

Intercos S.p.A.

Registered Office in Milan - Piazza Eleonora Duse 2
Share Capital Euros 10,710,193 fully paid-in

**SEPARATE FINANCIAL STATEMENTS
AT DECEMBER 31, 2013**

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

Boards and Independent Auditors

BOARD OF DIRECTORS

Name	Position
Dario Gianandrea Ferrari	Chairman and CEO
Ludovica Arabella Ferrari	Chairman and CEO
Virginie Sarah Sandrine Morgon	Director
Vivianne Lucie Akriche	Director
Ciro Cornelli	Director

BOARD OF STATUTORY AUDITORS

Name	Position
Matteo Tamburini	Chairman
Mario Valenti	Standing statutory auditor
Giuseppe Moretti	Standing statutory auditor
Riccardo Foglia Taverna	Alternate statutory auditor
Lenoci Stefano	Alternate statutory auditor

INDEPENDENT AUDITORS

Reconta Ernst & Young S.p.A

<i>(in euros)</i>	At December 31,	
	2013	2012
ASSETS		
NON-CURRENT ASSETS		
5 Property, plant and equipment	33,882,226	37,178,002
6 Intangible assets	12,954,983	12,293,177
7 Goodwill	33,653,547	33,653,547
8 Investments in subsidiaries	82,570,113	77,882,994
9 Deferred tax assets	9,376,170	13,369,942
10 Other non-current receivables	4,905,796	4,668,431
Non-current assets	177,342,835	179,046,092
CURRENT ASSETS		
11 Trade receivables	16,696,292	32,333,167
12 Taxes receivable	5,345,120	6,754,013
13 Other current receivables	6,784,013	712,029
14 Loans receivable from Group companies – short-term	21,427,759	33,900,034
15 Cash and cash equivalents	8,418,489	1,518,262
Current assets	58,671,673	75,217,505
TOTAL ASSETS	236,014,508	254,263,597
EQUITY		
Share capital	10,710,193	10,710,193
Legal reserve	325,791	48,273
Other reserves	62,395,860	62,395,860
Retained earnings (Accumulated losses)	(3,563,825)	(12,860,249)
16 TOTAL EQUITY	69,868,019	60,294,077
LIABILITIES		
NON-CURRENT LIABILITIES		
17 Borrowings from banks and other lenders	121,005,612	130,318,485
18 Other financial payables	0	0
19 Loans payable to Group companies - medium/long-term	375,000	625,000
20 Provisions	158,406	300,000
21 Deferred tax liabilities	6,423,945	8,139,610
22 Employee benefit obligations	1,423,672	1,436,590
Non-current liabilities	129,386,635	140,819,685
CURRENT LIABILITIES		
23 Borrowings from banks and other lenders	23,047,291	39,230,089
24 Loans payable to Group companies - short-term	125,000	125,000
Other financial payables	0	2,094,498
25 Trade payables	4,656,016	4,186,429
26 Other payables	8,931,547	7,513,819
Current liabilities	36,759,854	53,149,835
TOTAL EQUITY AND LIABILITIES	236,014,508	254,263,597

Separate Statements of Comprehensive Income for the Years ended December 31, 2013 and December 31, 2012

<i>(in euros)</i>	2013	2012
27 Revenues	31,254,106	27,003,314
28 Other income	15,370,721	13,112,000
29 Purchases of raw materials, semifinished products and consumables	(1,129,999)	(546,264)
30 Costs for services and leases and rents	(9,401,875)	(6,980,210)
31 Employee benefit expenses	(12,055,904)	(12,588,704)
32 Accruals	(112,500)	(106,176)
33 Other operating expenses	(1,131,042)	(1,224,473)
Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring expenses	22,793,507	18,669,486
34 Depreciation, amortization and impairment reversals (losses)	(7,787,619)	(8,470,813)
35 Valuation adjustments to financial assets	(68,127)	0
36 Nonrecurring income (expenses)	(1,097,665)	(130,000)
Operating profit	13,840,096	10,068,673
37 Finance income	1,099,036	1,402,410
38 Finance expenses	(5,808,948)	(7,077,508)
39 Income taxes	482,828	1,156,780
Profit for the year from continuing operations	9,613,012	5,550,356
Profit for the year from discontinued operations	0	0
Other components of comprehensive income Other comprehensive income that will not be reclassified subsequently to the income statement		
Profit for the year	9,613,012	5,550,356
40 Remeasurement of employee defined benefit plans	(39,070)	(83,004)
Total Other components of comprehensive income	(39,070)	(83,004)
Total comprehensive income for the year	9,573,942	5,467,352

