capital expenditures in property, plant and equipment and intangible assets** total €6,013 thousand and relate mainly to efforts to bolster the production capacity of Prisma Shine and the filling machines department. New machinery of about €2 million was also purchased for the production of new technologies such as Back Injection and Slurry. In addition, capital expenditures include advance payments for work relating to specific plant for the new industrial building in Caponago that will be completed in 2016.

The **net financial position** is equal to €17,013 thousand compared to €36,975 thousand at December 31, 2014. This is a decisive improvement and the result of a careful management of working capital attributable to the company's strategy designed to improve working capital management through periodic meetings with credit committees, optimization of the supply chain and a daily monitoring of cash flows and liquidity.

Total **Equity** is €32,252 thousand, increasing €6,733 thousand from €25,519 thousand at December 31, 2014. Over the course of 2015 the company paid dividends totaling €5,000 thousand.

**Costs for services and leases and rents** in 2015 amount to €78,459 thousand compared to €74,593 thousand in 2014. The overall increase of €3,866 thousand includes €1,023 thousand relating to processing and packaging, €256 thousand to shipping expenses, €393 thousand to services for laboratory analyses, €301 thousand to maintenance services and €876 thousand to commission expenses.

**Employee benefit expenses** in 2015 total €37,935 thousand, of which €9,399 thousand relates to temp work. Employee benefit expenses as a percentage of revenues are 18.4%, showing an improvement from 19.4% in 2014 due to an improved corporate structure that allows for greater synergies thanks to the Group's new organizational model, as well as a significant increase in productivity.

For purposes of commenting on the changes in financial position, a reclassified statement of financial position is presented as follows.

<i>(in € thousands)</i>	12/31/2015	12/31/2014
<b>Fixed assets</b>	<b>36,122</b>	<b>34,619</b>
Inventories	34,883	32,534
Trade receivables	41,948	37,452
Trade payables	<u>(59,439)</u>	<u>(38,434)</u>
<b>Trade working capital</b>	<b>17,392</b>	<b>31,552</b>
Other current receivables and payables	<u>(6,595)</u>	<u>(3,725)</u>
<b>Net working capital</b>	<b>10,797</b>	<b>27,827</b>
Other provisions and non-current assets and liabilities	<u>2,346</u>	<u>47</u>
<b>Invested capital</b>	<b><u>49,265</u></b>	<b><u>62,493</u></b>
<b>Equity</b>	<b>32,252</b>	<b>25,519</b>
Cash	(16,225)	(12,423)
Financial payables	33,238	49,397
<b>Net financial position</b>	<b><u>17,013</u></b>	<b><u>36,975</u></b>
<b>Total sources</b>	<b><u>49,265</u></b>	<b><u>62,493</u></b>

Fixed Assets / Invested Capital	73.32%	55.40%
Net Financial Position / Equity	0.53	1.45
Invested Capital / Equity	1.53	2.45
Trade Working Capital / Revenues	5.23%	16.47%
Net Working Capital / Revenues	5.23%	14.85%

Compared to 2014, working capital turnover was positively impacted by a change in the timing of provisioning which led to an increase in trade payables. In particular, working capital management featured a considerable reduction in the flows of trade payables since a policy was put in place to improve the payment terms in the company's favor.

Further details are provided in the Notes.

#### 4. Share capital

The share capital at December 31, 2015 totals €3,000,000 and consists of 3,000,000 ordinary shares of par value €1 each.

There were no changes during the year as illustrated in the following table at December 31, 2015:

Shareholders	Beginning balance	Ending balance	%
Intercos S.p.A.	3,000,000	3,000,000	100.00%
<b>SHARE CAPITAL</b>	<b>3,000,000</b>	<b>3,000,000</b>	<b>100.00%</b>

In accordance with the provisions of article 2428 of the Italian Civil Code, a statement is made to the effect that the company neither holds nor has purchased or sold shares of the parent during the course of the year under examination, not even through fiduciaries or trustees.

In addition, the company neither holds nor has purchased or sold treasury shares during the course of the year under examination, not even through fiduciaries or trustees.

## 5. Related party transactions

Related party transactions do not qualify as either atypical or unusual but fall under the ordinary course of the business operations of the Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are nevertheless carried out on an arm's length basis.

The details of the effects of related party transactions on the income statement for 2015 and the statement of financial position at December 31, 2015 are described in the Notes.

## 6. Risk management and uncertainties

Financial risk management is an integral part of Intercos Europe S.p.A.'s activities.

Intercos Europe S.p.A.'s business is exposed to various types of risk: market risk (including exchange rate and interest rate risks), credit risk and liquidity risk. The strategy for risk management adopted by Intercos Europe S.p.A. is focused on the unpredictability of the markets and aims to minimize any potential adverse effects on the results of its operation. Certain types of risk are mitigated through the use of derivative instruments.

The coordination and monitoring of major financial risks is centralized with management. The risk management policies are approved, in concert with the board, by the Administration, Finance, and Control Function, which sets down written policies for the management of the above risks and the use of suitable financial instruments.

### Types of risks

#### **Market risks**

#### **Exchange rate risk**

Intercos Europe S.p.A. operates globally and is exposed to foreign exchange risk arising from fluctuations in the equivalent amount of commercial and financial flows denominated in currencies other than the functional currency.

Intercos Europe S.p.A.'s exposure is mainly focused on the EUR/USD exchange rate with reference to commercial and financial transactions entered into by the company in the North American market and vice versa.

These are hedged by net currency positions or by using derivative contracts.

The following sensitivity analysis was performed to illustrate the effects on profit and on equity produced by an increase/decrease of 7.5% in the exchange rates compared to the effective exchange rates at December 31, 2015. The following sensitivity analysis does not consider the tax effect on profit and equity.

<i>(in € thousands)</i>	<b>2015</b>	
	-7.50%	+7.50%
U.S. dollar	(165)	142
British pound	387	(333)
Other currencies	331	(285)
<b>Total</b>	<b>553</b>	<b>804</b>

### **Interest rate risk**

The company is exposed to interest rate risk mainly from long-term borrowings. Such borrowings are at either fixed or variable interest rates. Intercos Europe S.p.A. has no particular hedging policy regarding the risks arising from fixed-rate contracts, maintaining that the risk is moderate in relation to the limited amount of fixed-rate loans.

The Administration Function monitors interest rate risk exposure and proposes the most appropriate hedging strategies to keep exposure within the limits established by the Administration, Finance, and Control Function, using derivative contracts, where necessary.

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2015, with all other variables remaining constant.

The potential effects reported below were calculated by taking the liabilities which represent the most significant part of the company's borrowings at the reference date and calculating, on that amount, the potential impact of a change in the interest rates on an annual basis.

The liabilities in this analysis include variable-rate financial borrowings and receivables and also cash and cash equivalents.

<i>(in € thousands)</i>	<b>2015</b>	
	-0.5%	+0.5%
Euro (Eurolibor)	(98)	98
<b>Total</b>	<b>(98)</b>	<b>98</b>

## Credit risk

Credit risk is associated with trade receivables, cash and cash equivalents, deposits at banks and other financial institutions.

The credit risk related to trading counterparties is managed by the corporate Administration Function. Intecos Europe S.p.A. does not have significant concentrations of credit risk. However, there are policies in place to ensure that sales of products and services are made to customers with a high degree of creditworthiness, taking into consideration their financial position, past experience and other factors. Credit limits for major customers are based on internal and external valuations based on ceilings approved by management. The use of credit limits is monitored periodically. When considered appropriate, the company may also sell non-recourse receivables to factoring companies.

As for credit risk relating to the management of financial resources and cash, the risk is monitored by the Administration Function which has policies in place to ensure that the company enters into transactions with independent high-credit-quality counterparties.

Trade accounts receivables, the provision for impairment of receivables and an ageing analysis of receivables with third party customers are presented at December 31, 2015.

<i>12/31/2015</i>	<i>Trade receivables</i>	<i>Current</i>	<i>Overdue 0-30 days</i>	<i>Overdue 30-60 days</i>	<i>Overdue over 60 days</i>	<i>Provision for impairment</i>
Intecos Europe S.p.A.	38,112	32,402	3,933	1.359	586	(167)

## Liquidity risk

Prudent management of liquidity risk arising from the ordinary operations of the company implies maintaining an adequate level of cash as well as sufficient funds obtainable through the support of the parent Intecos S.p.A.

The Finance Function of the parent centrally monitors forecasts on the use of the liquidity reserves on the basis of estimated cash flows.

The amount of liquid assets available at December 31, 2015 compared to the end of the prior year is as follows:

<i>(in € thousands)</i>	<i>12/31/2015</i>	<i>12/31/2014</i>
Cash and cash equivalents	16,225	12,423
<b>Total</b>	<b>16,225</b>	<b>12,423</b>

The following table presents an analysis of the maturities of borrowings and other liabilities on a net basis. Borrowings from banks in the following tables are presented at their nominal amount

	Within 1 year	1 to 5 years	Beyond 5 years	Total at December 31, 2015
Borrowings from banks and other lenders - m-l/term	1,425	17,999	0	19,424
Finance leases payable	43	72	0	114
<b>Medium/long-term debt</b>	<b>1,468</b>	<b>18,071</b>	<b>0</b>	<b>19,539</b>
Borrowings from banks and other lenders - s-term	0	0	0	0
Factoring companies payable	199	0	0	199
Trade payables	59,439	0	0	59,439
Loans from group companies - s-term	13,500	0	0	13,500
Other payables	9,234	0	0	9,234
<b>Short-term debt</b>	<b>82,372</b>	<b>0</b>	<b>0</b>	<b>82,372</b>
<b>Total</b>	<b>83,840</b>	<b>18,071</b>	<b>0</b>	<b>101,911</b>

In order to complete the disclosure on financial risks, a reconciliation is presented below between the categories of financial assets and liabilities as identified in the statement of financial position format of Intercos Europe S.p.A. and the categories of assets and liabilities identified in accordance with the requirements of IFRS 7:

(in € thousands)

12/31/2015	Financial assets at fair value through profit or loss	Receivables and loans	Available-for-sale financial assets	Held-to-maturity assets	Financial liabilities at fair value through profit or loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	-	-
Trade receivables	-	41,948	-	-	-	-	-
Loans receivable	-	0	-	-	-	-	-
Other assets	-	4,398	-	-	-	-	-
Loans payable	-	-	-	-	-	13,500	-
Borrowings from banks and other lenders	-	-	-	-	-	19,688	-
Trade payables	-	-	-	-	-	59,439	-
Loans payable	-	-	-	-	-	13,500	-
Other payables	-	-	-	-	-	9,234	-
Derivatives (liabilities)	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>46,346</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>115,362</b>	<b>0</b>

Cash and cash equivalents	-	16,225	-	-	-	-	-
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With the reference to the assets and liabilities in the above table, the fair value is considered to approximate the carrying amounts in the financial statements.

## 7 Environment and employees

The headcount of Intercos Europe at December 31, 2015 is 672 compared to 713 at year-end 2014, with a reduction of 41 people.

Matters associated with safety at work and protection and safeguarding of the environment are always of major concern to the Intercos Group. The activities conducted by the company in these areas ensured that, during the year, there were no cases of accidents in the workplace causing serious injury to employees, or charges that the company was harming the environment.

## 8. Subsequent events

There were no events to report subsequent to the date of the financial statements.

## 9. Appropriation of the profit for the year

To the shareholders,

We ask you to approve the Directors' Report on Operations for the year 2015 and the financial statements for the year ended December 31, 2015 as submitted to you, appropriating the profit for the year of €11,520,675 as follows: €1,520,675 to the extraordinary reserve and €10,000,000 for the payment of dividends to Intercos S.p.A.

