

INTERCOS GROUP
Global Cosmetic Manufacturer

INTERIM REPORT
AT SEPTEMBER 30, 2016

PREPARED IN ACCORDANCE WITH IFRS
ENDORSED BY THE EUROPEAN UNION

Intercos S.p.A.
Headquarters in Milan
Piazza Generale Armando Diaz 1

Corporate Information

BOARD OF DIRECTORS

Name	Position
Dario Gianandrea Ferrari	Chairman and Chief Executive Officer
Ludovica Arabella Ferrari	Director
Gianandrea Ferrari	Director
Paolo Valsecchi	Director
Renato Semerari	Director
Thukral Nikhil Kumar	Director
Chu James Michael	Director

BOARD OF STATUTORY AUDITORS

Name	Position
Nicola Pietro Lorenzo Broggi	Chairman
Matteo Tamburini	Standing Auditor
Maria Maddalena Gnudi	Standing Auditor
Francesco Molinari	Alternative Auditor
Simone Alessandro Marchiò	Alternative Auditor

INDEPENDENT AUDITORS

Reconta Ernst & Young S.p.A.

INTERIM REPORT ON OPERATIONS AT SEPTEMBER 30, 2016

Introduction

The Interim Report at September 30, 2016 of the Intercos Group is prepared in accordance with the provisions of art. 154 ter, paragraph 5 of Legislative Decree 58/98 – T.U.F., and subsequent modifications and additions, and drawn up in accordance with IAS 34 – “Interim Financial Reporting”, issued by the International Accounting Standards Board (IASB).

The format of the income statement, as permitted by IAS 1, presents a format by function showing revenues and cost of sales which is considered to be a better representation of the economic and financial performance of the Group. Since the first year of application of this format was the year ended December 31, 2015, the income statement for the nine months ended September 30, 2015 has been duly reclassified for purposes of comparison.

The notes to the interim consolidated financial statements at September 30, 2016, in accordance with IAS 34, are presented in a condensed form and do not include all the information that would be required for annual financial statements, in that they refer solely to those components which, by amount, composition or variation, are necessary for an understanding of the results of operations, the cash flows and the financial position of the Group. Therefore, the Interim Report should be read in conjunction with the Intercos S.p.A. 2015 consolidated financial statements.

The accounting policies and basis of preparation of the Interim Report have been applied on basis consistent with those of the annual consolidated financial statements at December 31, 2015.

All amounts are expressed in thousands or millions of Euro, unless otherwise indicated.

The preparation of the Interim Report required the use of estimates by management.

With the intention of providing information that reflects the analysis and control parameters used by management of the Group, the interim consolidated statement of financial position at September 30, 2016 and the interim consolidated income statement for the nine months ended September 30, 2016, as well as the comparative statements at September 30, 2015 and December 31, 2015 have been reclassified and supplemented with non-GAAP alternative performance measures.

The reclassifications had no effect on the net profit or the equity reported in the consolidated financial statements.

The non-GAAP alternative performance measures expressed in the Interim Reclassified Consolidated Income Statement and the Interim Reclassified Consolidated Statement of Financial Position are used by management to provide information for a better assessment of the results of operations and the financial position of the Group. Such performance measures should not be considered as a substitute for the performance measures established by IFRS.

The alternative performance measures and the items reclassified or regrouped that are not arrived directly from the financial statements are defined as follows:

- **EBITDA:** is calculated as profit before taxes, before financial income (expenses) without any adjustment and before depreciation, amortization and impairment reversals (losses). EBITDA also excludes income (expenses) from the management of unconsolidated companies and securities, in addition to gains or losses on any disposal of consolidated investments, classified under “Financial income (expenses)” or, for the results from only investments accounted for using the equity method (non-operating) under “Result from investments accounted for using the equity method”.
- **Adjusted EBITDA:** is calculated by the deducting the following, if applicable, from EBITDA, as defined above:
 - impairment of goodwill, if any;
 - amortization of the portion of the purchase price allocated to intangible assets in a business combination, as established in IFRS 3;
 - restructuring costs, under specific and significant restructuring plans;
 - nonrecurring other income (expenses) referring to particularly significant events unrelated to ordinary business operations.
- **Operating Working Capital** includes inventories and trade receivables and payables;
- **Net Working Capital:** is given by operating working capital net of other current assets and liabilities;
- **Net invested capital:** is the sum of non-current assets, non-current liabilities and Net Working Capital;
- **Net debt (cash) or net financial position:** is given by the sum of current and non-current financial liabilities net of short- and long-term financial receivables, including cash and cash equivalents;
- **Headcount:** is given by the number of employees registered in the payroll book on the last day of the period under consideration.

Key Data of the Group

(in € thousands)	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>	Change
Revenues	315,327	288,422	26,905
EBITDA	40,018	41,494	(1,476)
Adjusted EBITDA	38,909	41,762	(2,853)
<i>% of revenues</i>	12.3%	14.5%	-2.1%
Operating profit (EBIT)	24,471	25,358	(887)
<i>% of revenues</i>	7.8%	8.8%	-1.0%
EBT	16,632	14,895	1,736
Profit for the period	8,697	7,559	1,138

(in € thousands)	9/30/2016	12/31/2015	Change
Net working capital	76,112	66,141	9,971
<i>Working capital turnover</i>	4,14	6,07	-1,93
Net invested capital	277,698	266,986	10,712
Non-current assets	220,652	221,245	(593)
Net financial position	160,191	148,596	11,595

	9/30/2016	9/30/2015	Change
Headcount (number)	2,653	2,392	261
Earnings per share (basic and diluted) - in Euro	0.10	0.08	0.02

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Interim Reclassified Consolidated Statement of Financial Position

(in € thousands)	9/30/2016	12/31/2015
Fixed assets	194,181	197,006
Inventories	85,779	69,884
Trade receivables	79,492	73,626
Trade payables	(70,946)	(69,456)
Operating working capital	94,325	74,054
Other current assets and liabilities, net (*)	(18,213)	(7,327)
Net working capital	76,112	66,727
Other non-current assets and liabilities, net (**)	2,385	1,847
Investments accounted for using the equity method	5,020	1,408
Net invested capital	277,698	266,986
Assets and liabilities held for sale	5,633	-
Equity	123,140	118,390
Cash and cash equivalents	(38,190)	(50,683)
Financial payables	198,381	199,279
Net financial position	160,191	148,596
Total sources	283,331	266,986

Notes on the reconciliation between the Interim reclassified consolidated statement of financial position and the Interim consolidated statement of financial position:

(*) Includes the items: "Other current assets" and "Other current liabilities "

(**) Includes the items: "Deferred tax assets ", "Other non-current receivables ", "Provisions – non-current", "Deferred tax liabilities ", "Other non-current liabilities" and "Employee benefit obligations"

Consolidated Net Financial Position

(in € thousands)

	9/30/2016	12/31/2015
Net financial position		
Current net financial position	(2,624)	(20,362)
Non-current net financial position	162,815	168,959
Total Net financial position	160,191	148,596

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Interim Reclassified Consolidated Income Statement