Separate Statements of Cash Flows for the Years ended December 31, 2013 and December 31, 2012

<i>(in thousands of euros)</i>	Year ended December 31,	
	2013	2012
Cash and cash equivalents at beginning of the year	1,518	10,989
Cash flows from operating activities		
Profit for the year	9,613	5,550
Depreciation, amortization and impairment reversals (losses)	7,788	8,471
Impairment loss on investments	(68)	0
Net change in employee severance indemnities	(13)	102
Net change in provisions	(142)	0
Change in deferred income taxes	2,278	(561)
Change in working capital:		
	Inventories	-
	Trade receivables	15,637
	Other assets	(4,663)
	Trade payables	470
	Other liabilities	1,418
	Total	32,317
		6,414
Cash flows used in investing activities		
Acquisitions of:		
. Intangible assets	(4,580)	(4,182)
. Property, plant and equipment	(574)	(2,879)
. Investments	(4,619)	(5,895)
<i>Total investments in intangible assets, property, plant and equipment and equity investments</i>	<i>(9,773)</i>	<i>(12,956)</i>
	Total	(9,773)
		(12,956)
Cash flows used in financing activities		
Change in share capital and reserves	(39)	
Change in bank borrowings	(25,496)	1,952
Change in financial receivables	12,235	(2,841)
Change in financial payables	(2,344)	(2,040)
	Total	(15,644)
		(2,929)
Cash flows during the year	6,900	(9,471)
Dividends paid	-	-
Cash and cash equivalents at end of the year	8,418	1,518

Separate Statements of Changes in Equity

(in thousands of euros)

Description	Share capital	Additional paid-in capital	Legal reserve	Other reserves	Retained earnings (Accumulated losses)	Profit (loss) for the year	TOTAL
Capital increase with additional paid-in capital					-	-	
Appropriation 2011 profit	-	-	48		917	(965)	-
Stock options	-	-			-	-	-
Total comprehensive income 2012	-	-		(82)	-	5,550	55,468
Balance at December 31, 2012	10,710	62,396	48	(25)	(18,385)	5,550	60,294
Capital increase with additional paid-in capital					-	-	0
Appropriation 2012 profit	-	-	278		5,272	(5,550)	0
Stock options	-	-			-	-	0
Total comprehensive income 2013	-	-		(39)	-	9,613	9,574
Balance at December 31, 2013	10,710	62,396	326	(64)	(13,113)	9,613	69,868

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Intercos S.p.A (formerly Intercos Group S.r.l.) is a corporation organized under the laws of the Republic of Italy. It was set up on July 5, 2007 and has its registered office in Milan, at Piazza Eleonora Duse 2.