Milan, March 25, 2016

INTERCOS EUROPE S.p.A.  
On behalf of the Board of Directors

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# Corporate Information

## BOARD OF DIRECTORS

<b>Name</b>	<b>Position</b>
Dario Gianandrea Ferrari	Chairman and CEO
Paolo Valsecchi	Director
Martin Breuer	Director
Matteo Milani	Director
Gianandrea Ferrari	Director

## BOARD OF STATUTORY AUDITORS

<b>Name</b>	<b>Position</b>
Matteo Tamburini	Chairman
Mario Valenti	Standing auditor
Maria Maddalena Gnudi	Standing auditor
Marino Marrazza	Alternate auditor
Barbara Zanardi	Alternate auditor

## INDEPENDENT AUDITORS

**Reconta Ernst & Young S.p.A**

*Statement of Financial Position at December 31, 2015*

<i>(in euros)</i>	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
NON-CURRENT ASSETS		
7 Property, plant and equipment	15,700,557	14,276,149
8 Intangible assets	121,152	43,091
9 Goodwill	20,300,000	20,300,000
10 Deferred tax assets	3,863,477	4,916,671
11 Other non-current receivables	3,104,552	3,103,486
	<b>43,089,738</b>	<b>42,639,397</b>
CURRENT ASSETS		
12 Inventories	34,883,406	32,534,247
13 Trade receivables	41,948,217	37,452,404
14 Taxes receivable	1,345,248	3,636,560
15 Other current assets	1,293,558	1,077,267
16 Loans receivable from Group companies – short-term	0	5,000,000
17 Cash and cash equivalents	16,224,850	12,423,302
	<b>95,695,278</b>	<b>92,123,781</b>
<b>TOTAL ASSETS</b>	<b>138,785,016</b>	<b>134,763,178</b>

	<b>December 31,</b>	
<i>(in euros)</i>	<b>2015</b>	<b>2014</b>
<b><i>EQUITY AND LIABILITIES</i></b>		
Share capital	3,000,000	3,000,000
Legal reserve	600,000	600,000
Other reserves	15,553,158	9,951,315
Retained earnings	13,098,667	11,967,391
<b>18 TOTAL EQUITY</b>	<b>32,251,825</b>	<b>25,518,706</b>
<b>LIABILITIES</b>		
<b>NON-CURRENT LIABILITIES</b>		
19 Borrowings from banks and other lenders	18,070,824	34,673,517
20 Provisions	235,881	2,501,533
21 Deferred tax liabilities	495,665	488,621
22 Employee benefit obligations	3,890,606	4,983,441
<b><i>Non-current liabilities</i></b>	<b>22,692,975</b>	<b>42,647,111</b>
<b>CURRENT LIABILITIES</b>		
23 Borrowings from banks and other lenders - current	1,666,921	19,049,358
24 Other financial liabilities	0	675,000
25 Loans payable to Group companies - short-term	13,500,000	0
26 Trade payables	59,439,492	38,433,974
27 Other payables	9,233,803	8,439,029
<b><i>Current liabilities</i></b>	<b>83,840,216</b>	<b>66,597,362</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>138,785,016</b>	<b>134,763,178</b>

*Statement of Comprehensive Income for the year ended December 31, 2015*

<i>(in euros)</i>	<b>2015</b>	<b>2014</b>
28 Revenues from sales and services	206,350,994	191,606,371
29 Other income	4,422,883	4,234,156
30 Purchases of raw materials, semifinished products and consumables	(71,492,877)	(58,775,716)
31 Change in inventories of raw materials, semifinished products and finished products	2,330,419	(1,639,241)
32 Costs for services and leases and rents	(78,458,863)	(74,593,027)
33 Employee benefit expenses	(37,934,799)	(37,182,226)
34 Accruals	(61,500)	(72,000)
35 Other operating expenses	(1,421,772)	(709,291)
<b>Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring expenses</b>	<b>23,734,484</b>	<b>22,869,027</b>
36 Depreciation, amortization and impairment reversals (losses)	(4,229,991)	(4,912,085)
37 Nonrecurring operating income (expenses)	200,000	(438,787)
<b>Operating profit</b>	<b>19,704,493</b>	<b>17,518,155</b>
38 Financial income	34,124	32,873
39 Financial expenses	(2,167,181)	(1,806,763)
40 Income taxes	(6,050,762)	(5,142,422)
<b>Profit for the year</b>	<b>11,520,675</b>	<b>10,601,843</b>
<b>Other components of comprehensive income</b>		
Other comprehensive income that will not be reclassified subsequently to the income statement		
41 Gains (losses) on remeasurement of employee defined benefit plans	(212,445)	(269,634)
<b>Total Other components of comprehensive income</b>	<b>(212,445)</b>	<b>(269,634)</b>
<b>Total comprehensive income for the year</b>	<b>11,308,230</b>	<b>10,332,209</b>

*Statement of Cash Flows for the year ended December 31, 2015*

<i>(in € thousands)</i>	<b>2015</b>	<b>2014</b>
Profit from operating activities	11,521	10,602
Profit for the year	<b>11,521</b>	<b>10,602</b>
Depreciation, amortization and impairment reversals (losses)	4,230	4,912
Non-recurring income (expenses)	0	439
Change in provisions	(3,151)	(985)
Financial income (expenses)	2,133	1,617
Decrease / (Increase) in inventories	(2,349)	1,639
Decrease / (Increase) in net trade receivables	(4,496)	(911)
Increase / (Decrease) in trade payables	34,506	(2,152)
Decrease / (Increase) in other assets	3,127	(976)
Increase / (Decrease) in other liabilities	795	(131)
<b>Cash flows from operating activities (a)</b>	<b>46,115</b>	<b>14,055</b>
Net investments in property, plant and equipment	(5,625)	(3,186)
Net investments in intangible assets	(107)	(26)
Investments	0	
<b>Cash flows used in investing activities (b)</b>	<b>(5,732)</b>	<b>(3,212)</b>
Increase di share capital	0	0
(Increase) / Decrease in financial assets	5,000	(5,000)
Increase / (Decrease) borrowings from banks and other lenders	(34,660)	1,112
Interest paid during the year	(2,133)	(1,663)
<b>Cash flows used in financing activities (c)</b>	<b>(31,793)</b>	<b>(5,551)</b>
<b>Change in equity (d)</b>	<b>(4,788)</b>	<b>(3,000)</b>
<b>Cash flows during the year (a)+(b)+ (c) + (d)</b>	<b>3,802</b>	<b>2,292</b>
Cash and cash equivalents at beginning of year	12,423	10,131
Cash and cash equivalents at end of year	16,225	12,423
<b>Change in cash and cash equivalents</b>	<b>3,802</b>	<b>2,292</b>

### *Statements of Changes in Equity*

*(in € thousands)*

Description	Share capital	Share premium reserve	Legal reserve	Other reserves	Revaluation reserve	Profit for the year	Total
<b>Equity at 12/31/2013</b>	<b>3,000,000</b>	<b>755,885</b>	<b>600,000</b>	<b>7,269,180</b>	<b>2,909,999</b>	<b>3,651,432</b>	<b>18,186,496</b>
Actuarial loss				(269,634)			(269,634)
Appropriation 2013 profit				3,702,436		(3,702,436)	0
Payment of dividends				(3,000,000)			(3,000,000)
Profit 2014						10,601,843	10,601,843
<b>Equity at 12/31/2014</b>	<b>3,000,000</b>	<b>755,885</b>	<b>600,000</b>	<b>7,701,982</b>	<b>2,909,999</b>	<b>10,550,839</b>	<b>25,518,705</b>
Actuarial loss				212,445			212,445
Appropriation 2014 profit				10,601,843		(10,601,843)	0
Payment of dividends				(5,000,000)			(5,000,000)
Profit 2015						11,520,675	11,520,675
<b>Equity at 12/31/2015</b>	<b>3,000,000</b>	<b>755,885</b>	<b>600,000</b>	<b>13,516,270</b>	<b>2,909,999</b>	<b>11,469,671</b>	<b>32,251,825</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

Intercos Europe S.p.A is a corporation organized under the laws of the Republic of Italy, formed on December 22, 1982, with its registered office in Milan, Piazza Eleonora Duse 2.

The company is controlled by Intercos S.p.A., which is required to prepare the consolidated financial statements of the Intercos Group.

#### **Significant events in 2015**

- In March 2015, the parent Intercos S.p.A. contracted: 1) with the pool of banks led by Banca IMI for a loan of €80,000 thousand due December 31, 2020 at a variable Euribor / Libor rate plus a spread of between 2.65% and 1.50% depending on the Group's leverage ratio; 2) with institutional investors a non-convertible bond of €120,000 thousand due 2022 at a fixed rate of 3.875% per year, listed on the "Main Securities Market" of the Irish Stock Exchange. As part of these transactions, the company, through the parent Intercos S.p.A., repaid the loan conferred to it in 2011 of €35 million and obtained a new loan of €20 million. At the same time the company received a loan from Intercos S.p.A. which, after disbursements and repayments during the year, at December 31, 2015 amounts to €13,500 thousand.
- As established under the mobility procedure approved by the Ministry of Labor in July 2013 with regard to the Limbiate site that is no longer in use, at the end of the two-year mobility period on August 31, 2015, the company proceeded to dismiss all the workers previously employed at that site.
- On July 1, 2015 the company signed a lease contract for the industrial-use building located in the Caponago municipality. After a series of restructuring work, a part of the production now in the Agrate Brianza municipality will be transferred there. Production is expected to start at the beginning of January 2016.

### **2. GENERAL CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS**

#### **Basis of presentation**

The financial statements for the year ended December 31, 2015 of Intercos Europe S.p.A. are expressed in euros. The financial statements consist of the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity and the notes thereto. All

amounts in the notes are expressed in thousands of euros, unless otherwise indicated. The statement of comprehensive income format presents a classification according to costs by nature.

The financial statements at December 31, 2015 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), and approved by the European Commission for the preparation of consolidated and financial statements of companies with share capital and/or debt securities listed on a regulated market in the European Community.

By IFRS is meant all “International Financial Reporting Standards”, all International Accounting Standards (“IAS”), all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”), adopted by the European Union and contained in the relative European Union Regulations published up to the date on which the board of directors of Intercos Europe S.p.A. approved these draft financial statements. Any future guidance and updated interpretations will be adopted in subsequent years in the manner established each time by the benchmark accounting standards.

The financial statements were approved for publication by the board of directors on March 25, 2016.

### **Accounting standards, interpretations and amendments adopted during the year**

The accounting principles adopted in the preparation of the financial statements are consistent with those used in the preparation of the financial statements at December 31, 2015 except for the adoption of recently issued standards, interpretations and amendments in effect from January 1, 2015, as listed below.

Regulation 1361/2014 issued by the European Commission on December 18, 2014 endorsed the “*Annual Improvements to IFRS 2011-2013 Cycle*”. These amendments refer: (i) to IFRS 3, clarifying that IFRS 3 is not applicable for the recognition of the accounting effects related to the formation of a joint venture or joint operation (as defined by IFRS 11) in the financial statements of joint ventures or joint operations; (ii) to IFRS 13, clarifying that provisions set forth in IFRS 13 on the basis of which it is possible to measure the fair value of a group of financial assets and liabilities on a net basis, applies to all agreements falling within the scope of IAS 39 or IFRS 9 regardless of whether they meet the definition of financial assets or liabilities; (iii) to IAS 40, clarifying that in order to establish when the acquisition of a real estate investment constitutes a business combination, it is necessary to refer to the provisions of IFRS 3.

These amendments refer to situations that currently do not apply to the company; consequently they did not have any impact on the results of operation or the financial position of the company.

## **Accounting standards, amendments and interpretations issued by the IASB/IFRIC and endorsed by the European Commission, but not yet effective**

The standards, amendments and interpretations endorsed by the European Commission in 2015, but not yet effective, are listed and described below.

Regulation 2015/2173, issued by the European Commission on November 24, 2015 endorsed the amendment contained in the document “*Accounting for Acquisitions of Interests in Joint Operations*” (Amendments to IFRS 11), issued by the IASB on May 6, 2014. The amendments clarify the accounting for the initial and the additional acquisition of an interest in a joint operation (in the latter case, previously held interests are not remeasured) which meets the definition of a business, as defined in IFRS 3.

Regulation 2015/2231, issued by the European Commission on December 2, 2015, endorsed the amendments contained in the document “*Clarification of Acceptable Methods of Depreciation and Amortization*” (Amendments to IAS 16 and IAS 38), issued by the IASB on May 12, 2014. The amendments clarify that it is not appropriate to use revenue-based methods to calculate the depreciation or amortization of an asset because they exclusively reflect the flow of revenues generated by the asset and not the consumption of the economic benefits embodied in the asset. With regard to intangible assets this presumption can be rebutted if: (i) the intangible asset is expressed as a measure of revenue or (ii) it can be demonstrated that the revenue and the consumption of economic benefits of the intangible asset are highly correlated.