(in € thousands)	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Revenues	315,327	288,422
Cost of sales	(243,104)	(215,251)
Gross industrial margin	72,223	73,171
<i>% of revenues</i>	<i>22.9%</i>	<i>25.4%</i>
Research & Development and innovation costs	(19,531)	(19,125)
Selling expenses	(14,543)	(15,650)
General and administrative expenses	(17,312)	(15,270)
Other operating income (expenses), net	3,098	2,500
Result from investments accounted for using the equity method (operating)	(574)	-
Nonrecurring income (expenses)	1,110	(268)
Operating profit (EBIT)	24,471	25,358
<i>% of revenues</i>	<i>7.8%</i>	<i>8.8%</i>
Depreciation, amortization and impairment reversals (losses)	(15,548)	(16,136)
EBITDA (*)	40,018	41,494
Nonrecurring income (expenses)	1,110	(268)
Adjusted EBITDA (**)	38,909	41,762
Financial income (expenses), net	(7,868)	(10,579)
Result from investments accounted for using the equity method	29	116
Profit before taxes (EBT) (***)	16,632	14,895
Income taxes	(7,934)	(7,335)
Profit for the period	8,697	7,559

Notes on the reconciliation between the Interim reclassified consolidated income statement and interim consolidated income statement:

(*) EBITDA is calculated as profit before taxes, before financial income (expenses) without any adjustment and before depreciation, amortization and impairment reversals (losses). EBITDA excludes also the results from only investments accounted for using the equity method (non-operating companies), under "Result from investments accounted for using the equity method".

(**) Adjusted EBITDA is calculated by deducting from EBITDA, as defined previously, nonrecurring expenses.

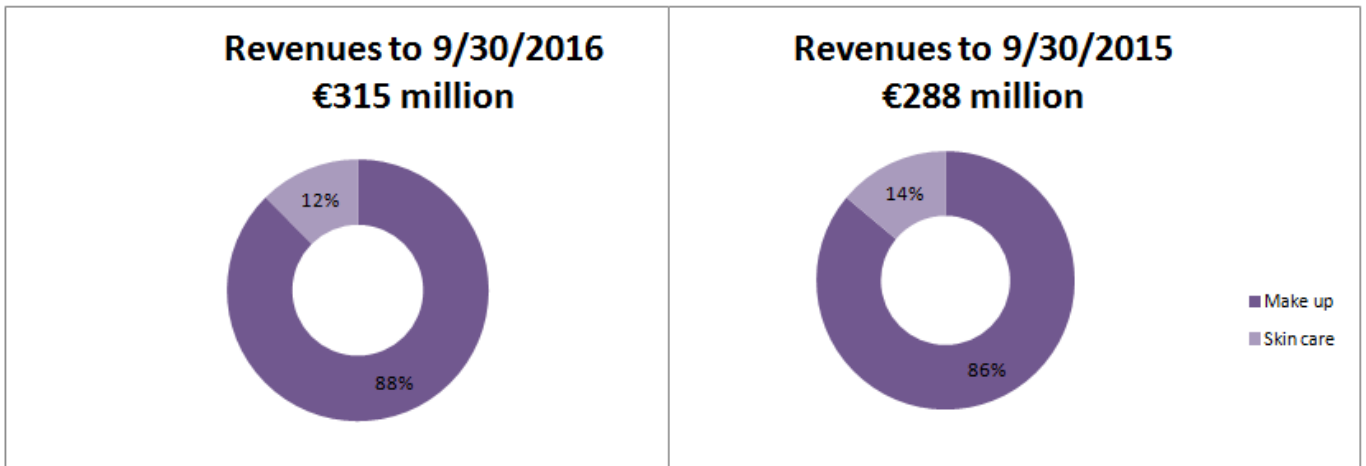
(***) EBT is calculated as the sum of financial income and expenses without any adjustment.

Headcount of the Group by category at September 30, 2016

Group Headcount	9/30/2016	9/30/2015
Executives and mid-level managers	242	219
White-collars	917	837
Blue-collars	1,494	1,336
Total	2,653	2,392
Temporary	1,618	1593
Total headcount	4,271	3,985

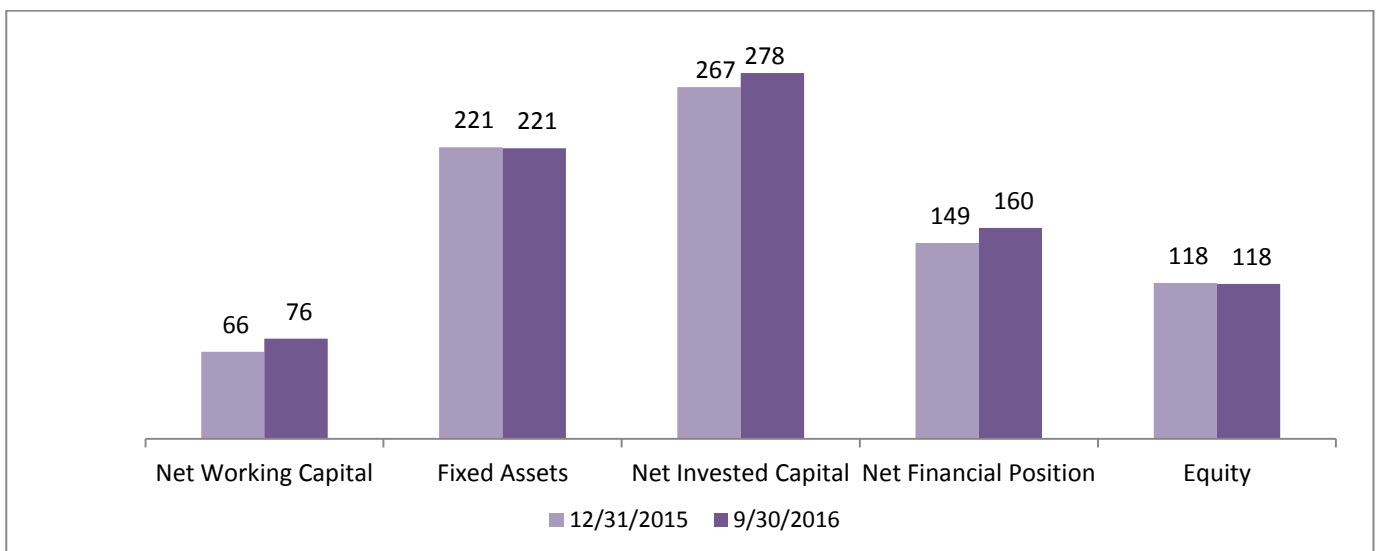
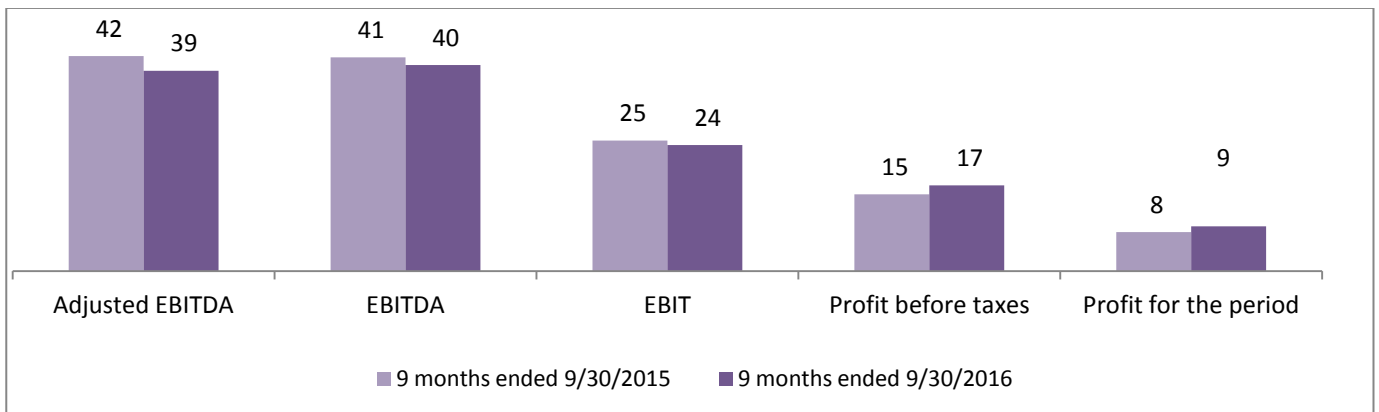
Revenues