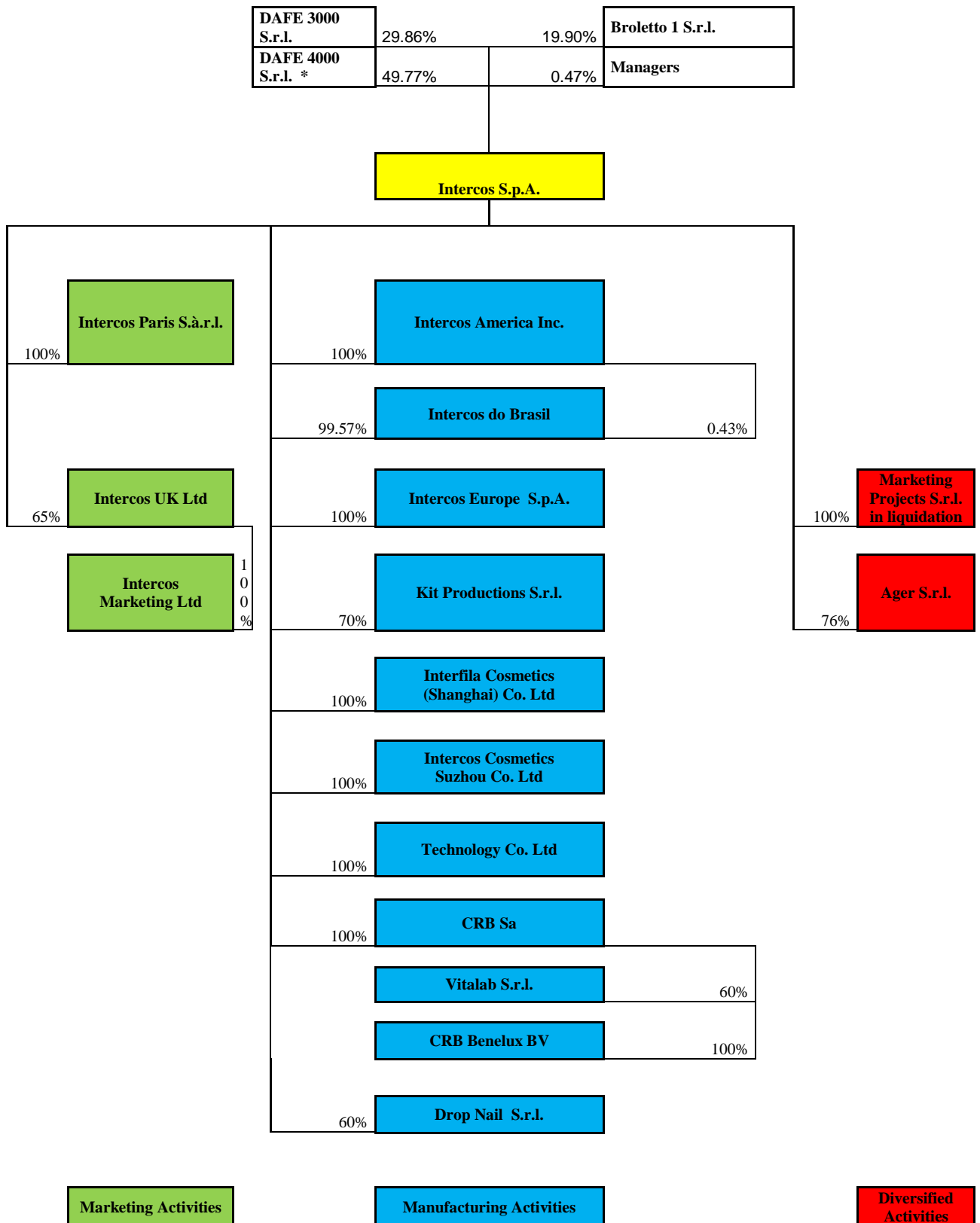
On September 18, 2007, Intercos Group S.r.l., whose share capital was held by Unione Fiduciaria S.p.A. on behalf of the shareholders DAFE 3000 S.r.l. with a 60% stake (Dario Ferrari) and Broletto1 S.r.l. with a 40% stake (Euraleo S.r.l.), acquired a 100% ownership interest in the shares of Intercos S.p.A., a leader in the cosmetics and color sector and founded by the same Dario Ferrari in 1972.