Regulation 2015/2343 of December 15, 2015 endorsed the “*Annual Improvements to IFRSs – 2012-2014 Cycle*” issued by the IASB on September 25, 2014, which: (i) for IFRS 5, clarifies that any reclassification of an asset (or disposal group) from held for sale to held for sale to shareholders/partners (or vice versa), must not be considered as a new divestment plan but rather as a continuation of the original plan; (ii) for IFRS 7 *Financial Instruments: Disclosures* provides additional guidance in the determination of whether or not there exists continuing involvement in a financial asset that has been transferred, where a service agreement pertaining to it exists, so as to determine what level of disclosure is required; the same standard also clarifies the applicability of the disclosure in connection with the offsetting of financial assets and liabilities in interim financial statements; (iii) for IAS 19, clarifies that the discount rate to use to calculate the present value of bonds must be determined with reference to the market returns of high-quality corporate bonds denominated in the same currency rather than with reference to the country of reference; (iv) for IAS 34, clarifies the meaning of the reference to information provided in other sections of the interim financial statements, specifying that the same must be available within the same timeframe.

Regulation 2015/2406, issued by the European Commission on December 18, 2015, endorsed the amendments contained in the document “*Disclosure Initiative (Amendments to that IAS 1)*” issued by the IASB on December 18, 2014. The document clarifies guidance on materiality, the disaggregation and aggregation of line items, the systematic presentation of notes and the identification of accounting policies

and information requirements for other components of comprehensive income arising from the measurement of investments accounted for using the equity method.

On the same date the European Commission, under Regulation 2015/2441 endorsed the amendments contained in the document “*Equity method in separate financial statements (Amendments to IAS 27)*”, issued by the IASB on August 12, 2014. The amendments permit entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements, in addition to, as in the past, cost or in conformity with IAS 39. The chosen accounting option must be applied consistently for each category of investments. The same amendment has consequently reshaped also the definition of separate financial statements.

The above regulations are effective for annual periods beginning on or after January 1, 2016.

On January 9, 2015 the Regulations 2015/28 and 2015/29 were published in the Official Journal of the European Union. They were both issued by the European Commission on December 17, 2014, endorsing (i) “*Annual Improvements to IFRS 2010-2012 Cycle*” and (ii) the amendments to IAS 19 entitled “*Defined Benefit Plans: Employee Contributions*”.

The improvements contained the “*Annual Improvements to IFRS 2010-2012 Cycle*” refer to the following amendments: (i) to IFRS 2, clarifying the definition of “vesting conditions” and introducing separate definitions of service conditions and performance conditions; (ii) to IFRS 3, clarifying that obligations to pay contingent consideration, other than those falling within the definition of equity instruments, are assessed at fair value at every balance sheet date, with changes recognized in the income statement; (iii) to IFRS 8, requiring disclosure about the judgments made by management in applying aggregation criteria, describing the operating segments that were aggregated and the economic indicators that were assessed in order to determine that the aggregated segments share similar economic characteristics; (iv) to IAS 16 and IAS 38, clarifying the manner of determining the gross carrying amount of assets, in the event of revaluation as a result of application of the revaluation model; (v) to IAS 24, establishing the information to be disclosed when a related-party management entity provides key management personnel services to a reporting entity.

The amendments to IAS 19 permit accounting for contributions by third parties or employees to defined benefit plans that are independent of the number of years of service as a deduction of current service cost of the period in lieu of allocation of such contributions over the period in which the service is rendered.

The last two amendments apply to annual periods beginning on or after February 1, 2015 (the year 2016 in the case of the company).

## **Accounting standards, interpretations and amendments issued by the IASB/IFRIC and not yet endorsed by the European Commission**

The following is a list and description of newly issued amendments, standards and interpretations which, at the date of the financial statements, are in the process of being endorsed by the European Commission.

On January 30, 2014 the IASB issued “IFRS 14 *Regulatory Deferral Accounts*”, the interim standard related to the Rate-regulated activities project. First-time Adopters fall under the scope of application of the document, and such entities are allowed to continue to account for regulatory deferral account balances in their first IFRS financial statements in accordance with their previous GAAP when they adopt IFRS. The European Commission has decided to postpone the endorsement process of this standard until it become definitive.

On May 28, 2014 the IASB issued the IFRS 15 *Revenue from Contracts with Customers*, which provides a single model for the recognition of revenues based upon the transfer of control over an asset or service to a client, not necessarily coinciding with the current concept of the transfer of risks and rewards. It provides a more structured approach to the measurement and recognition of revenues, with a detailed application guide, also with reference, for example, to the recognition of variable consideration.

The provisions of IFRS 15 subsequent to the changes resulting from the amendment issued on September 11, 2015 are effective for annual periods beginning on or after January 1, 2018, except for any postponements established during the endorsement process by the European Commission.

On July 24, 2014 the IASB issued IFRS 9 - *Financial Instruments* together with the related “Basis for Conclusions and the related Application Guide”, replacing all previously issued versions of the standard. The new provisions: (i) provide for the simplification of categories for the classification of financial instruments and that such classification be based upon the characteristics of the instrument and the business model of the enterprise; (ii) embedded derivatives are no longer required to be separated; (iii) identify a new impairment model that uses “forward-looking” information to obtain early recognition of losses on receivables with respect to the “incurred loss” model that postpones the recognition of losses on receivables until the manifestation of a loss event; (iv) introduce a substantial modification in the recognition of hedging transactions with the aim of ensuring that hedging transactions are aligned to the risk management strategies of enterprises and based upon a more principle-based approach.

The provisions set forth in the above-mentioned documents, which replace those in standard IAS 39 “*Financial Instruments: Recognition and Measurement*”, are effective for annual periods beginning on or after January 1, 2018, except for any subsequent postponements at the time of endorsement by the European Commission.

On September 11, 2014 the IASB issued the document “*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28*”. The amendments aim to define in greater detail the accounting treatment and the recognition of the related effects in the income statement, of the loss of control of a subsidiary due to its sale to an associate or a joint venture. The different accounting treatment to be adopted in the financial statements of the investor depends on whether the assets sold or contributed constitute a business, as defined by IFRS 3. On December 17, 2015 the IASB indefinitely deferred the adoption date of these amendments.

On December 18, 2014 the IASB issued the document “*Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28*”, which clarifies the matters that arose in connection with the application of the exception to consolidation for investment entities. The provisions set forth in the documents are effective for annual periods beginning on or after January 1, 2016; to date the document has not been endorsed by the European Commission.

On January 13, 2016 the IASB issued IFRS 16 - *Leases*. Considering that all leases consist in conveying to an entity the right to use an asset for a period of time in exchange for consideration and that, if the payment of such consideration is made over the duration of the contract, the entity is implicitly obtaining a loan. IFRS 16 eliminates the distinction between finance leases and operating leases and introduces a single lessee accounting model to recognize leases. The application of this model requires the entity to recognize (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is low value, and to recognize (ii) depreciation of the right-of-use asset and interest on the lease liability separately in the income statement payable. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, except for any postponements established during the endorsement process by the European Commission.

On January 19, 2016 the IASB issued the document “*Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12*”. The amendments clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to deductible temporary differences; it also clarifies that the estimates for future taxable profits: (i) also include income from the sale of assets for amounts higher than the relative carrying amount and (ii) exclude tax deductions resulting from the reversal of deductible temporary differences. The provisions are effective for annual periods beginning on or after January 1, 2017, except for any postponements established during the endorsement process by the European Commission.

The company is reviewing these standards, where applicable, in order to evaluate if their adoption will or will not have a significant impact on the financial statements.

## **Summary of significant accounting policies**

The financial information as stated has been prepared in accordance with IFRS adopted by the European Union. The financial statements have been prepared under the historical cost convention except as specifically described in the following notes, in which case, fair value was used.

The financial statements are prepared under the going concern assumption.

The most significant accounting policies adopted are described below. The accounting policies described have been applied on a basis consistent with all the periods presented.

These financial statements will be submitted for the approval of the shareholders' meeting which is authorized to make changes, if any, to the financial statements, where necessary.

### **Property, plant and equipment**

Property, plant and equipment are stated at purchase or production cost less accumulated depreciation and impairment losses, if any. Purchase cost includes all directly attributable costs necessary to make the asset ready for use and any expenses for decommissioning and restoration that will be incurred as a result of contractual obligations that require the assets to be restored to their original condition.

Any borrowing costs incurred for the acquisition, production or construction of property, plant and equipment are capitalized to the relative asset up to the time such asset is ready for use. Ordinary and/or cyclical maintenance and repairs are charged directly to the income statement in the year in which they are incurred. Costs for the expansion, refurbishment or betterment of structural elements owned or leased are capitalized solely to the extent that they meet the requisites for being classified separately as assets or part of an asset under the component approach. Likewise, the replacement costs of identifiable components of complex assets are charged to assets and depreciated over their estimated useful lives; the remaining carrying amount of the component being replaced is charged to the income statement.

Spare parts of significant amount are capitalized and depreciated over the estimated useful life of the asset to which they refer.

The carrying amount of property, plant and equipment is adjusted by systematic depreciation, calculated on a straight-line basis from the date the asset is available and ready for use, over the estimated useful life of the asset. In particular, depreciation is recognized starting from the month in which the asset is available for use or is potentially able to provide the economic benefits associated with it and is charged on a monthly basis on a straight-line basis at rates designed to write off the assets up to the end of their useful life or, for disposals, up to the last month of utilization.

The annual percentage depreciation rates representing the estimated useful lives of property, plant and equipment are as follows:

<i>Description</i>	<i>Rates</i>
Land and Buildings	4%/5.5%
Plant	
o Generic	10.00%
o Specific	12.00%
o Water purification plant	15.00%
Machinery	12%/12.5%
Industrial equipment	
o Laboratory, workshop, molds	40.00%
o Light constructions	10.00%
Other assets	
o Office furniture and fixtures	12.00%
o Electronic machines	20.00%
o Internal transportation equipment	20.00%
o Motor vehicles	25.00%

The useful life of property, plant and equipment and the residual amount is reviewed and updated, where applicable, at the end of every year.

Whenever the depreciable asset is composed of distinctly identifiable elements whose useful life differs significantly from the other parts that compose the asset, depreciation is taken separately for each of the parts that compose the asset in accordance with the component approach.

Leasehold improvements are classified in property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period referring to costs for the expansion, upgrading or improvement of the structural elements leased from third parties corresponds to the lower of the remaining estimated useful life of the property, plant and equipment and the remaining term of the lease contract.

Gains and losses on the sale or disposal of property, plant and equipment are calculated as the difference between the proceeds from the sale and the net carrying amount of the assets sold or disposed of and are recognized in the income statement in the year to which they refer.

Land is not depreciated and is measured at cost net of accumulated impairment losses.

### **Leased assets**

Assets owned under finance lease contracts in which substantially all the risks and rewards of ownership are transferred to the company are recognized as property, plant and equipment at fair value or, if lower, at the

present value of the minimum lease payments. The corresponding liability payable to the lessor is shown in the financial statements under borrowings. The assets are depreciated according to the policies and rates indicated for property, plant and equipment unless the term of the lease contract is shorter than the useful life represented by these rates and reasonable certainty of transferring ownership of the leased asset at the natural expiration of the contract is not assured. In that case, the depreciation period is represented by the term of the lease contract. The lease payment is divided into its components of financial expense, recognized in the income statement, and the repayment of principal, recorded as a reduction of the financial liability.

Leases in which the lessor retains substantially all the risks and rewards of ownership associated with ownership of the assets are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease contract.

### **Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance able to produce future economic benefits. Such assets are recorded at the cost of purchase and/or production, including incidental expenses directly attributable to the preparation of the asset for its intended use, net of accumulated amortization, and any impairment losses. Any borrowing costs arising during and for the development of intangible assets are expensed in the income statement. Amortization starts when the asset is available for use and is charged on a straight-line basis over the remaining period of possible utilization, intended as the estimated useful life.

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the net fair value at the date of purchase, of assets and liabilities of acquired companies or business segments. Goodwill is not subject to amortization but is tested for impairment at least annually or whenever there is an indication of impairment, to verify the recoverability of the relative carrying amount in the financial statements. To test for impairment, goodwill must be allocated to cash-generating units or groups of cash-generating units (hereinafter also “CGU”). An impairment loss on goodwill is recognized when the recoverable amount of goodwill is below the carrying amount in the financial statements. The recoverable amount is the higher of the fair value of the CGU or groups of CGUs, less costs to sell, and the relative value in use (see the following paragraph on the “Impairment of property, plant and equipment and intangible assets” for additional information on the determination of the value in use). Reversal of a previous impairment loss on goodwill is prohibited.