(in € millions)



Principal consolidated profit and financial measures

(in € millions)



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Profit and Financial Review

In the first nine months of 2016 the Group reported revenues from sales of €315,327 thousand compared to €288,422 thousand in the first nine months of 2015, with an increase of €26,905 thousand, or 9%.

Adjusted EBITDA in the first nine months of 2016 is a positive €38,910 thousand (€41,762 thousand for the first nine months of 2015).

Operating profit (EBIT) in the nine months to September 30, 2016 is €24,471 thousand, or a margin of 7.8% (€25,358 thousand in the corresponding period of the prior year).

Capital expenditures in property, plant and equipment and intangible assets during the first nine months of 2016 total €14,763 thousand and €5,562 thousand, respectively.

The consolidated net financial position is a debt position of €160,191 thousand compared to the debt position of €148,596 thousand at December 31, 2015, increasing by €11,595 thousand.

Total equity is €123,139 thousand compared to €118,390 thousand at December 31, 2015, with a decrease of €4,749 thousand.

Structure of the Group

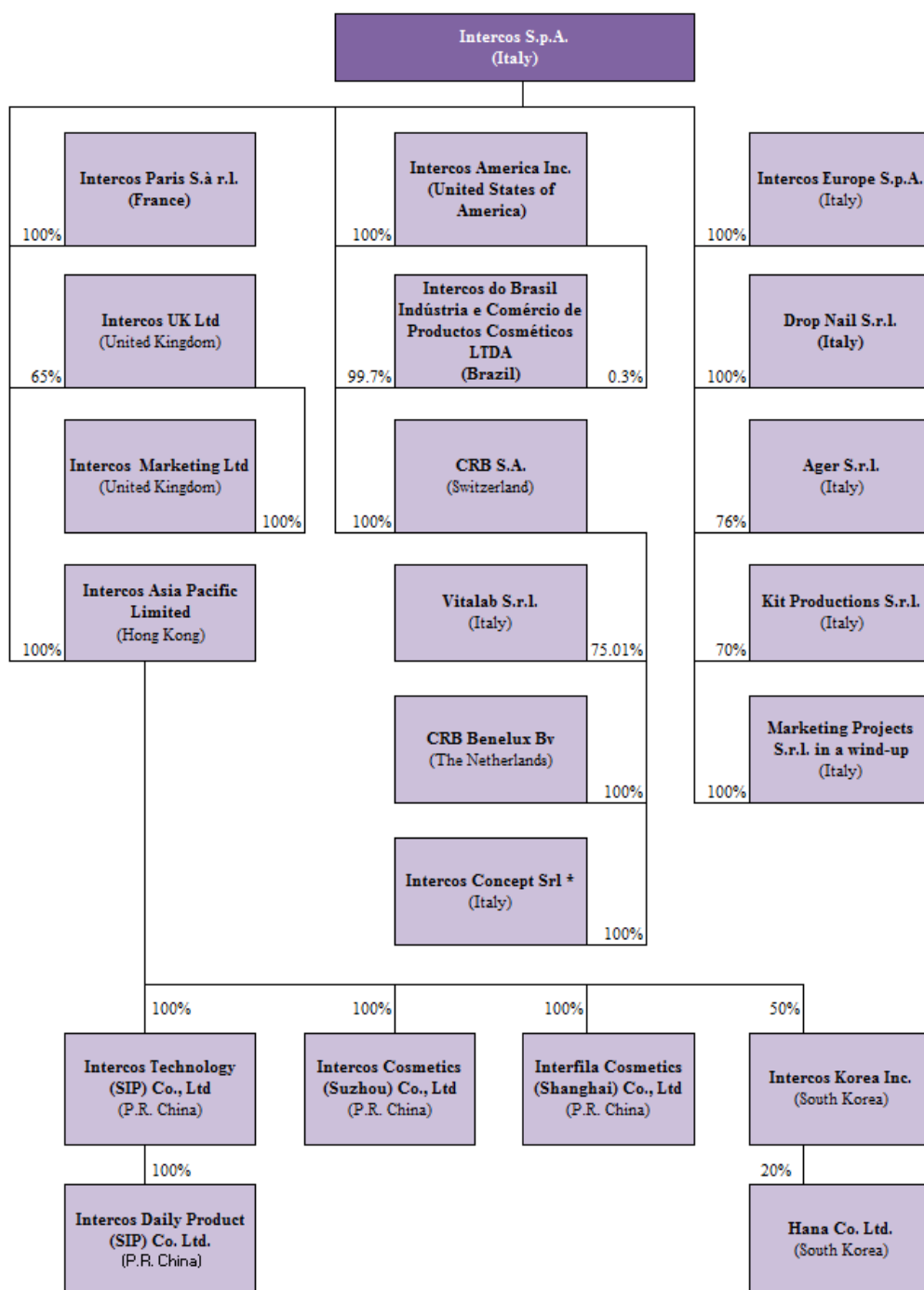
Group organization. Intercos S.p.A. is a corporation organized under the laws of the Republic of Italy, with its registered office in Milan, Piazza Generale Armando Diaz 1.

The Group's business was reorganized at the end of 2013 and is now aggregated into two areas identified on the basis of the following operating segments:

- ***Make-Up B.U.***: specialized in the creation, development, manufacture and marketing of powders, emulsions, lipsticks, nail polishes and types of cosmetics using delivery systems in the form of pens/pencils for the face, eyes and lips;
- ***Skin Care B.U.***: specialized in the manufacture and marketing of cosmetic and skin care creams.

The Group's main manufacturing facilities are at the plant sites in Italy, America, Switzerland, China and Brazil.

The Group's organization structure is updated to the reporting date of the interim consolidated financial statements at September 30, 2016 relative to the operating companies and those in liquidation.



* The company Intercos Concept S.r.l. was incorporated on October 21, 2016.