Significant events in 2013

- On April 15, 2013 Intercos S.p.A. purchased an investment in the company Ager S.r.l. for a nominal amount of Euros 7,488 from Maria Luisa Villa. The 24% interest purchased brings the investment held by Intercos S.p.A. to 76%.
- On July 29, 2013 after approval by the board of directors on the acquisition from third parties of a new majority investment in the company Drop Nail S.r.l., Intercos S.p.A. concluded the purchase of a 60% stake in Drop Nail S.r.l., recognizing an investment of Euros 337 thousand.
- Following the resolution passed by the board of directors on the corporate restructuring operations, on September 18, 2013 the purchase from Peter Kwong was concluded for the investment in the company Intercos Cosmetics (Suzhou), in which a 98.33% stake was already held, thus bringing the ownership interest to 100%. The consideration on the sale was USD 250 thousand corresponding to Euros 187 thousand
- Again on September 18, 2013, the company perfected the sale of the 58% investment held in Intercos Asia Pacific. The carrying amount of the investment in the financial statements was Euros 589 thousand, corresponding to Malaysian ringgits (MRM) 2,150 thousand, and the sale was made for consideration of USD 3,021 thousand, corresponding to Euros 2,263 thousand. The transaction generated a gain of Euros 1,765 thousand net of foreign exchange losses of Euros 92 thousand.
- On October 3, 2013 the share issue of the subsidiary Intercos do Brasil was subscribed for USD 6,500 thousand, bringing the investment held by the company to 99.57% of share.

- Following the resolution passed by the board of directors, with effect on October 3, 2013, the registered office of the company was transferred from Via Santa Tecla 3 to Piazza Duse 2, always in Milan.
- The subsidiary Intercos Regulatory Services S.r.l. was definitely closed on October 31, 2013 after it was decided to put the company into an early liquidation on December 16, 2012 and wind it up from December 28, 2012. The closing of the company generated an impairment loss of Euros 68 thousand on the investment recorded in the financial statements for Euros 98 thousand.

At the date of the preparation of the financial statements, the company's business is carried out through the following group companies:



* Non-voting shares in ordinary and extraordinary shareholders' meetings

2. GENERAL CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Basis of presentation

The financial statements for the year ended December 31, 2013 of Intercos 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 separate financial statements at December 31, 2013 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 separate 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 March 31, 2014, the date on which the board of directors of Intercos 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 31, 2014.

New accounting standards, interpretations and amendments adopted by the Company

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, 2012 except for the adoption of recently issued standards, interpretations and amendments in effect from January 1, 2013.

The Company has for the first time adopted certain standards and amendments which require the restatement of the financial statements of the prior year; these include mainly IAS 1 – Presentation of financial statements. The nature and effects of such changes are described below, in accordance with the requirements of IAS 8.

Various other new principles and amendments came into effect for the first time but these did not have any impact on the financial statements of the Company.

The nature and impact of each new principle or amendment is indicated below.

IAS 1 – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

The amendment to IAS 1 requires entities to group items in other components of comprehensive income. The items that could in future be reclassified to the income statement, such as the net gain/loss from available-for-sale financial assets, must now be presented separately from those that will never be reclassified, such as the revaluation of land and buildings. The change only refers to the manner of presentation and did not have any impact on the financial position or the results of the Company.

IAS 12 – Income taxes. Deferred Tax: Recovery of Underlying Assets

IAS 12 clarifies the determination of deferred taxes on investment property measured at fair value. The amendment introduces the rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recorded through sale and that, consequently, the relative deferred taxes should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and held with the aim of using over time substantially all the benefits deriving from the investment property instead of realizing such benefits through sale. The amendment did not have any impact on the financial position, the results or the disclosure of the Company.

IFRS 7 – Financial Instruments: Disclosures. Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to provide additional disclosures on the rights of set-off and relative agreements, such as guarantees. The additional disclosures will enable users of financial statements to evaluate the effect or the potential effects of netting arrangements on the entity's financial position. The disclosures in these amendments are required for all recognized financial instruments that are set off in accordance with IAS 32 – Financial Instruments: Presentation. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have any impact on the financial position or the results of the Company.

IFRS 13 – Fair Value Measurement

IFRS 13 introduces a single source of guidance for all fair value measurements for use across IFRSs. IFRS 13 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The application of IFRS 13 did not have significant impacts on the fair value measurement performed by the Company.