When the impairment loss is higher than the carrying amount of goodwill allocated to the cash-generating unit, the remaining excess is allocated to the assets of the CGU in proportion to their carrying amount. The carrying amount of an asset should not be reduced below the higher of:

- the fair value of the asset less costs to sell;
- the value in use, as defined above.

*(ii) Trademarks, licenses and similar rights*

Licenses are amortized on a straight-line basis so as to allocate the cost incurred for the purchase of the right over the shortest period between the expected utilization period and the term of the relative contracts starting from the time in which the acquired right becomes exercisable. Software licenses are amortized on a straight-line basis over their estimated useful lives (5 years).

*(iii) Research and development costs*

Costs associated with research and development are charged to the income statement in the year incurred except for development costs recognized in intangible assets when the following conditions are met:

- a) the project can be clearly identified and the costs associated with it can be identified and measured reliably;
- b) the technical feasibility of the project can be demonstrated;
- c) the intention to complete the project and sell the intangible assets generated by the project can be demonstrated;
- d) a potential market exists or, in the case of internal use, the utility of the intangible asset for the production of intangible assets generated by the project can be demonstrated;
- e) the technical and financial resources for the completion of the project are available.

Amortization of any capitalized development costs recorded in intangible assets starts from the date in which the result generated by the project can be marketed. Amortization is charged on a straight-line basis over a period of five years, which represents the estimated useful life of capitalized expenditures.

**Impairment of property, plant and equipment and intangible assets**

At each balance sheet date, property, plant and equipment and intangible assets with a finite life are reviewed to identify the existence of any indicators of an impairment in their value. When the presence of these indicators is identified, the recoverable amount of such assets is estimated and any impairment is recognized in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use where the value in use is the present value of the estimated future cash flows for such asset. The value in use is determined by discounting the estimated future cash flows from the use of the asset to present value at a pretax rate which reflects current market assessments of the time value of money, in relation to the period of the investment and the risks specific to the asset. For an asset that does not generate

independent financial flows, the recoverable amount is determined by reference to the cash-generating unit to which such asset belongs.

An impairment loss is recognized in the income statement when the carrying amount of the asset, or the cash-generating unit to which it is allocated, is higher than the recoverable amount. Where an impairment loss on assets subsequently no longer exists or has decreased, the carrying amount of the asset, except for goodwill, is increased and the reversal is recognized in the income statement. The asset is increased to the net carrying amount that would have been recorded and reduced by the depreciation and amortization that would have been charged had no impairment loss been recognized.

## **Financial instruments**

### *Financial assets*

Financial assets mainly relate to accounts receivable from customers, with fixed or determinable payments, that are non-derivative and are not listed on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified in non-current assets. Such assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Where there is objective evidence of an indication of impairment, the asset is reduced so that it equals the present value of estimated future cash flows. The impairment loss is recognized in the income statement. Where an impairment loss on assets subsequently no longer exists or has decreased, the carrying amount of the asset is increased up to the carrying amount that would have been recorded under the amortized cost method had no impairment loss been recognized.

Financial assets are derecognized from the financial statements when the right to receive cash flows from the instrument is extinguished or when the company has substantially transferred all the risks and rewards relating to the receivable and the relative control.

### *Financial liabilities*

Purchases and sales of financial liabilities are recognized on the trade date, that is, the date on which the company commits to purchase or sell the financial instrument.

Financial liabilities are borrowings, trade payables and other obligations payable. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. When there is a change in estimated cash flows and it is possible to estimate them reliably, the amount of the borrowings is recalculated to reflect this change on the basis of the present value of the new estimated cash flows and the internal yield rate determined initially. Financial liabilities are classified in current liabilities unless the company has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Financial liabilities are derecognized from the financial statements when they are extinguished or when the company has transferred all the risks and expenses relating to the liability to third parties.

### *Inventories*

Inventories are stated at the lower of purchase or production cost, determined using the weighted average cost method, and estimated realizable value.

Inventories, where necessary, are adjusted to take into account obsolete or slow-moving goods. When the circumstances which previously led to the adjustment no longer exist or when there is a clear indication of an increase in net realizable value, the adjustments are reversed in whole or in part so that the new carrying amount is the lower of purchase or production cost and net realizable value at the balance sheet date.

### *Cash and cash equivalents*

Cash and cash equivalents include bank deposits, postal deposits, cash and valuables in cash. They are stated at nominal value.

### *Provisions*

Provisions include accruals for present legal or constructive obligations as a result of past events for which it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The accrual is measured using the best possible estimate of the amount that the company would be expected to pay to extinguish the obligation. Where the effect of the time value of money is material and the dates of payment can be reliably estimated, the accrual is measured at present value. The rate used to determine the present value of the liability reflects fair value and includes the additional effects relating to the specific risk that can be associated with each liability. The change in the amount of the provision connected with the passage of time is recognized in the income statement in Financial expenses.

Risks associated with liabilities that are only considered possible are disclosed under Guarantees and other commitments.

### *Employee benefit obligations*

Defined benefit pension plans, which also included until December 31, 2006 the employee severance indemnities due to Italian employees as set forth in article 2120 of the Italian Civil Code, are based on the working life and the compensation received by the employee over a predetermined service period. In particular, the liability relating to employee severance indemnities is recognized in the financial statements based on actuarial calculations since it qualifies as an employee benefit due on the basis of a defined benefit plan. Recognition of a defined benefit plan in the financial statements requires actuarial techniques to estimate the amount of benefits accruing to employees in exchange for work performed during the current and prior years and the discounting of such benefits in order to determine the present value of the company's

commitments. The determination of the present value of such commitments is calculated using the Projected Unit Credit Method. This method, which is one of the actuarial techniques used for calculating accrued benefits, considers each active service period by the employee in the company as an additional unit which gives the right to benefits: the actuarial liability must therefore be quantified on the basis of only the service life accrued at the date of measurement; therefore, the total liability is normally recalculated on the basis of the ratio of the number of years of service accrued at the measurement date to the total estimated service life that will be reached at the time of settlement. Furthermore, this method calls for considering future increases in compensation, for whatever reasons (inflation, career, contract renewals, etc.) up until the time of termination of employment.

The cost accrued during the year for defined benefit plans and recognized in the income statement under employee benefit expenses is equal to the sum of the average present value of the defined benefits accrued by active employees for the work performed during the year and the annual interest accrued on the present value of the company's commitments at the beginning of the year, calculated using the discount rate of future cash outflows adopted for the estimate of the liability at the end of the preceding year.

Remeasurements of employee defined benefit plans comprise actuarial gains and losses expressing the effects of differences arising from experience adjustments and changes in actuarial assumptions. Such actuarial gains and losses are recorded in the statement of comprehensive income.

Following the Reform of Supplementary Pension Benefits, as amended by the Budget Law 2007 and subsequent decrees and regulations issued during the early months of 2007, employee severance indemnities that accrue starting from the date of January 1, 2007 are assigned to pension funds or to a treasury fund managed by INPS or, in the case of companies with less than 50 employees, may be retained in the company and calculated similarly to the method used in past years. Employees have the right to choose the destination of their employee severance indemnities up to June 30, 2007.

To this end, account was taken of the effect of the new provisions and only the liability relating to employee severance indemnities that is retained in the company is measured in accordance with IAS 19, since the amount of employee severance indemnities accruing from 2007 is assigned to alternative forms of pension or paid into a treasury fund managed by INPS, according to the choice of destination made by each single employee.

Consequently, the portion of employee severance indemnities accruing and assigned to pension funds or to the INPS-managed fund is classified as a defined contribution plan since the company's obligation is only represented by the payment of contributions to the pension fund or to INPS. The liability for severance indemnities previously accrued continues to be considered as a defined benefit plan and is measured on the basis of actuarial assumptions.



### *Translation of foreign currency balances and transactions*

Transactions in foreign currency are translated to euros using the exchange rate in effect at the dates of the relative transactions. Foreign exchange gains and losses realized on the receipt or the payment of the above transactions and the translation of monetary asset and liability balances denominated in foreign currencies are recognized in the income statement.

### *Revenues and costs*

Revenues and costs are recognized according to the accrual and matching principles.

Revenues are recognized net of returns, discounts, allowances, rebates, taxes and directly related promotional contributions. Revenues are recognized upon delivery of the goods to the final customer when all the risks and rewards of ownership are transferred.

### *Revenue recognition*

#### Sales of products

Revenues from the sale of products are recorded when all the following conditions are met:

- the entity has transferred to the buyer the significant risks and rewards of ownership;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenues can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably;
- in cases in which the nature or degree of involvement of the seller is such that the risks and rewards are not in fact transferred, the time of recognition is deferred until the date in which the transfer can be considered to have taken place;
- In the case of “bill and hold” sales the recognition of revenues occurs when a contract is signed by the client which expressly requests that delivery of the products be deferred, assuming all the risks and rewards associated thereto. These transactions regard exclusively products that Intercos Europe has immediately available and the sales are concluded before the date of delivery indicated in the bill and hold” agreement signed between the parties.

#### Performance of services

Revenues from services are recognized only when the results of the transaction can be estimated reliably, with reference to the stage of completion of the transaction and the closing date of the financial statements.

The results of a transaction can be estimated reliably when all the following conditions are met:

- the amount of revenues can be determined with reliability;
- it is probable that any future economic benefit associated with the item of revenue will flow to the entity;
- the stage of completion at the balance sheet date can be measured reliably;
- the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

#### *Financial income and expenses*

Financial expenses are recorded as expenses in the year incurred. They include interest on bank overdrafts and loans, financial expenses on finance leases, actuarial losses and financial expenses on the actuarial valuation of employee severance indemnities.

#### *Income taxes*

Current income taxes are determined on the basis of a realistic estimate of the tax expense to be paid under the existing tax laws.

Deferred income taxes are calculated on temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and their tax bases (full liability method), except for goodwill. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax liabilities are determined based on enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled; in the calculation, account was taken of the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017 as established by Law 208 of December 28, 2015, known as the Stability Law 2016.

Current and deferred income taxes are recognized in the income statement except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognized in equity. Current and deferred income taxes are offset when the income taxes are levied by the same taxing authority and where there is a legally enforceable right of offset and there are expectations of settling the net balance.

In addition, the company has adhered to the national tax consolidation procedure under articles 117-129 of T.U.I.R. of the parent Intercos S.p.A. (formerly Intercos Group S.r.l., “the consolidating company”) together

with Marketing Projects S.r.l. in liquidation, Ager S.r.l., Kit Productions S.r.l., Vitalab S.r.l. and Drop Nail S.r.l. as the “consolidated” companies.

Therefore, considering that the settlement for the current year resulted in a taxable profit, this was transferred to the consolidating company and the company recorded the relative amount payable to the latter, at 27.5% (IRES rate in force), net of the receivable for withholding taxes on current account interest, also transferred to the consolidating company.

Intercos Europe S.p.A. is also responsible together with the consolidating company Intercos S.p.A. for additional taxes, interest and fines assessed relating to the consolidated tax return referring to adjustments to the income on its tax return, also as a result of formal control activities pursuant to art. 36-ter of DPR 600/1973 and the settlement activity under art. 36-*bis* of the same decree.

As for IRAP, current income taxes continue to be shown in Taxes payable or Taxes receivable when the sum of the advance payment made exceeds the tax due for the year.

### **3. DIRECTION AND COORDINATION ACTIVITIES**

Pursuant to art. 2497 *bis*, paragraph 4 of the Italian Civil Code, since the company is subject to the direction and coordination of the parent Intercos S.p.A., the highlights of its latest approved financial statements are presented in these Notes; these have been prepared in conformity with IFRS adopted by the European Union. Intercos S.p.A. also prepares the consolidated financial statements.

For a meaningful and complete understanding of the financial condition and cash flows of said company at December 31, 2014, as well as the results of operations for the year then ended, reference should be made to the financial statements which, accompanied by the independent auditors' report, are available in the form and manner established by law.

### **4. RISK MANAGEMENT**

Financial risk management is an integral part of the management of the activities of Intercos Europe S.p.A.

Intercos Europe S.p.A. is exposed to various types of risks: market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk. Intercos Europe S.p.A.'s risk management strategy is focused on the unpredictability of the markets and aimed at minimizing potential negative effects on earnings. Certain types of risk are mitigated using derivative financial instruments.

The coordination and monitoring of major financial risks is centralized with management. The risk management policies are approved, in concert with the board, by the Administration, Finance and Control Function, which sets down written policies for the management of the above risks and the use of suitable financial instruments.