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VALUATION METHOD AND CONSOLIDATION AREA

The interim consolidated financial statements at September 30, 2016 include the interim financial statements and/or accounting data of Intercos S.p.A. (group holding company) and the subsidiaries and other companies (Italian and foreign) that carry out manufacturing and marketing activities consolidated line-by-line or accounted for using the equity method.

Consolidation Area:

SUBSIDIARIES

(consolidated line-by-line)

Name	Registered office	Currency	Capital in thousands of currency indicated	Percentage of control	
				Direct	Indirect
Intercos Europe S.p.A.	Milan	Euro	3,000	100.00%	
Kit Productions S.r.l.	Pessano con Bornago (Milan)	Euro	10	70.00%	
Marketing Projects S.r.l. in liquidation	Milan	Euro	40	100.00%	
Ager S.r.l.	Monza	Euro	31	76.00%	
Drop Nail S.r.l.	Milan	Euro	50	100.00%	
Intercos America Inc.	Wilmington (USA)	U.S. dollar	10	100.00%	
Intercos do Brasil Indústria e Comércio de Produtos Cosméticos Ltda	Atibaia (Brazil)	Brazilian real	30,377	99.7%	
Intercos Paris Sarl	Neuilly-sur-Seine (France)	Euro	14	100.00%	
Intercos UK Ltd	Barnstaple (UK)	British pound	0,1	65.00%	
Intercos Marketing Ltd	South Molton (UK)	British pound	0.001		100%
CRB S.a.	Puidoux (Switzerland)	Swiss franc	100	100.00%	
Vitalab S.r.l.	Milan	Euro	100		75.01%
CRB Benelux BV	Maastricht (Netherlands)	Euro	18		100.00%
Intercos Technology Co.Ltd.	Suzhou (P.R.C.)	U.S. dollar	3,400		100.00%
Interfila Cosmetics (Shanghai) Co. Ltd	Shanghai (P.R.C.)	U.S. dollar	2,700		100.00%
Intercos Cosmetics Suzhou Co. Ltd.	Suzhou (P.R.C.)	U.S. dollar	12,800		100.00%
Intercos Daily Product (SIP) Co. Ltd **	Suzhou (P.R.C.)	RMB	5,000		100.00%
Intercos Asia Pacific Limited	Hong Kong	U.S. dollar	27,004*	100.00%	
Intercos Concepts S.r.l.***	Milan	Euro	10	100.00%	

* The investment in Intercos Asia Pacific is recorded for USD 27,501 thousand and HKD 26 thousand which, converted at the exchange rate at the transaction date is €3 thousand.

** The company Intercos Daily Product (SIP) Co. Ltd is not yet operational at the date of this report.

*** The company Intercos Concept S.r.l. was incorporated on October 21, 2016.

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SUBSIDIARIES CONSOLIDATED BY EQUITY METHOD															
Company	Headquarters	Business	Financial Statements Date	Accounting Principles Adopted	Share capital €/'000	Total Assets €/'000	Total Liabilities €/'000	Currency	% Ownership	% voting rights	Ownership > 50% voting rights held but not control	Ownership < 50% voting rights held but control	Ownership > 20% voting rights held but not significant influence	Ownership < 20% voting rights held but significant influence	Amount €/'000
Controllo: Direct															
Hana Co.Ltd	Hwasung, South Korea	Packaging	9/30/2016	IFRS	924	15,021	14,878	KRW	20,00%	20,00%	N/A	N/A	√	N/A	1,496
Shinsegae Intercos Korea	South Korea	Cosmetics Prod.	9/30/2016	IFRS	8,592	10,862	12,009	KRW	50,00%	50,00%	N/A	N/A	√	N/A	3,523

All amounts in the interim financial statements are expressed in thousands of Euro, unless otherwise indicated. The exchange rates used for the translation of amounts expressed in currencies other than the Euro are the following:

	Income Statement 9 months ended 9/30/2016	Income Statement 9 months ended 9/30/2015	Statement of Financial Position 9/30/2016	Statement of Financial Position 12/31/2015
	<i>Average for period</i>	<i>Average for period</i>	<i>At September 30, 2016</i>	<i>At December 31, 2015</i>
U.S. dollar	1.1158	1.1145	1.1161	1.0887
Pound sterling	0.8022	0.7275	0.8610	0.7340
Swiss franc	1.0936	1.0619	1.0876	1.0835
Chinese renminbi (yuan)	7.3432	6.9647	7.4463	7.0608
South Korean won	1296.2855	1251.7900	1229.7600	1280.7800
Brazilian real	3.9642	3.5183	3.6210	4.3117

SEGMENT REPORTING

At September 30, 2016 the Group's business is aggregated into two reporting segments identified on the basis of the following product lines:

- **“Make-up” Business Unit:** specialized in the creation, development, manufacture and marketing of powders, emulsions, lipsticks, nail polishes and types of cosmetics using delivery systems in the form of pens/pencils for the face, eyes and lips.
- **“Skin Care” Business Unit:** specialized in the manufacture and marketing of cosmetic and skin care creams.

The Group's main manufacturing facilities are in Italy, America, Switzerland, China and Brazil.

Financial information reported according to these business units is periodically reviewed by the Board of Directors and also used for planning and budgeting purposes.

Detailed information on each identified segment for the nine months ended September 30, 2016 and September 30, 2015 is presented in the following tables.

9 months ended 9/30/2016 - (in € thousands)	Make-up Line	Skin Care Line	Total
Revenues	276,143	39,184	315,327
Adjusted EBITDA	33,645	5,264	38,909
Depreciation, amortization and impairment reversals (losses)	(13,647)	(1,901)	(15,548)
Nonrecurring income (expenses)			1,110
Finance income (expenses)			(7,868)
Result from investments accounted for using the equity method			29
Income taxes			(7,934)
Profit for the period			8,697
Net invested capital at 9/30/2016	234,301	43,397	277,698
9 months ended 9/30/2015 - (in € thousands)	Make-up Line	Skin Care Line	Total
Revenues	248,260	40,162	288,422
Adjusted EBITDA	33,886	7,876	41,762
Depreciation, amortization and impairment reversals (losses)	(14,678)	(1,458)	(16,136)
Nonrecurring income (expenses)			(268)
Finance income (expenses)			(10,579)
Result from investments accounted for using the equity method			116
Income taxes			(7,335)
Profit for the period			7,561
Net invested capital at 12/31/2015	219,306	47,681	266,986

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The **Make-Up Business Unit** reported revenues of €276,143 thousand, with an increase of €27,883 thousand (+11.2%) compared to the reclassified figure for the corresponding period of the prior year, and basically includes all the product families.

Adjusted EBITDA ¹ (that is, the operating profit before depreciation, amortization and impairment reversals (losses) and nonrecurring income (expenses) is €33,645 thousand, a decrease of €241 thousand or -0.7% compared to €33,886 thousand for the first nine months of 2015). Mostly in line with the same period of the prior year.

The **Skin Care Business Unit** recorded revenues of €39,184 thousand, with a decrease of €978 thousand or -2.4%, compared to the reclassified figure for the same period of 2015.

Adjusted EBITDA is equal to €5,264 thousand compared to €7,876 thousand (reclassified figure) for the first nine months of 2015, a decrease of €2,612 thousand, or -33.2%.