With regard to the assets and liabilities whose fair value was measured, the disclosure required by the standard is presented in the individual notes.

Standards issued but not yet in force

The principles and interpretations which, at the date of the preparing the financial statements, were issued but not yet in force, are presented below. The Company intends to adopt these standards when they come into effect, if applicable.

IFRS 10 – Consolidated Financial Statements and IAS 27 (2011) – Separate Financial Statements

IFRS 10 replaces parts of IAS 27 – Consolidated and Separate Financial Statements, renamed Separate Financial Statements, and addresses the questions raised in SIC-12 Consolidation: Special Purpose Entities.

IFRS 10 builds on existing principles by identifying a single control model applicable to all entities, including special purpose entities. As compared with the provisions of IAS 27, the changes introduced by IFRS 10 require management to carry out relevant assessments to determine which companies are subsidiaries and, therefore, if they must be consolidated by the parent. A preliminary analysis indicates that IFRS 10 is not expected to have any impact on the consolidated financial statements of the Company.

The standard is applicable for periods beginning on or after January 1, 2014.

IFRS 11 – Joint Arrangements

IFRS 11 replaces IAS 31 – Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 11 eliminates the option of accounting for joint ventures using the proportionate consolidation method. Companies that are defined as a joint venture must be accounted for using the equity method.

The standard is applicable for periods beginning on or after January 1, 2014 and must be applied retrospectively to the joint arrangements existing at the date of initial application. A preliminary analysis indicates that IFRS 11 is not expected to have any impact on the consolidated financial statements of the Company.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 is a comprehensive standard that includes all the disclosures previously included in IAS 27 relating to financial statements as well as all the disclosure requirements of IAS 31 and IAS 28. Such disclosure requirements refer to all forms of interests in other entities including subsidiaries, joint arrangements, associates, special purpose vehicles and other unconsolidated vehicles.

There are also new cases of disclosure. The standard will not have any impact on the financial position or the results of the Company. The standard is applicable for periods beginning on or after January 1, 2014.

IAS 28 (2011) – Investments in Associates and Joint Ventures

Following the new IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities,

IAS 28 has been renamed Investments in Associates and Joint Ventures and describes the application of the equity method for investments in associates and joint ventures. The amendments are applicable for periods beginning on or after January 1, 2014.

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the significance of “has a legally enforceable right to set off”. The amendments also clarify the application of the offsetting criteria of IAS 32 in the case of settlement systems (such as clearing arrangements with central counterparties) which apply gross settlement mechanisms not simultaneously. The amendments are not expected to have any impacts on the financial position or the results of the Company. The amendments are applicable for periods beginning on or after January 1, 2014.

Summary of significant accounting policies

As stated, the financial information 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:

- industrial buildings	5.5%
- generic plant	10.0%
- processing machinery	12.0%
- water purification plant	15.0%
- light constructions	10.0%
- office furniture and fixtures	12.0%
- electronic machines	20.0%
- internal transportation equipment	20.0%
- motor vehicles and transportation equipment	25.0%
- cell phones	20.0%
- sundry equipment, hardware and molds	40.0%

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.

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.

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 finance 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 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 adequacy 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 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.

Derivative financial instruments

In accordance with its financial policies, the company uses derivative financial instruments to hedge interest and foreign exchange rate exposure. In particular, derivative financial instruments are used to hedge the exposure of fluctuations in future cash flows arising as a result of the fulfillment of future contractual obligations defined at the balance sheet date, mainly the payment of interest on variable-rate loans received (hereinafter also “cash flow hedge”) and the risk of exposure to changes in the exchange rates relating to receivables and payables in currencies other than the functional currency (hereinafter “fair value hedge”).

Derivative financial instruments are initially recorded at fair value at the date of inception of the contract. Changes in the fair value of the derivatives, subsequent to first-time recognition, are recognized in the income statement as a financial component. This recognition criteria is applied to all derivatives since the company does not deem it opportune to implement the procedures necessary to determine the existence of the requisites to designate, strictly from an accounting standpoint, the outstanding derivatives as hedging instruments, whether fair value hedges or cash flow hedges, and therefore recognize the changes in fair value subsequent to the first-time recognition of the derivatives according to specific hedge accounting criteria.