## Types of risks

### **Market risk**

#### **Exchange rate risk**

Intercos Europe S.p.A. operates globally and is exposed to foreign exchange risk arising from fluctuations in the equivalent amount of commercial and financial flows denominated in currencies other than the functional currency.

Intercos Europe S.p.A.'s exposure is mainly focused on the EUR/USD exchange rate with reference to commercial and financial transactions entered into by the company in the North American market and vice versa.

These are hedged by net currency positions or by using derivative contracts.

The following sensitivity analysis was performed to illustrate the effects on profit and on equity produced by an increase/decrease of 7.5% in the exchange rates compared to the effective exchange rates at December 31, 2015. The following sensitivity analysis does not consider the tax effect on profit and equity.

<i>(in € thousands)</i>	2015	
	-7.50%	7.50%
US dollar	(165)	142
British pound	387	(333)
Other currencies	331	(285)
<b>Total</b>	<b>553</b>	<b>(476)</b>

#### **Interest rate risk**

The company is exposed to interest rate risk mainly from long-term borrowings. Such borrowings are at either fixed or variable interest rates. Intercos Europe S.p.A. has no particular hedging policy regarding the risks arising from fixed-rate contracts, maintaining that the risk is moderate in relation to the limited amount of fixed-rate loans.

The Administration Function monitors interest rate risk exposure and proposes the most appropriate hedging strategies to keep exposure within the limits established by the Administration, Finance and Control Function, using derivative contracts, where necessary.

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2015, with all other variables remaining constant.

The potential effects reported below were calculated by taking the liabilities which represent the most significant part of the company's borrowings at the reference date and calculating, on that amount, the potential impact of a change in the interest rates on an annual basis.

The liabilities in this analysis include variable-rate financial borrowings and receivables and also cash and cash equivalents.

<i>(in € thousands)</i>	<b>2015</b>	
	-0.5%	+0.5%
Euro (Eurolibor)	(98)	98
<b>Total</b>	<b>(98)</b>	<b>98</b>

### **Credit risk**

Credit risk is associated with trade receivables, cash and cash equivalents, financial instruments, deposits at banks and other financial institutions.

The credit risk related to trading counterparts is managed by the Group Administrative Function. Intecos Europe S.p.A. does not have significant concentrations of credit risk. However, there are policies in place to ensure that sales of products and services are made to customers with a high degree of creditworthiness, taking into consideration their financial position, past experience and other factors. Credit limits for major customers are based on internal and external valuations based on ceilings approved by management. The use of credit limits is monitored periodically. When considered appropriate, the company may also sell non-recourse receivables to factoring companies.

As for credit risk relating to the management of financial resources and cash, the risk is monitored by the Administrative Function which has policies in place to ensure that the company enters into transactions with independent high-credit-quality counterparts.

Trade accounts receivables, the provision for impairment of receivables and an ageing analysis of receivables from third party customers are presented at December 31, 2015.

<i>12/31/2015</i>	<i>Trade receivables</i>	<i>Current</i>	<i>Overdue 0 – 30 days</i>	<i>Overdue 30 – 60 days</i>	<i>Overdue over 60 days</i>	<i>Provision for impairment</i>
Intecos Europe S.p.A.	38,112	32,402	3,933	1.359	586	(167)

### **Liquidity risk**

Prudent management of liquidity risk arising from the ordinary operations of the company implies maintaining sufficient cash and funds obtainable through the support of the parent Intecos S.p.A.

The Finance function of the parent centrally monitors forecasts on the use of the liquidity reserves on the basis of estimated cash flows.

The amount of liquid assets available at December 31, 2015 compared to the end of the prior year is as follows:

<i>(in € thousands)</i>	2015	2014
Cash and cash equivalents	16,225	12,423
<b>Total</b>	<b>16,225</b>	<b>12,423</b>

The following table presents an analysis of the maturities of borrowings, other liabilities and derivatives, on a net basis. Borrowings from banks in the following table are presented at their nominal amount:

	Within 1 year	1 to 5 years	Beyond 5 years	December 31, 2015
Borrowings from banks and other lenders - m-l/term	1,425	17,999	0	19,424
Finance leases payable	43	72	0	114
<b>Medium/long-term debt</b>	<b>1,468</b>	<b>18,071</b>	<b>0</b>	<b>19,539</b>
Borrowings from banks and other lenders - s/term				0
Factoring companies payable	199	0	0	199
Trade payables	59,439	0	0	59,439
Loans from group companies - s-term	13,500	0	0	13,500
Other payables	9,234	0	0	9,234
<b>Short-term debt</b>	<b>82,372</b>	<b>0</b>	<b>0</b>	<b>82,372</b>
<b>Total</b>	<b>83,840</b>	<b>18,071</b>	<b>0</b>	<b>101,911</b>

In order to complete the disclosure on financial risks, a reconciliation is presented below between the categories of financial assets and liabilities as identified in the statement of financial position format of Intercos Europe S.p.A. and the categories of assets and liabilities identified in accordance with the requirements of IFRS 7:

(in € thousands)

12/31/2015	Financial assets at fair value through profit or loss	Receivables and loans	Available-for-sale financial assets	Held-to-maturity assets	Financial liabilities at fair value through profit or loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	-	-
Trade receivables	-	41,948	-	-	-	-	-
Loans receivable	-	0	-	-	-	-	-
Other assets	-	4,398	-	-	-	-	-
Loans payable	-	-	-	-	-	13,500	-
Borrowings from banks and other lenders	-	-	-	-	-	19,688	-
Trade payables	-	-	-	-	-	59,439	-
Loans payable	-	-	-	-	-	13,500	-
Other payables	-	-	-	-	-	9,234	-
Derivatives (liabilities)	-	-	-	-	-	-	-
<b>Total</b>	-	<b>46,346</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>115,362</b>	<b>0</b>
Cash and cash equivalents	-	16,225	-	-	-	-	-

With the reference to the assets and liabilities in the above table, the fair value is considered to approximate the carrying amounts in the financial statements.

## 5. USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to apply accounting principles and methods which at times are based upon complex subjective judgments and estimates connected with past experience as well as reasonable and realistic assumptions according to the relevant circumstances. The use of these estimates and assumptions can affect the amounts reported in the financial statements, such as the statement of financial position, the statement of comprehensive income and the statement of cash flows, in addition to the disclosure provided. Such estimates and assumptions have an effect on the reported amounts in the financial statements due to the uncertainty characterizing the assumptions and the conditions on which the estimates are based. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Those accounting policies which particularly require critical judgments by management in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial statements are briefly described below.



- *Goodwill*

In accordance with the accounting policies adopted for the preparation of the financial statements, goodwill is tested annually for any impairment that requires recognition in the income statement. The test specifically requires the allocation of goodwill to cash-generating units and the subsequent determination of the recoverable amount, being the higher of the fair value and the value in use. When the value in use is lower than the carrying amount of the cash-generating unit, an impairment of goodwill should be recognized. The allocation of goodwill to the cash-generating unit and the determination of the value in use require the use of estimates that depend upon subjective judgments and factors which over time could be different from management's estimates and have consequent effects that could be significant.

- *Impairment of property, plant and equipment and intangible assets*

Property, plant and equipment and intangible assets are tested for any impairment that requires recognition of an impairment loss, whenever there are indications that the carrying amount through use may not be recoverable. Verification of the existence of such indications requires management to exercise subjective judgment based on information available within the company and from the market and from historical experience. Moreover, whenever an impairment may exist, the company determines the impairment loss on the basis of appropriate measurement techniques. The proper identification of the factors indicating that an impairment may exist and the estimates used depend on factors which could vary over time and affect management's judgments and estimates.

- *Depreciation of property, plant and equipment*

Depreciation of property, plant and equipment constitutes a significant cost for the company. The cost of buildings, plant and machinery is depreciated over the estimated useful lives of the assets on a straight-line basis. The economic useful life of these assets is determined by management when the assets are purchased; it is based on the historical experience of similar assets, market conditions and anticipation of future events which could have an impact on the useful life, including changes in technology. Therefore, the effective economic life could differ from the estimated useful life. The company periodically reviews technological and sector changes, evaluates decommissioning costs and the recoverable amount in order to update the residual useful life. This periodical update could entail a change in the period of depreciation and therefore a change in the depreciation charge of future years.

- *Deferred taxes*

Deferred tax assets are recognized on the basis of expectations of future earnings. The estimate of future earnings for purposes of the recognition of deferred taxes depends on factors which could vary over time and significantly affect the amount of deferred taxes.

- *Provisions*

Accruals are made to provisions for probable liabilities relating to disputes with employees, suppliers, third parties and, generally, the expenses which the company might be obliged to incur for obligations undertaken in the past. These accruals also include an estimate of the liabilities which could arise from disputes concerning the terms of fixed-term labor contracts used in the past, mainly for delivery activities. The determination of such accruals requires the assumption of estimates which depend on the current knowledge of factors which could change over time and which could produce effects that differ from the final outcomes estimated by management in preparing the financial statements.

## 7. Property, plant and equipment

Movements in Property, plant and equipment are as follows:

<i>(in € thousands)</i>	<i>December 31, 2014</i>	<i>Increases / Depreciation</i>	<i>Translation differences / Reclassifications</i>	<i>Decreases / Utilization</i>	<i>December 31, 2015</i>
<b>Historical cost</b>					
Land and buildings	7,049	83	17	(0)	<b>7,150</b>
Plant and machinery	60,210	3,270	20	(1,740)	<b>61,760</b>
Industrial equipment	30,219	1,212	44	(31)	<b>31,444</b>
Office furniture and equipment	1,360	114	5	(25)	<b>1,454</b>
Motor vehicles and internal transportation equipment	1,027	100	0	(111)	<b>1,017</b>
Cell phones	0	0	0	0	<b>0</b>
Assets under construction and payments on account	137	1,299	(88)	0	<b>1,348</b>
<b>Total</b>	<b>100,003</b>	<b>6,079</b>	<b>(2)</b>	<b>(1,908)</b>	<b>104,172</b>
<b>Accumulated depreciation</b>					
Land and buildings	5,613	278	(2)	(0)	<b>5,889</b>
Plant and machinery	49,463	2,681	(0)	(1,408)	<b>50,737</b>
Industrial equipment	28,758	1,138	0	(30)	<b>29,865</b>
Office furniture and equipment	1,007	104	0	(22)	<b>1,090</b>
Motor vehicles and internal transportation equipment	885	80	0	(75)	<b>890</b>
Cell phones	0	0	0	0	<b>0</b>
Assets under construction and payments on account	0	0	0	0	<b>0</b>
<b>Total</b>	<b>85,726</b>	<b>4,281</b>	<b>2</b>	<b>(1,535)</b>	<b>88,470</b>
<b>Net carrying amount</b>	<b>14,277</b>	<b>1,798</b>	<b>(0)</b>	<b>(374)</b>	<b>15,702</b>

Increases during the year mainly refer to the purchase of machinery for the manufacture of products, generic and specific plant as well as sundry equipment needed to increase total production capacity as a whole. In particular the productive capacity has continued to be increased for Prisma Shine and the filling machines departments. New machinery of about €2 million was also purchased for the production of new technologies such as Back Injection and Slurry. In addition, capital expenditures include payments made in advance for work relating to specific plant for the new industrial building in Caponago that will be completed in 2016. Decreases are due to the completion of assets under construction that were reclassified to the proper fixed asset class.

### 7.1 Leasing

Assets acquired under finance lease contracts arranged by Intercos Europe S.p.A are included in the respective classes of property, plant and equipment. The following table gives the details of these assets, mainly referring to motor vehicles and machinery, and a comparison with December 31, 2014:

<i>(in € thousands)</i>	December 31, 2014			December 31, 2015		
	Capitalized cost	Accumulated depreciation	Net carrying amount	Capitalized cost	Accumulated depreciation	Net carrying amount
Other assets	552	(489)	63	662	(538)	124
<b>TOTAL</b>	<b>552</b>	<b>(489)</b>	<b>63</b>	<b>662</b>	<b>(538)</b>	<b>124</b>

Required disclosure in accordance with IAS 17, paragraph 31, is as follows: the depreciable amount of leased assets is €124 thousand and future lease installments due for leases at the end of the year total €114 thousand. Lease installments recorded as expenses during the year come to €42 thousand.