The increase in volumes is not reflected in an increase in EBITDA due to the different mix and higher fixed costs, although limited in the latter case.

Detailed information on sales by geographical area and by reference to the location in which the recipient of the sales invoice has its headquarters is as follows.

(in € thousands)

Sales by Business Unit	9 months ended 9/30/2016	9 months ended 9/30/2015
Make-Up	276,143	248,260
Skin Care	39,184	40,162
Total	315,327	288,422

(in € thousands)

Sales by geographical area	9 months ended 9/30/2016	9 months ended 9/30/2015
Americas	106,816	116,068
EMEA	176,830	135,541
Asia	31,680	36,813
Total	315,327	288,422

The differing revenue trends by geographical area for the nine months to September 30, 2016 compared to the corresponding period of the prior year can be summarized as follows:

- The Americas area records a decrease in sales of 8.0%, especially in the Prestige market.
- The EMEA area shows sales of €176,830 thousand compared to €135,541 thousand in the corresponding period of the prior year, with a strong increase of €41,289 thousand (+30.5%) in the Multinational and Retailers markets.
- The Asia area reports a decrease of 13.9% to total revenues of €31,680 compared to €36,813 in the same period of the prior year.

¹ Adjusted EBITDA, as defined, represents a performance measure used by management to monitor and evaluate its operating performance. Adjusted EBITDA is an alternative performance measure of the operating profit of the Group and, as such, should not be construed as a substitute for the conventional performance measures required by IFRS. Since the composition of EBITDA is not regulated by IFRS, the criteria used in its determination by the Group may not be the same as that adopted by other companies and therefore is not a comparable performance measure.

COMMENTS ON THE OPERATIONS OF THE GROUP

Comments on the reclassified statement of financial position - Financial Structure:

The financial structure of the Group at September 30, 2016 compared to December 31, 2015 is represented as follows:

	9/30/2016	12/31/2015
Inventories	85,779	69,884
Trade receivables and other receivables	90,683	85,221
Income taxes receivable	701	2,907
Current non-financial liabilities (*)	(101,051)	(91,871)
A. Net working capital	76,112	66,141
Property, plant and equipment	93,932	98,254
Other intangible assets (**)	100,249	98,752
Other non-current assets (*)	26,472	24,240
B. Fixed assets	220,653	221,245
C. Non-current assets held for sale	5,633	-
D. Employee severance indemnities	(9,780)	(8,379)
E. Provisions	(903)	(2,777)
F. Other non-current liabilities (*)	(8,384)	(9,244)
G. Net invested capital	277,698	266,986
Financed by:		
Current financial position (*)	(2,624)	(20,362)
Non-current net financial position (*)	162,815	168,959
H. Total net financial position	160,191	148,596
I. Equity	123,140	118,390
L. Total (H+I)	283,331	266,986

(*) Details of the composition of this item are provided in the "Reconciliation Schedules" on page 18.

(**) Includes goodwill.

Inventories amount to €85,779 thousand at September 30, 2016 and show an increase of €15,895 thousand compared to December 31, 2015. This change principally refers to the Europe and Americas area and is

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mainly a result of higher product volumes in the Europe area, in addition to seasonal factors to which the Group is exposed which require concentration of a part of production in the first half of the year in order to meet sales requirements in the second part of the year.

Trade receivables are €90,683 thousand at September 30, 2016, with an increase of €5,462 thousand (+6.4%) compared to December 31, 2015; the change is mainly due to Asian legal entities.

Equity increased by €4,748 thousand as a result of the profit reported of €8,697 thousand, the change in exchange differences on translating foreign operations of €1,983 thousand, the actuarial loss of €852 thousand and the negative consolidation reserve of €1,114 thousand, which mainly includes the effect of the acquisition of 100% of the subsidiary Drop Nail for €535 thousand and the payment of dividends to non-controlling interests for €500 thousand.

The net financial position increased by €11,595 thousand compared to December 31, 2015.

Reconciliation Schedules

The reconciliation between the “interim reclassified consolidated statement of financial position - Financial Structure”, as presented previously under “Comments on the Operations of the Group” and the items included in the interim consolidated statement of financial position at September 30, 2016, are as follows:

	9/30/2016	12/31/2015
Current non-financial liabilities (reclassified format)		
are composed of:		
Trade payables and other payables	97,158	91,793
Taxes payable	3,893	78
<i>Current non-financial liabilities (reclassified format)</i>	101,051	91,871
Other non-current assets (reclassified format)		
are composed of:		
Deferred tax assets	15,131	16,603
Non-current security deposits	796	704
Investments	5,020	1,408
Receivables for indirect taxes	5,525	5,525
<i>Other non-current non-financial assets (reclassified format)</i>	26,472	24,240
Other non-current liabilities (reclassified format)		
are composed of:		
Deferred tax liabilities	8,211	9,079
Other non-current liabilities	173	165
<i>Other non-current non-financial liabilities (reclassified format)</i>	8,384	9,244
Current net financial position (reclassified format)		
is composed of:		
Cash and cash equivalents	(38,190)	(50,683)
Financial payables (current portion)	35,566	30,321
<i>Current financial liabilities (reclassified format)</i>	(2,624)	(20,362)
Non-current net financial position (reclassified format)		
is composed of:		
Financial payables (non-current portion)	162,815	168,959
<i>Non-current financial liabilities (reclassified format)</i>	162,815	168,959

Movements in Property, plant and equipment

Movements in Property, plant and equipment during the first nine months of 2016 are the following:

<i>(in € thousands)</i>	<i>December 31, 2015</i>	<i>Increases / Depreciation</i>	<i>Translation differences / Reclassifications</i>	<i>Change in the consolidation area</i>	<i>Decreases / Utilization</i>	<i>September 30, 2016</i>
Historical cost						
Land and buildings	133,005	769	(5,654)	(325)	(1,059)	126,736
Plant and machinery	118,521	6,408	(281)	0	(420)	124,228
Industrial equipment	34,570	1,377	(109)	0	(68)	35,770
Office furniture and equipment	13,866	680	88	(110)	(307)	14,218
Motor vehicles and internal transportation equipment	2,301	(0)	(4)	0	(107)	2,190
Cell phones	21	0	0	0	0	21
Assets under construction and payments on account	3,811	5,530	(2,505)	(0)	(183)	6,653
Total	306,095	14,763	(8,464)	(435)	(2,143)	309,817
Accumulated depreciation						
Land and buildings	68,633	4,012	(615)	0	0	72,031
Plant and machinery	95,787	4,931	(797)	0	(431)	99,490
Industrial equipment	31,588	1,033	(51)	0	(68)	32,501
Office furniture and equipment	9,907	646	67	(43)	(673)	9,905
Motor vehicles and internal transportation equipment	1,905	152	(3)	0	(82)	1,971
Cell phones	20	0	(3)	0	(31)	(13)
Assets under construction and payments on account	0	0	0	0	0	0
Total	207,840	10,774	(1,402)	(43)	(1,285)	215,885
Net carrying amount	98,254	3,989	(7,062)	(392)	(859)	93,932

Movements in Intangible assets during the first nine months of 2016 are the following:

<i>(in € thousands)</i>	<i>December 31, 2015</i>	<i>Increases</i>	<i>Decreases/ Adjustments/ Translation differences</i>	<i>Reclassifications</i>	<i>Amortization</i>	<i>September 30, 2016</i>
Development costs	10,468	684	(31)	5,456	(3,332)	13,245
Patent rights	3,356	947	(12)	624	(1,069)	3,846
Concessions and licenses	1,220	150	(40)	425	(152)	1,603
Assets under development	6,131	3,400	0	(5,778)	0	3,753
Other intangible assets	901	381	0	0	(6)	1,276
TOTAL	22,075	5,562	(83)	727	(4,559)	23,722

Borrowings from banks and other lenders

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

(in € thousands)

September 30, 2016	Short-term	Medium-term	Long-term	Total
Intercos S.p.A. bonds	2,370	11,848	105,929	120,146
Medium/long-term bank borrowings (pool)	4,081	39,182	-	43,263
Medium/long-term bank borrowings (America)	228	2,276	5,362	7,866
Medium/long-term bank borrowings (CRB)	730	-	-	730
Medium/long-term bank borrowings (Technology)	81	-	-	81
Drop Nail mortgage	122	-	-	122
Payables under Law 46/Mediocredito	209	1,015	-	1,224
Medium/long-term debt	7,820	54,320	111,291	173,432
Revolving credit facility Intercos S.p.A.	-	-	-	-
Revolving credit facility Intercos America	-	-	-	-
Revolving credit facility Intercos China	12,092	-	-	12,092
Bank overdrafts	2,407	-	-	2,407
Advances on invoices	10,330	-	-	10,330
Short-term debt	24,830	-	-	24,830
Borrowings from other lenders	120	-	-	120
Factoring companies payable	-	-	-	-
Total	32,770	54,320	111,291	198,381

Details of medium/long-term debt outstanding at September 30, 2016 are as follows:

<i>Company</i>	<i>Bank</i>	<i>Amount</i>	<i>Internal rate of return</i>	<i>Description</i>
Intercos S.p.A.	Bank pool	11,012	2.187%	Tranche in EUR
Intercos S.p.A.	Bank pool	14,598	3.397%	Tranche in USD
Intercos S.p.A.	Institutional investors	120,146	4.256%	Bonds
Intercos Europe S.p.A.	Bank pool	17,653	2.248%	Tranche in EUR
		163,409		
Intercos S.p.A.	Other lenders	122	3.36%	Low-rate loan Law 46 grant 11337 (EUR)
		122		
CRB Sa	SH Bank	92	0.00%	Loan guarantee
CRB Sa	BCV Bank	1,380	1.95%	Fin. Mortgage (in CHF)
CRB Sa	UBS Bank	1,710	0.99%	Fin. Filling Plant (in CHF)
CRB Sa	BCV Bank	4,684	2.18%	Batiplus (in CHF)
		7,866		
Intercos Technology	HSBC Bank	730	7.180%	Fin. ST HSBC (in RMB)
Drop Nail	BPM Bank	81	1.505%	Fin. Mortgage (in EUR)
		81		

Financial data:

The net financial position went from €148,596 thousand at December 31, 2015 to €160,191 thousand at September 30, 2016. The change of €11,595 thousand is attributable to a decrease in cash associated with the change in operating working capital, in addition to higher capital expenditures for property, plant and equipment and intangible assets.

The net financial position of the Group at September 30, 2016 compared to December 31, 2015 is as follows:

(in € thousands)	9/30/2016	12/31/2015
Cash and cash equivalents	(38,190)	(50,683)
Borrowings from banks and other lenders and other financial payables	35,566	30,321
Total current financial position	(2,624)	(20,362)
Borrowings from banks and other lenders and other financial payables	162,815	168,959
Non-current financial position	162,815	168,959
Debt (cash)	160,191	148,596

Related party transactions

In general, related party transactions are carried out on an arm's length basis.

There were no atypical and/or unusual transactions during the period.

Details of the most important transactions that were entered into with related parties and joint ventures during the period are as follows:

	Revenues	Cost for services and leases and rent	Personnel costs	Other revenues and costs	Financial expenses	Financial income	Trade receivables	Trade payables	Financial payables
(in € thousands)									
Dafe International S.r.l.	-	(97)	-	-	-	-	-	79	-
Je m'en fous	-	(20)	-	-	-	-	-	41	-
Arterra Bioscience S.r.l	-	(211)	-	-	(3)	-	-	100	120
My Style	-	-	(7)	(2)	-	-	-	-	-
Interior	-	(3)	-	(9)	-	1	-	1	-
Catterton	-	(483)	-	-	(1)	1	-	-	-
Vault	-	-	-	-	-	-	-	-	-
Maragia USA Inc	-	(20)	-	-	-	-	-	20	-
Total	-	(834)	(7)	(11)	(4)	2	-	241	120

	Revenues	Cost for services and leases and rent	Personnel costs	Other revenues and costs	Financial expenses	Financial income	Financial payables	Trade receivables	Trade payables
(in € thousands)									
Intercos Korea LTD	75	(310)	-	-	(3)	4	-	315	-
Hana Co Ltd	-	(5)	-	-	-	-	-	2	-
Total	75	(315)	-	-	(3)	4	-	317	-

Comments on the interim reclassified consolidated income statement

Sales analysis:

Group companies contributed to sales (revenues from sales and services) as summarized below:

(in € thousands)

Company	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Intercos Europe S.p.A.	177,912	145,842
Intercos America Inc.	65,626	74,277
Intercos Cosmetics Suzhou Co. Ltd	17,218	11,781
Intercos Technology Co. Ltd	25,532	32,991
Interfila Cosmetics (Shanghai) Co. Ltd	13,405	12,571
CRB Sa.	27,696	28,774
Other	38,975	38,730
Aggregate Total	366,365	344,966
Eliminations	(51,038)	(56,544)
Consolidated Total	315,327	288,422

Revenues of the Group for the nine months to September 30, 2016 recorded an increase of 9%, or €26,905 thousand, compared to the same period of the prior year (reclassified).

Comments on the revenues of the main companies of the Group are as follows:

Intercos Europe S.p.A.: in terms of volumes, Intercos Europe is the most important company in the Group with revenues of €177,912 thousand, an increase of 22% compared to the first nine months of 2015.

Intercos America Inc.: revenues amount to €65,626 thousand, recording a decrease of 12% compared to the corresponding period of 2015 (€74,277 thousand), mostly in the Prestige market.

Intercos Cosmetics Suzhou Ltd.: revenues total € 17,218 thousand compared to €11,781 thousand in the same period as 2015 recording the highest percentage increase among the most important companies of the Group (+46%).

Intercos Technology Ltd.: this company operates the production facility of the Intercos Group for sales in Chinese territory. During the first nine months of 2016 the company reported a decrease in revenues of €7,459 thousand (-23% compared to the same period of 2015).

Interfila Cosmetics (Shanghai)Ltd : in the first nine months of 2016 the company reported a 7% increase in revenues to €13,405 thousand from €12,571 thousand in the same period of 2015.