## 8. Intangible assets

Movements in Intangible assets are as follows:

<i>(in € thousands)</i>	December 31, 2014	Increases	Decreases/ Adjustments/ Translation differences	Reclassifications	Amortization	December 31, 2015
Development costs	(26)	0	0	26	0	(0)
Patent and software rights	38	104	0	0	(28)	115
Concessions and licenses	4	3	0	0	(1)	6
Assets under development and payments on account	27	0	0	(26)	0	1
Other	0	0	0	0	0	0
<b>Total</b>	<b>43</b>	<b>107</b>	<b>0</b>	<b>0</b>	<b>(29)</b>	<b>121</b>

Patents and intellectual property rights include software investments for the development and upgrade of the corporate information system.

The majority of the investments referring to intangible assets were incurred by the parent Intercos S.p.A. as the coordinator and owner of the trademarks and industrial patents, research & development and all the corporate functions including the development of software for Information Technology (IT). These corporate activities are covered by a service fee contract under which the fees are recharged systematically on an accrual basis.

## 9. Goodwill

Movements in Goodwill are as follows:

	December 31, 2014	Change during the year	December 31, 2015
Goodwill	20,300	--	20,300

Goodwill is tested annually for impairment.

For purposes of impairment testing, the goodwill of €20,300 thousand was allocated to the Make-up Cash-Generating Unit (CGU).

The impairment test was conducted by comparing the total carrying amount of goodwill and the aggregate net assets able to independently produce cash flows (CGU), to which goodwill can reasonably be allocated, with the higher of the value in use of the CGU and the recoverable amount through sale. In particular, the value in use was determined using the discounted cash flow method by discounting to present value the operating flows from the profit and financial projections relative to a maximum period of four years based on assumptions included in the plan approved by management. The valuation model determines the value in use as the sum of operating cash flows (defined as the gross operating margin net of implicit income tax on operating profit, in addition to changes in net working capital, changes in employee severance indemnities and acquisitions and sales of fixed assets) for each year of the plan. The cash flows were discounted at a WACC rate of 8.6% for the Make-up CGU (8.1% at December 31, 2014). The terminal value was determined by applying a perpetual growth factor that is substantially representative of the expected inflation rate of 2%, to the operating cash flows for the last year of the normalized plan.

As at December 31, 2015 there were no impairment losses arising on recorded goodwill resulting from the impairment tests conducted as the value in use determined for each CGU identified was higher than the relative carrying amount.

## 10. Deferred tax assets

Deferred tax assets amount to €3,863 thousand at December 31, 2015, with a decrease of €1,054 thousand compared to December 31, 2014. As mentioned in the introduction to the notes, account was taken of the reduction in the IRES tax from 27.5% to 24% starting from the year 2017 as established in Law 208 of December 28, 2015, known as the Stability Law 2016. Consequently, the new rate was used on items that mainly regard the fiscal revaluation of the Limbiate building. The new estimate generated a negative effect on the income statement of €108 thousand.

The following table gives details by the source of deferred tax assets at December 31, 2015 and 2014.

Description	12/31/2015			12/31/2014		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Provision for inventory obsolescence	9,861	2,712	-	9,851	2,709	-
Provision for nonrecurring inventory writedowns	-	-	-	445	123	17
Provision for sundry risks	227	62	-	2,482	682	-
Exchange losses	617	170	-	547	151	-
Provision for impairment of receivables - taxed	166	46	-	621	171	-
Building accumulated depreciation (revaluation)	3,000	720	117	3,000	825	117
Building accumulated depreciation (land portion)	87	21	3	87	24	3
Difference in employee severance indemnities (IAS 19)	37	10	-	320	88	-

Other	9	2	-	26	7	-
<b>Total</b>	<b>14,004</b>	<b>3,743</b>	<b>120</b>	<b>17,379</b>	<b>4,780</b>	<b>137</b>

The company, at this time, also in light of plans forecasting future earnings approved by the board of directors, believes that it can generate future taxable income sufficient to recover the deferred tax assets recorded in the financial statements.

## 11. Other non-current receivables

Details of Other non-current receivables at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Interest on VAT receivables	76	76
Security deposits	29	28
VAT 2011 refund receivable	3,000	3,000
<b>Total</b>	<b>3,105</b>	<b>3,104</b>

Interest on VAT receivables has remained unchanged compared to the prior year since a prudent approach was adopted and no interest was recorded for the year 2015 on the VAT receivable of €3,000 thousand relating to the year 2011, under the assumption that the interest recorded to date is reasonable. The receivable is classified as non-current since the receipt of the refund is subject to the settlement of proceedings pending with the Revenues Agency which are expected to be concluded after 2015, as described in Note on Provisions.

Security deposits are basically unchanged.

## 12. Inventories

Details of Inventories at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Raw materials and consumables	15,456	12,780
Semifinished products	13,874	13,706
Finished products	5,553	6,048
<b>Total</b>	<b>34,883</b>	<b>32,534</b>

The amount of inventories is influenced by sales orders and relative deliveries at the year-end cutoff date. This phenomenon is also affected by the type of service requested in such sales orders, which, depending on the situation, are finished products in bulk, semifinished products or packaged products.

Inventories are presented net of the provision for inventory writedowns, which shows the following movements during 2015:

	December 31, 2014	Accrual	Utilization	December 31, 2015
Provision for raw materials writedowns	2,450	1,157	(1,549)	2,058
Provision for semifinished products writedowns	4,378	3,615	(3,349)	4,644
Provision for finished products writedowns	2,978	1,444	(1,262)	3,160
<b>Total</b>	<b>9,805</b>	<b>6,216</b>	<b>(6,160)</b>	<b>9,861</b>

The balance at December 31, 2015 compared to year-end 2014 is basically unchanged in spite of an 8% increase in sales over the prior year. This is a confirmation of the policy that some time now has been adopted for the management of inventories, which records improvements in materials management in terms of provisioning, in addition to greater control over excess production. In addition, the utilization refers to products that were destroyed during the year for an amount of €6,160 thousand.

### 13. Trade receivables

Details of Trade receivables at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Receivables from third party customers	38,279	35,476
Receivables from Group companies	3,837	2,675
Provision for impairment of receivables	(167)	(699)
<b>Total</b>	<b>41,948</b>	<b>37,452</b>

In order to provide an indication of estimated realizable value, the nominal amount of receivables is adjusted by the recognition of a provision for impairment, based on an analysis of the balances. The movements in the provision account are presented as follows:

December 31, 2015

Beginning balance	(699)
Accrual	(619)
Utilization	1,151
<b>Total</b>	<b>(167)</b>

Additional details on credit risk are described in the introduction to the notes under Risk Management.

A non-recourse factoring transaction was entered into for €7,499 thousand as a result of which all the risks and rewards of the receivables were transferred to the factoring company and the receivables were derecognized from the financial statements at December 31, 2015.

#### 14. Taxes receivable

	December 31,	
	2015	2014
VAT receivable	1,164	3,579
IRAP receivable	181	58
<b>Total</b>	<b>1,345</b>	<b>3,637</b>

IRAP receivable of €181 thousand consists of the sum of payments made in advance and due for the current year of €123 thousand and a residual amount of €58 thousand on the refund request relative to prior years which is likely to be collected in 2016.

#### 15. Other current assets

Details of Other current assets at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Advances to suppliers	218	93
Sundry receivables	59	35
Accrued income and prepaid expenses	147	79
Receivables from parent under the tax consolidation procedure	870	870
<b>Total</b>	<b>1,293</b>	<b>1,077</b>

Sundry receivables include a receivable from the insurance company for a claim made at the Dovera production site that has not been paid at the reporting date.

Accrued income and prepaid expenses at December 31, 2015 include prepaid rent, insurance, utilities and rentals for a total of €147 thousand.

Receivables from the parent under the tax consolidation procedure total €870 thousand and include the receivable relative to the claims filed (also on behalf of the merged company Interfila S.r.l.) for the refund of IRES tax as a consequence of the non-deductibility of payroll costs relating to IRAP tax for the years 2007-2008-2009-2010-2011.

## 16. Loans receivable from Group companies – short term

At December 31, 2015 the balance is zero.

## 17. Cash and cash equivalents

Details of Cash and cash equivalents at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Bank and postal deposits	16,180	12,292
Cash on hand	45	131
<b>Total</b>	<b>16,225</b>	<b>12,423</b>

Cash and cash equivalents are available and can be used immediately; at this date there are no restricted cash balances.

A complete financial analysis is presented in the statement of cash flows.

## 18. Equity

Equity amounts to €32,252 thousand (€25,519 thousand at December 31, 2014).

The composition and changes in equity are presented in the statement of changes in equity.

### *Share capital*

Share capital amounts to €3,000,000 and consists of 3,000,000 shares of par value €1 each.

The following table summarizes the individual items of equity according to their source and nature:

Nature/Description <i>(in € thousands)</i>	Balance at	
	December 31, 2015	Possibility of utilization
Share capital	3,000	
Share premium reserve (*)	756	A, B, C
Revaluation reserve	2,910	A,B
Reserve ex art 55 DPR 917/86	47	A,B

Other reserves (*) (**)	1,578	A,B,C
Legal reserve	600	B
Extraordinary reserve	11,840	A,B,C
Profit for the year (*)	11,521	-
<b>Equity at 12/31/2015</b>	<b>32,252</b>	

A: Available for capital increase

B: Available to cover losses

C: Distributable to shareholders

(\*) Pursuant to art. 2431 of the Italian Civil Code, the entire amount of this reserve may be distributed only on condition that the legal reserve has reached the limit established by art. 2430 of the Italian Civil Code.

(\*\*) These reserves were formed following the adoption of IFRS.

## 19. Borrowings from banks and other lenders

As described under Significant Events in 2015, the company paid the debt conferred to it in 2011 by the parent Intercos S.p.A. in the amount of €35 million and obtained a new loan of €20 million.

Details of medium/long-term debt outstanding at December 31, 2015 together with the relative due dates referring to the loan with the banking syndicate are as follows:

	<b>Bank</b>	<b>Amount</b>	<b>Internal rate of return</b>	<b>Due date</b>
Intercos Europe S.p.A.	Banking Pool	19,375	2.43%	2020
<b>Total (*)</b>		<b>19,375</b>		

(\*) Debt secured by the pledge on assets and special liens.

Pursuant to IAS 39, the incidental charges incurred in connection with the loan were included in the calculation of the effective interest rate and are amortized over the remaining term of the loan.

Details of Borrowings from banks and other lenders with an indication of the relative due dates are provided in the following table:

### December 31, 2014

	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Bank overdrafts and advance accounts	18,500	0	0	18,500
Payable to Banca Intesa	549	34,636	0	35,185
Finance leases and factoring companies payable	601	38	0	639
Debt under Law 46/Mediocredito	74	-	0	74
<b>Total</b>	<b>19,724</b>	<b>34,674</b>	<b>0</b>	<b>54,398</b>

**December 31, 2015**

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	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Payable to banking pool	1,425	17,999	0	19,424
Finance leases and factoring companies payable	242	72	0	313
<b>Total</b>	<b>1,667</b>	<b>18,071</b>	<b>0</b>	<b>19,738</b>

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## 20. Provisions

Movements in Provisions in 2015 are as follows:

<i>(in € thousands)</i>	December 31, 2015	December 31, 2014
Beginning balance	2,501	3,063
Accrual	61	72
Utilization	(2,326)	(634)
<b>Ending balance</b>	<b>236</b>	<b>2,501</b>

The accrual to the provisions basically refers to litigation with employees for €61 thousand. The rest of the balance of €175 thousand relates to €120 thousand for a dispute with the Revenues Agency concerning the value of a disposal of a business segment in 2010 and €55 thousand for an additional amount to cover the risk on the labor dispute.

The utilization of the provision relates to the full settlement of the closing of the Limbiate factory and of the dismissal procedure for €2,126 thousand. An amount in excess of requirements of €200 thousand was released to income and recognized in nonrecurring income (expenses) where the original charge was recorded.

## 21. Deferred tax liabilities

Deferred tax liabilities amount to €496 thousand, with an increase of €7 thousand compared to the prior year. Details of temporary differences which gave rise to the calculation of deferred income taxes are provided in the following table. In this case, too, account was taken of the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017, as established by Law 208 of December 28, 2015, the Stability Law 2016. Therefore the new rate was used on items that refer mainly to depreciation and amortization. The adoption of this new estimate gave rise to a positive effect of €26 thousand recorded in the income statement.