CRB SA: revenues decreased by €1,077 thousand from €28,774 thousand in the nine months to September 30, 2015 to €27,696 thousand in the first nine months of 2016.

Income statement summary

(in € thousands)	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Cost of sales	(243,104)	(215,251)
Net operating costs and nonrecurring expenses, of which:	(47,752)	(47,813)
Innovation	(19,531)	(19,125)
Sales & marketing	(14,543)	(15,650)
General & administrative expenses	(17,312)	(15,270)
Other operating income and expenses	3,098	2,500
Result from investments accounted for using the equity method (operating)	(574)	-
Nonrecurring income (expenses)	1,110	(268)

Cost of sales is €243,104 thousand, with an increase of €27,853 thousand largely due to higher direct manufacturing costs and to material and packaging costs in connection with higher volumes and product mix manufactured during the first nine months of 2016.

Gross operating profit (EBITDA):

(in € thousands)	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Gross operating profit (EBITDA)	40,018	41,494

The increase in sales and the containment of the incidence of fixed costs were offset by higher cost of sales, producing a reduction in EBITDA of €1,476 thousand. Additional details on the results of the business units is presented in the segment information on page 14.

Operating profit (EBIT):

(in € thousands)	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Operating profit (EBIT)	24,471	25,358

Operating profit (EBIT) is €24,471 thousand, down from the first nine months of 2015 for the same reasons indicated for EBITDA, as well as lower charges for depreciation and amortization and nonrecurring expenses compared to first nine months of 2015.

Profit before taxes (EBT):

<i>(in € thousands)</i>	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Profit before taxes (EBT)	16,632	14,895

Profit before taxes (EBT) is €16,632 thousand, with an increase compared to €14,895 thousand in the first nine months of 2015 as a result of lower financial expenses.

Profit for the period:

<i>(in € thousands)</i>	9 months ended 9/30/2016	9 months ended 9/30/2015 <i>reclassified</i>
Profit for the period	8,697	7,561

The profit for the nine-month period is €8,697 thousand and an improvement over €7,561 thousand in the same period of 2015 due to lower net expenses, which is reflected in the earnings per share.

OUTLOOK

A substantially positive performance is expected for the full year 2016, in effect confirming the Group's expectations, as set out in the business plan.

NONRECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

There were no nonrecurring significant events or transactions during the first nine months of 2016.

SIGNIFICANT EVENTS DURING THE FIRST NINE MONTHS OF 2016 AND SUBSEQUENT EVENTS

- **On January 19, 2016** Intercos S.p.A. (parent) signed an amicable settlement agreement with Woojung Tech. Co., Ltd. and Mr Dong-Pil Choi to definitively close the dispute begun in September 2014 between the company and the latter, in relation to which a summons was filed by Intercos S.p.A. for trade secret misappropriation before the Courts in Los Angeles, California.
- **On February 9, 2016** the board of directors of Intercos S.p.A. approved the transfer of the company's registered office from Milan, Piazza Eleonora Duse 2, to Milan, Piazza Generale Armando Diaz 1, as did the subsidiaries Drop Nail S.r.l. (on February 15, 2016), and Intercos Europe S.p.A. and Vitalab S.r.l. (on March 25, 2016).
- **On February 10, 2016** Drop Nail S.r.l.'s shareholder Paragon Cosmetics S.r.l. manifested its intent to: 1) divest of its interest in the capital of Drop Nail S.r.l. through the sale of its 40% investment, equal to a nominal amount of €20 thousand and 2) sell its remaining receivable due from Drop Nail S.r.l., for the shareholder loans extended in the past, for a total amount of €1 thousand. Intercos S.p.A., as part of its business plan aimed at strengthening its product range represented by nail polishes and nail care products, purchased Paragon's investment and receivable thus bringing its investment to €1,187,488, representing 100% of the capital of the company Drop Nail S.r.l.
- **On May 2, 2016** a share capital increase was approved by Intercos Do Brasil Indústria e Comércio de Produtos Cosméticos LTDA (IDOBRASIL) for R\$8,000,000 which was entirely subscribed to and paid in by Intercos S.p.A. as the shareholder of IDOBRASIL.
Following the capital increase, the share capital of IDOBRASIL amounts to a total of R\$30,377,143, divided into 30,377,143 shares of R\$1 each, held by the shareholders as follows: (a) Intercos S.p.A. with 30,280,543 shares for a total of R\$30,280,543; and (b) Intercos America Inc. with 96,600 shares for a total of R\$96,600.

- **On July 28, 2016** the Drop Nail S.r.l. shareholders' meeting appointed Vincenzo Misitano as the sole director of the company.
- **On August 1, 2016** Intercos S.p.A. conferred its 20% investment in Hana Co. Ltd to Intercos Asia Pacific Limited.
- **On August 1, 2016** Intercos S.p.A. – as the sole shareholder of Intercos America Inc. – subscribed to a capital increase by Intercos America Inc. for a total amount of \$25,000,000 to be carried out through various tranches as follows: 1) \$5,000,000 cash injection; 2) \$10,000,000 through the partial waiver of intercompany loans extended by Intercos S.p.A. to Intercos America Inc., which amounted in total to \$37,900,000; and 3) \$10,000,000 by payment to be made in separate tranches after resolutions by Intercos America's Board of Directors in the event of specific and relevant financial need by Intercos America Inc., with the understanding that this last tranche would be paid within one year of the date of August 1, 2016.
- **On August 17, 2016** a sales agreement was signed between CRB S.A. – as the seller – and the company “*Solufonds SA*” – as the buyer (the latter on behalf of “*Procimmo Swiss Commercial Fund 56*”) (the “**Buyer**”) – for the building owned by CRB situated in ZI du Verney 1 in Puidoux, Canton of Vaud, Switzerland (the “**Building**”), (the “**Sales Agreement**”). This Sales Agreement will become effective – and, consequently, the ownership of the Building will be transferred to the Buyer – on December 1, 2016 and that the sales price is CHF 6,200,000 (plus CHF 347,760 of VAT). In connection with the sales transaction CRB incurred certain ancillary costs such as notary fees, agency fees and architecture fees, etc.).
- **On September 8, 2016 and September 12, 2016, respectively,** Intercos S.p.A. and Intercos Europe S.p.A. – with a favorable opinion from their respective Boards of Statutory Auditors – adopted a new Organizational, Management and Control Model pursuant to Legislative Decree 231/2001. On the same date the Code of Ethics and the Code of Conduct of the Group were also updated.
- **On October 21, 2016** Intercos S.p.A. incorporated a new company named “Intercos Concept S.r.l.” (“**Intercos Concepts**”), with beginning share capital of €10,000 entirely held by Intercos S.p.A. Intercos Concepts is committed – among other things – to providing services on behalf of companies for commercial, marketing, promotional, organizational, technical, consulting and every other service inherent to private labels and, therefore, designed to develop brands for customers which operate in the commercial retail segment of colored products for make-up, creams, personal care products, nail polish, perfume and cosmetic products in general, as well as related products, accessories or, in any case, complementary to beauty products. Intercos Concepts is managed by the

sole director, Renato Semerari, born in Busto Arsizio (Varese) on July 30, 1961, Tax Code number SMR RNT 61L30 B300R.

- **On October 21, 2016** the Intercos S.p.A. shareholders' meeting, in order to render the company's management more efficient, modified the corporate charter, increasing the possible number of members of the Board of Directors from 5 to 7, and appointing new members to the Board: Paolo Valsecchi, the C.O.O, among other things, of the Intercos Group and a representative of the company holding important powers in vast areas of the company's business, and the aforementioned Renato Semerari.
- **On November 1, 2016** Intercos S.p.A. announced the postponement, until spring 2018, of the project to list the Hong Kong holding company, Hong Kong Intercos Asia Pacific, and Asian subsidiaries of the Group.

INTERCOS GROUP
Global Cosmetic Manufacturer

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

AT SEPTEMBER 30, 2016

Interim Consolidated Statement of Financial Position at September 30, 2016 – unaudited

<i>(in € thousands)</i>	September 30, 2016	December 31, 2015
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	93,932	98,254
Intangible assets	23,721	22,075
Goodwill	76,527	76,677
Investments	5,020	1,408
Deferred tax assets	15,131	16,603
Other non-current assets	6,321	6,229
Non-current assets	220,652	221,245
CURRENT ASSETS		
Inventories	85,779	69,884
Trade receivables	79,492	73,626
Other current assets	11,892	14,503
Cash and cash equivalents	38,190	50,683
Current assets	215,353	208,695
Assets held for sale	5,633	-
TOTAL ASSETS	441,638	429,941
EQUITY		
Share capital	10,710	10,710
Other reserves	66,005	66,005
Retained earnings	44,081	38,856
Equity attributable to owners of the parent	120,796	115,571
Equity attributable to non-controlling interests	2,343	2,819
EQUITY	123,139	118,390
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings from banks and other lenders	162,815	168,959
Provisions	903	2,777
Deferred tax liabilities	8,211	9,079
Other non-current liabilities	173	165
Employee benefit obligations	9,780	8,379
Non-current liabilities	181,882	189,359
CURRENT LIABILITIES		
Borrowings from banks and other lenders	35,115	29,761
Other financial payables	451	560
Trade payables	70,946	69,456
Other current liabilities	30,105	22,415
Current liabilities	136,617	122,192
TOTAL EQUITY AND LIABILITIES	441,638	429,941

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Interim Consolidated Income Statement for the nine months ended September 30, 2016 - unaudited

<i>(in € thousands)</i>	9 months ended September 30, 2016	9 months ended September 30, 2015 <i>reclassified</i>
Revenues	315,327	288,422
Cost of sales	(243,104)	(215,251)
Gross industrial margin	72,223	73,171
Research & Development and innovation costs	(19,531)	(19,125)
Selling expenses	(14,543)	(15,650)
General and administrative expenses	(17,312)	(15,270)
Other operating income (expenses)	3,098	2,500
Result from investments accounted for using the equity method (operating)	(574)	0
Nonrecurring expenses	1,110	(268)
Operating profit (EBIT)	24,471	25,358
Financial income	3,547	7,211
Financial expenses	(11,415)	(17,789)
Result from investments accounted for using the equity method	29	116
Profit before tax (EBT)	16,632	14,895
Income taxes	(7,934)	(7,335)
Profit for the period	8,697	7,561
Attributable to		
- owners of the parent	8,380	7,522
- non-controlling interests	317	39
Earnings per share ^		
Basic and diluted	0.10	0.08
^ Earnings per share restated		

Interim Consolidated Statement of Comprehensive Income for the nine months ended September 30, 2016 - unaudited

<i>(in € thousands)</i>	9 month ended September 30, 2016	9 months ended to September 30, 2015 <i>reclassified</i>
Profit for the period	8,697	7,561
<i>Other comprehensive income that will not be reclassified subsequently to the income statement, net of tax effect</i>		
- Actuarial gains (losses) on remeasurement of employee defined benefit plans	(1,277)	(238)
- Tax effect	425	(9)
Total	(852)	(247)
<i>Other comprehensive income that will be reclassified subsequently to the income statement, net of tax effect</i>		
- Exchange differences on translating foreign operations	(1,983)	4,958
Total	(1,983)	4,958
Comprehensive income for the period	5,862	12,272
Attributable to:		
- owners of the parent	5,716	12,173
- non-controlling interests	146	99

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Interim Consolidated Statement of Changes in Equity at September 30, 2016 - unaudited

<i>(in € thousands)</i>		RETAINED EARNINGS			ATTRIBUTABLE TO NON CONTROLLING INTERESTS		
Description	Share capital	Other reserves (Share premium reserve)	Reserves and retained earnings	Profit (loss) for the period	Share capital	Profit (loss) for the period	Total
Balances at 12/31/2015	10,710	66,005	18,064	20,792	2,599	220	118,390
Appropriation of 2015 profit			20,792	(20,792)	220	(220)	-
Exchange differences on translating foreign operations				(1,827)		(156)	(1,983)
Remeasurement of employee defined benefit plans (OCI)				(838)		(14)	(852)
Consolidation reserve			(491)		(623)		(1,114)
Profit for the nine months ended September 30, 2016				8,380		317	8,697
Balances at September 30, 2016	10,710	66,005	38,365	5,716	2,197	146	123,139

Interim Consolidated Statement of Cash Flows for the nine months ended September 30, 2016 - unaudited

<i>(in € thousands)</i>	9 months ended September 30, 2016	9 months ended September 30, 2015 <i>reclassified</i>
Profit from continuing operations	8,697	7,561
Profit for the period attributable to owners of the parent	8,697	7,561
Depreciation, amortization and impairment reversals (losses)	15,336	15,822
Other operating income (expenses)	(423)	
Nonrecurring income (expenses)	(1,110)	268
Change in provisions	(216)	(2,974)
Financial income (expenses)	7,868	10,578
Decrease / (Increase) in inventories	(16,608)	(7,775)
Decrease / (Increase) in trade receivables, net	(6,860)	598
Increase / (Decrease) in trade payables	2,047	(4,860)
Decrease / (Increase) in other assets	5,628	4,368
Increase / (Decrease) in other payables	7,157	4,656
Cash flows provided by (used in) operating activities (a)	21,518	28,242
Acquisition of property, plant and equipment, net	(14,764)	(8,463)
Acquisition of intangible assets, net	(5,561)	(4,127)
Acquisitions of investments	(3,612)	(971)
Cash flows (used in) investing activities (b)	(23,937)	(13,561)
Increase / (Decrease) in borrowings from banks and other lenders	(1,978)	(8,808)
Interest paid during the period	(6,230)	(5,473)
Cash flows provided by (used in) financing activities (c)	(8,207)	(14,281)
Change in equity (d)	(1,114)	(317)
Net increase (decrease) in cash and cash equivalents (a)+(b)+(c)+(d)	(11,743)	82
Cash and cash equivalents at beginning of the year	50,683	32,727
Translation exchange differences	751	(898)
Cash and cash equivalents at end of the period	38,190	33,707
Net increase (decrease) in cash and cash equivalents during the period	(11,743)	82

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