Description <i>(in € thousands)</i>	December 31, 2015			December 31, 2014		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Depreciation and amortization	819	199	32	891	245	35
Exchange gains	670	184	-	739	203	-
IAS 39 effective interest	-	-	-	21	6	-
Employees severance indemnity discounted under IAS 19 application	293	81	-	-	-	-
<b>Total</b>	<b>1,782</b>	<b>464</b>	<b>32</b>	<b>1,651</b>	<b>454</b>	<b>35</b>

## 22. Employee benefit obligations

Movements in Employee benefit obligations in 2015 are as follows:

<i>(in € thousands)</i>	December 31, 2015	December 31, 2014
Beginning balance	4,983	5,137
Interest cost	68	114
Utilization	(868)	(538)
Actuarial gains/losses	(293)	270
Ending balance	<b>3,891</b>	<b>4,983</b>

The following table presents the assumptions used in determining the actuarial value of Employee benefit obligations at December 31, 2015.

	December 31, 2015	December 31, 2014
Discount rate	2.30%	1.25%
Annual inflation rate	2.00%	2.00%
Annual rate of increase in employee severance indemnities	3.00%	3.00%
Annual rate of increase in salaries	1.50%	1.50%

The annual discount rate used to calculate the present value of the obligation was determined on the basis of the IBoxx Eurozone Corporate A Index for durations of more than 10 years (in line with the collective duration) consistently with IAS 19, paragraph 78.

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease in the main assumptions used on the data at December 31, 2015:

<i>(in € thousands)</i>	At December 31, 2015
Inflation rate +0.25%	3,931
Inflation rate -0.25%	3,851
Discount rate +0.25%	3,828
Discount rate -0.25%	3,955
Turnover rate +1%	3,888
Turnover rate -1%	3,893

As regards the work force, the headcount at the end 2015 is 672 compared to 713 at the end of the prior year.

The following table provides a breakdown of the headcount at December 31, 2015 by category, gender and type of contract:



	Executives	Mid-level Managers	White- Collars Employees	Blue-Collars Workers	Total
Permanent	5	33	277	354	669
Temporary	0	0	2	1	3
Total	5	33	279	355	672
Men	4	18	86	152	260
Women	1	15	193	203	412
<b>Total</b>	<b>5</b>	<b>33</b>	<b>279</b>	<b>355</b>	<b>672</b>

During the year, there were no deaths or accidents in the workplace which caused serious injury to personal.

The company has not been charged with harming the environment nor has it received fines or penalties in this regard.

The environmental impact on the territory by the company's production process, especially in terms of the disposal of expired cosmetics and various other types of waste, is duly managed with the assistance of an outside services and environmental technologies company.

### **23. Borrowings from banks and other lenders - current**

Details of Borrowings from banks and other lenders – current are provided in the following table:

	December 31, 2015	December 31, 2014
Overdrafts and advance accounts	0	18,500
Finance leases and factoring companies payable	242	601
Debt under Law 46/Mediocredito	0	74
Payable to Banca Intesa	1,425	549
<b>Total</b>	<b>1,667</b>	<b>19,724</b>

Finance leases and factoring companies payable include €199 thousand payable to factoring companies as a result of the sale of receivables finalized at year-end 2015. This payable refers to collections received from customers to be transferred to the factoring companies.

### **24. Other financial liabilities**

The balance at the end of the year is zero.

### **25. Loans payable to Group companies - short-term**

The balance of €13,500 thousand refers to loans received from the parent Intercos S.p.A. for a total of €28,500 thousand, of which €15,000 thousand was repaid.

## 26. Trade payables

Trade payables at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Trade payables to third party suppliers	39,189	28,338
Trade payables to Group companies	20,251	10,096
<b>Total</b>	<b>59,439</b>	<b>38,434</b>

Trade payables increased by €21,005 thousand compared to the end of the prior year. The increase is principally due to a change in the timing of provisioning which led to an increase in trade payables. In particular, the procedure featured a considerable reduction in the flows of trade payables since a policy was put in place to improve the payment terms in the company's favor.

## 27. Other payables

Details of Other payables at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
Taxes payable	6	219
Payables to employees	2,836	2,881
Social security agencies payable	1,310	1,055
Payables to tax authorities for withholdings	401	247
Accrued liabilities	17	56
Advances from customers	397	1,000
Payables to parent under the tax consolidation procedure	3,694	2,956
Sundry payables	572	25
<b>Total</b>	<b>9,234</b>	<b>8,439</b>

Taxes payable mainly include the balance of the substitute tax for the year 2015.

Payables to employees principally comprise the employee incentive plan of €1,104 thousand, vacation pay accrued and not used of €1,426 thousand, the thirteenth month salary of €299 and other minor payables to employees of €7 thousand.

Social security agencies payable refer to social security costs on December compensation to employees, paid in January of €530 thousand, social security contributions on vacation pay accrued and not used of €425 thousand and on additional months' salary of €355 thousand.

Payables to tax authorities for withholdings refer to IRPEF withholding taxes on employee compensation of €401 thousand and withholding taxes on self-employed compensation for the remaining negative €0.4 thousand.

Payables to the parent under the tax consolidation procedure include the IRES payable that arose on the 2015 liquidation transferred to Intercos S.p.A. by virtue of the existing tax consolidation agreements.

Accrued liabilities of €17 thousand refer solely to insurance premiums.

### **27 bis. Guarantees and other commitments**

Guarantees refer only to €75 thousand provided to the landlord of the building leased by the company from June 2015, located in the municipality of Caponago (MB), Via delle Gerole 13.

### **28. Revenues from sales and services**

Details of Revenues in 2015 and 2014 are the following:

<i>(in € thousands)</i>	<b>2015</b>	<b>2014</b>
Revenues from sales to third-party customers	197,391	183,934
Revenues from sales to Group companies	8,372	7,293
Other revenues	588	379
<b>Total</b>	<b>206,351</b>	<b>191,606</b>

Revenues from sales and services increased by €14,745 thousand compared to the prior year. Additional details are provided in the Report on operations.

For the breakdowns of revenues from sales to the Group companies, reference should be made to the Note on Related party transactions, whereas details of revenues divided by product line, segment and commercial geographical area are provided below:

<i>(in € thousands)</i>	<b>2015</b>	<b>2014</b>
Make-up line	204,249	189,737
Skin care line	2,102	1,869
<b>Total</b>	<b>206,351</b>	<b>191,606</b>

Revenues by geographical area based on the territory of residence of the customers indicated on the sales invoice are as follows:

<i>(in € thousands)</i>	2015	2014
USA	42,853	36,589
EMEA	157,142	150,229
Asia	6,356	4,788
<b>Total</b>	<b>206,351</b>	<b>191,606</b>

An in-depth analysis of revenues by geographical area is presented in the Report on operations.

## 29. Other income

Details of Other income in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Expense recoveries	1,625	1,795
Other revenue from expenses recharged	2,240	1,828
Insurance compensation	17	1
Rent income	0	25
Discounts and allowances	5	0
Commission income	18	0
Prior period income, sundry allowances	346	532
Gains on disposal of property, plant and equipment	172	54
<b>Total</b>	<b>4,423</b>	<b>4,234</b>

Expense recoveries and other revenue from expenses recharged include intercompany income for a total of €1,223 thousand.

## 30. Purchases of raw materials, semifinished products and consumables

Details of Purchases of raw materials, semifinished products and consumables in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Purchase of raw materials	21,933	17,661
Purchase of packaging materials	40,866	35,403
Purchase of semifinished products and consumables	4,394	4,324
Purchase of sundry materials	247	252
Purchase of finished products	3,705	853
Purchase of samples and sample lines	106	52

Mold accessories	241	231
<b>Total</b>	<b>71,493</b>	<b>58,776</b>

Certain costs were reclassified: Fuel costs and Stationery and forms to Cost for services and leases and rents and work cloths to Employee benefit expenses. For purposes of comparison the costs relating to the previous year have also been reclassified.

### **31. Change in inventories of raw materials, semifinished and finished products**

The positive change in the balance of inventories of Raw materials, semifinished and finished products, net of the provision for inventory writedowns, is analyzed in the following table:

<i>(in € thousands)</i>	<b>2015</b>	<b>2014</b>
Raw materials	( 146)	959
Packaging materials	(2,656 )	(549)
Consumables	(49)	(107)
Maintenance materials	287	2
Semifinished products	( 333)	2,534
Finished products	567	(1,200)
<b>Total</b>	<b>(2,330)</b>	<b>1,639</b>

### 32. Costs for services and leases and rents

Details of Costs for services and leases and rents in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Shipping on sales	1,441	1,530
Shipping on purchases	3,565	3,214
Other shipping	1,245	1,251
Processing and packaging	30,150	29,128
Commissions and royalties	14,710	13,835
Sundry services from parent	11,748	10,253
Services, logistics and warehousing	1,063	532
Maintenance	3,359	3,058
Sundry utilities	3,197	3,301
Legal and notary fees	190	141
Board of statutory auditors' compensation	31	31
Consulting fees	684	695
Insurance	243	266
Cleaning	839	789
Security	424	513
Rent expense	2,137	2,065
Waste disposal	425	508
Laboratory analyses	1,245	851
Rentals	606	576
Stationery and forms	49	56
Fuel costs	50	72
Publicity and trade fairs	77	134
Other costs	980	1,794
<b>Total</b>	<b>78,459</b>	<b>74,593</b>

Costs for services and leases and rents increased by €3,866 thousand compared to 2014. Such increase is mainly attributable to variable costs directly influenced by the increase in production and sale volumes such as processing and packaging, shipping for laboratory analyses, as well as commissions and royalties. Fixed costs, on the other hand, have remained essentially in line with the previous year.

Commissions and royalties and Sundry services from the parent include charges from Intercos S.p.A. in its capacity of providing direction and coordination under the service agreements regulating the method used to reallocate corporate expenses (chargeback of €11,562 thousand) and under the license agreement covering the method used to reallocate license costs for the utilization of manufacturing formulae made available (chargeback of €9,844 thousand).

Consulting fees include fees for services rendered by highly qualified technical-professional external specialists and companies lending support in administration, tax, legal, IT and technical.

Rent expense includes rent for the year relating to the production facilities at Dovera and Agrate Brianza, charged back by Intercos S.p.A., owner of the buildings.

Other costs comprise the following:

- personnel-related expenses of €557 thousand;
- travel of €299 thousand;
- security and surveillance of €95 thousand;
- EDP of €29 thousand;

The following have been reclassified here to Other costs:

Stationery and forms and Fuel costs from Purchases of raw materials, semifinished products and consumables;

Fuel costs and Publicity and trade fairs from Other operating expenses.

Other costs instead have been reclassified as follows:

Banking fees and commissions to Financial expenses;

Medical visits to Employee benefit expenses.

For purposes of comparison the costs relating to the previous year have also been reclassified.

### 33. Employee benefit expenses

Details of Employee benefit expenses in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Salaries and wages	20,090	20,101
Social security	6,599	6,669
Defined contribution plan costs	1,298	1,438
Temp work	9,399	8,298
Board of directors' compensation	212	264
Coordinated and continual and occasional collaboration work	122	196
Medical visits	75	73
Work clothes	140	143
<b>Total</b>	<b>37,935</b>	<b>37,182</b>

Employee benefit expenses show an increase in amount of €753 thousand and a decrease in percentage from 19.4% in 2014 to 18.4% in 2015.



For a more correct representation in the financial statements, employee benefit expenses include compensation to the board of directors' and compensation for coordinated and continual and occasional collaboration work.

Moreover, as indicated in the previous note, employee benefit expenses include the reclassified costs of medical visits and work clothes.

### 34. Accruals

Accruals to Provisions under liabilities include only one item of €61 thousand that refers to a probable risk in connection with labor disputes that arose shortly before the end of the year.

### 35. Other operating expenses

Details of Other operating expenses in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Prior period expenses, sundry allowances, late fees and penalties	533	280
Losses on disposals of fixed assets	49	2
Sundry taxes and duties	55	83
Association membership dues	85	101
Motor vehicle expenses	5	3
Impairment loss on trade receivables	620	137
Other costs	75	103
<b>Total</b>	<b>1,422</b>	<b>709</b>

Prior period expenses for the most part include revisions of accruals for costs referring to the prior year.

Sundry taxes and duties consist of the IMU property tax of €39 thousand and the garbage tax, government concession tax, Chamber of Commerce (CCIAA) fees and registration tax, for a total of €16 thousand.

Other costs comprise expenses for certifications and revenue stamps of €26 thousand, purchase of books and magazines of €1 thousand, contributions and donations of €7 thousand, late fees and penalties of €2 thousand and losses due to thefts of €38 thousand, for a total of €74 thousand.

Moreover, as disclosed in Note 32, the costs of publicity and fuel have been reclassified to Costs for services and leases and rents.

### 36. Depreciation, amortization and impairment reversals (losses)

Details of Depreciation, amortization and impairment reversals (losses) in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Amortization of intangible assets	29	52
Depreciation of property, plant and equipment	4,201	4,860
Impairment of property, plant and equipment	0	0
<b>Total</b>	<b>4,230</b>	<b>4,912</b>

Additional information is provided in Notes 7 and 8 relating to Property, plant and equipment and Intangible assets.

### 37. Nonrecurring operating income (expenses)

The balance of €200 thousand refers to nonrecurring income from the release of the provision regarding the Limbiate factory following its definitive closing, as better described in the Note on Provisions.

### 38. Financial income

Details of Financial income in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Interest income on bank current accounts	16	19
Sundry interest	19	14
Interest from the tax authorities	0	0
<b>Total financial income, net</b>	<b>34</b>	<b>33</b>

Sundry interest refers only to the interest earned on the loan receivable from the parent Intercos S.p.A. of €19 thousand for the entire term of the loan.

### 39. Financial expenses

Details of Financial expenses in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Interest on medium/long-term borrowings	699	1,223
Interest on bank overdrafts	0	4
Interest on export advances	90	277
Interest on loan from parent	0	0
Interest on factoring transactions	49	144
Banking fees and commissions and factoring charges	183	157
Other interest expenses	848	298
<b>Total interest and financial expenses</b>	<b>1,868</b>	<b>2,103</b>
Foreign exchange losses	2,244	1,076
Foreign exchange gains	(1,945)	(1,372)
<b>Net foreign exchange differences</b>	<b>299</b>	<b>(296)</b>
<b>Total interest and financial expenses</b>	<b>2,167</b>	<b>1,807</b>

Other interest expenses include the financial component of the actuarial measurement of employee severance indemnities of €68 thousand.

The change in net foreign exchange differences is a net exchange loss of €299 thousand.

Interest expenses include Banking fees and commissions and factoring charges reclassified from Cost for services and leases and rent, as better described in Note 32.

### 40. Income taxes

Details of Income taxes in 2015 and 2014 are as follows:

<i>(in € thousands)</i>	2015	2014
Current income taxes	4,350	4,557
Deferred income taxes	980	654
Prior years' taxes	721	(68)
Total	6,051	5,143

Current income taxes include the tax charge for IRAP taxes in 2015 of €1,216 thousand and the IRES liquidation due to the parent in the context of the existing tax consolidation procedure of €3,134 thousand.

With regard to deferred taxes, see Notes 10 and 21.

Prior years' taxes include higher IRES tax of €157 thousand referring to the prior year that arose when the 2014 tax return was filed and the expense deriving from the assessment of €564 thousand received in relation to the sale of the business segment in 2010 on which a higher taxable income was assessed of €2,051 thousand. The company has decided to file an appeal, which is currently pending in the court of first instance, but has nevertheless filed an IPEC appeal through the parent Intercos S.p.A. for the deduction of tax-loss carryforwards for an amount equal to the higher income assessed, recording in the financial statements a payable to the parent equal to 27.5% of the amount.

The reconciliation between the theoretical and effective tax rate is as follows:

(in € thousands)

<b>IRES</b>	
<b>Pre-tax profit</b>	<b>17,571</b>
<b>Theoretical IRES (27.5%)</b>	<b>4,832</b>
<i>Temporary differences deductible in future years</i>	7,727
<i>Non-deductible costs</i>	947
<i>Temporary differences taxable in future years</i>	(1,217)
<i>Reversal of temporary differences of prior years</i>	(8,913)
<i>Other deductions and recoveries</i>	(1,549)
<b>Taxable income</b>	<b>14,566</b>
<b>IRES</b>	<b>4,006</b>
Benefit from gross operating profit transferred to the tax consolidation	(872)
<b>IRES benefit due to the parent (17.8%)</b>	<b>3,134</b>

<b>IRAP</b>	
<b>Difference between production value and costs</b>	<b>19,321</b>
<b>Theoretical IRAP (3.9%)</b>	<b>754</b>
<i>Costs not considered for IRAP purposes</i>	11,870
<b>Taxable for IRAP purposes</b>	<b>31,191</b>
<b>IRAP (6.3%)</b>	<b>1,216</b>

#### **41. Actuarial gains (losses) on remeasurement of employee defined benefit plans**

The remeasurement of employee defined benefit plans includes the actuarial gains and losses on the year-end measurement of employee severance indemnities in accordance with IAS 19 of €212 thousand.

#### **42. Related party transactions**

Related party transactions do not qualify as either atypical or unusual but fall under the ordinary course of business operations. Such transactions, when not concluded at standard conditions or dictated by specific laws, are nevertheless carried out on an arm's length basis.

The effects of related party transactions on the income statement in 2015 and the statement of financial position at December 31, 2015 are as follows:

Transactions with Group companies

<i>(in € thousands)</i>	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Loans from Group companies – short- term</b>	<b>Trade payables</b>	<b>Other payables</b>
Kit Productions S.r.l.	0	0	0	283	0
Intercos S.p.A.	640	870	13,500	11,947	3,694
Drop Nail S.r.l.	14	0	0	17	0
Vitalab S.r.l.	1	0	0	0	0
Intercos Korea LTD	115	0	0	53	0
Intercos Do Brasil	10	0	0	0	0
Intercos UK Ltd.	645	0	0	0	0
Intercos Paris S.à.r.l.	0	0	0	484	0
Intercos Marketing Ltd	0	0	0	330	0
Intercos America Inc.	1,775	0	0	1,084	0
Intercos Cosmetics Suzhou Co. Ltd	230	0	0	1,431	0
Intercos Technology Co. Ltd	162	0	0	1,369	0
Interfila Cosmetics (Shanghai) Co. Ltd	208	0	0	2,754	0
CRB S.A.	36	0	0	182	0
Ager S.r.l.	0	0	0	319	0
<b>Total</b>	<b>3,837</b>	<b>870</b>	<b>13,500</b>	<b>20,253</b>	<b>3,694</b>

<i>(in € thousands)</i>	<b>Revenues from sales and services</b>	<b>Other revenues and income</b>	<b>Purchases of raw materials, semifinished products and consumables</b>	<b>Costs for services and leases and rent</b>	<b>Other costs</b>	<b>Financial expenses</b>	<b>Financial income</b>
Kit Productions S.r.l.	0	1	(898)	(173)	0	0	0
Intercos S.p.A.	0	1,128	(7)	(23,353)	(33)	(219)	19
Drop Nail S.r.l.	13	12	(32)	(45)	0	0	0
Vitalab S.r.l.	3	0	0	0	0	0	0
Intercos Korea LTD	118	0	(3)	(41)	0	(2)	0
Intercos do Brasil	16	0	0	0	0	0	0
Intercos UK Ltd.	2,032	23	0	(5)	0	(34)	16
Intercos Paris S.à.r.l.	0	0	0	(1,324)	0	0	0
Intercos Marketing Ltd	0	0	0	(1,062)	0	67	(75)
Intercos America Inc.	3,517	89	(847)	(1,931)	(33)	(161)	215
Intercos Cosmetics Suzhou Co. Ltd	486	83	(69)	(2,812)	0	(73)	45
Intercos Technology Co. Ltd	932	24	(3,277)	(88)	0	(56)	45
Interfila Cosmetics (Shanghai) Co. Ltd	966	50	(1,510)	(4,925)	0	(37)	26
CRB S.A.	149	0	(85)	(193)	5	(2)	1
Ager S.r.l.	0	0	0	(774)	0	0	0
Hana Co Ltd	0	0	0	0	0	0	1
<b>Total</b>	<b>8,231</b>	<b>1,409</b>	<b>(6,727)</b>	<b>(36,727)</b>	<b>(61)</b>	<b>(516)</b>	<b>293</b>

### Transactions with other related parties

<i>(in € thousands)</i>	Consulting fees	Sundry costs	Purchase of active ingredients	Payables	Receivables
Arterra S.r.l.	0	0	253	191	0
Interior S.r.l.	0	0	0	0	0
	0	0	253	191	0

### **43. Boards at December 31, 2015 - Number and Compensation during the year:**

	Number of members	Compensation (€/1000)
Board of directors	5	212
Board of statutory auditors	3	31
<b>Total</b>	<b>8</b>	<b>243</b>

The persons identified as “key managers” are basically the directors of the company.

### **44. Summary of fees to the independent auditors**

	Fees (€/1000)
Fees for the audit of the financial statements	83
<b>Total</b>	<b>83</b>

### **45. Subsequent events**

There were no events to report subsequent to the date of the financial statements.

Milan, March 25, 2016

*These financial statements, consisting of the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity and the notes thereto, present a true and correct view of the financial condition, the results for the year and the cash flows of the company and correspond to the accounting books and records.*

INTERCOS EUROPE S.p.A.

On behalf of the Board of Directors

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*Intercos S.p.A.*


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<i>(in euros)</i>	<b>12/31/2014</b>
<i>ASSETS</i>	
NON-CURRENT ASSETS	
5 Property, plant and equipment	30,710,855
6 Intangible assets	15,424,238
7 Goodwill	33,653,547
8 Investments in subsidiaries	83,390,372
9 Deferred tax assets	7,562,113
10 Other non-current assets	4,165,429
<b>Non-current assets</b>	<b>174,906,554</b>
CURRENT ASSETS	
11 Trade receivables	11,644,904
12 Taxes receivables	7,596,431
13 Other current assets	3,349,847
14 Loans receivable to Group companies – short-term	21,295,357
15 Cash and cash equivalents	4,219,736
<b>Current assets</b>	<b>48,106,275</b>
<b>TOTAL ASSETS</b>	<b>223,012,829</b>

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**EQUITY AND LIABILITIES**

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12/31/2014

**EQUITY**

Share capital	10,710,193
Legal reserves	806,442
Other reserves	62,395,860
Retained earnings (Accumulated deficit)	(1,913,999)

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**16 TOTAL EQUITY** **71,998,496**

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**LIABILITIES**

## NON-CURRENT LIABILITIES

17 Borrowings from banks and other lenders	113,164,697
18 Other financial payables	0
19 Loans payable to Group companies – medium/long-term	0
20 Provisions	366,350
21 Deferred tax liabilities	6,485,146
22 Employee benefit obligations	1,418,103
<b>Non-current liabilities</b>	<b>121,434,297</b>

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## CURRENT LIABILITIES

23 Borrowings from banks and other lenders	9,476,413
24 Loans payable to Group companies – short-term	5,800,000
Other financial liabilities	535,505
25 Trade payables	7,846,284
26 Other payables	5,921,833
<b>Current liabilities</b>	<b>29,580,034</b>

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**TOTAL EQUITY AND LIABILITIES** **223,012,829**

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**Statement of Comprehensive Income for the year ended December 31, 2014**

*(in euros)*

**2014**

27	Revenues	31,768,381
28	Other income	10,936,173
29	Purchases of raw materials, semifinished products and consumables	(1,221,737)
30	Costs for services and leases and rents	(9,176,262)
31	Employee benefit expenses	(12,367,758)
32	Accruals	(306,000)
33	Other operating expenses	(1,341,794)
<b>Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring expenses</b>		<b>18,291,209</b>
34	Depreciation, amortization and impairment reversals (losses)	(7,535,824)
35	Valuation adjustments to financial assets	
36	Nonrecurring income (expenses)	
<b>Operating profit</b>		<b>7,261,520</b>
37	Financial income	1,403,547
38	Financial expenses	(6,309,580)
39	Income taxes	(139,587)
<b>Profit for the year from continuing operations</b>		<b>2,215,900</b>
<b>Profit for the year from discontinued operations</b>		<b>0</b>
<b>Other components of comprehensive income</b>		
Other comprehensive income that will not be reclassified subsequently to the income statement		
<b>Profit for the year</b>		<b>2,215,900</b>
40	Actuarial gains (losses) on remeasurement of employee defined benefit plans	(85,423)
<b>Total Other components of comprehensive income</b>		<b>(85,423)</b>
<b>Total comprehensive income for the year</b>		<b>2,130,477</b>