Determination of the fair value of derivative financial instruments

The fair value of financial instruments listed on an active market is based on market prices at the balance sheet date. The market prices used for derivatives are bid prices whereas ask prices are used for financial liabilities. The fair value of instruments which are not listed on an active market is calculated using valuation techniques based upon a series of methods and assumptions connected with market conditions at the balance sheet date.

The fair value of interest rate swaps is determined on the basis of the present value of estimated future cash flows.

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 "Finance 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.

Foreign exchange gains and losses arising from bonds and other monetary assets measured at fair value through profit or loss are recognized as part of the changes in the relative fair value in the income statement.

Share-based compensation

Intercos S.p.A. operates equity-settled stock option plans (plans in which the beneficiary is granted the right to purchase shares of the company at a pre-fixed price whenever specific conditions are met).

In accordance with IFRS 2 – *Share-based payment*, the fair value of the stock options is determined at the

grant date using the Black & Scholes method and is recognized in the income statement under employee benefit expenses over the period from the grant date to the vesting date, with a corresponding entry directly in equity in a specific reserve. This entry also takes into account the estimated number of options that will effectively vest in favor of the recipients.

When the stock options are exercised, the grant value of the stock options exercised, net of directly attributable transaction costs, for the part equal to the par value of the shares issued, is credited to share capital and the remaining part is recognized as a change in “Reserves”.

Revenue recognition

Revenues are recognized net of returns, discounts, allowances, rebates, taxes and directly related promotional contributions.

Performance of services

Revenues from services are recorded only when the results of the transaction can be estimated reliably, with reference to the stage of completion of the transaction and the reference 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.

Royalties

Royalties are recorded on the accrual basis in accordance with the substance of the relevant agreement.

Dividends

Dividends are recorded when the right to receive payment is established, which normally coincides with the shareholders' resolution for the payment of dividends.

Finance income and expenses

Finance expenses are recorded as expenses in the year incurred. They include interest on bank overdrafts and loans, finance expenses on finance leases, actuarial losses and finance 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, including those relating to the carryforward of unused tax losses, 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.

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. with Ager S.r.l., Kit Productions S.r.l., Intercos Europe S.p.A. and Marketing Projects S.r.l. in liquidation as the “consolidated” companies.

Each of these companies in the tax consolidation transfers its taxable income or tax loss to Intercos S.p.A. which records a receivable (equal to the IRES tax to be paid) from the companies which contribute a taxable income or a payable to the companies which transfer a tax loss.

Intercos S.p.A., as the consolidating company, is responsible not only for any additional taxes assessed and the relative fines and interest referring to its own individual total income, but also for the sums which could become due, with reference to the consolidated tax return, from “formal control” activities pursuant to ex art. 36-ter DPR 600/1973. It is also liable, jointly and severally, for the sums due in relation to fines levied on companies in the consolidated tax return which have committed violations in determining the individual position. Similarly, the consolidated companies are jointly and severally liable with Intercos S.p.A., as the consolidating company, for higher taxes 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 ex art. 36-ter DPR 600/1973.

3. RISK MANAGEMENT

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

Intercos S.p.A.’s activities are exposed to various types of risks: market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk. Intercos 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 Finance, Administration and Control Function, which provides written policies for the management of the above risks and the use of suitable financial instruments.

Types of risks

Market risk

In the sensitivity analyses performed and described below, the effect on profit and equity was calculated without considering the tax effect.

Exchange rate risk

Intercos S.p.A. operates internationally 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 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 on the North American market and vice versa.

The above risk is hedged by net currency positions or by using derivative contracts.

The following sensitivity analysis was performed which illustrates the effects on profit and equity produced by an increase/decrease of 7.5% in exchange rates compared to the effective exchange rates at December 31, 2013.

(in thousands of euros)

	2013	
	(7.5%)	+7.5%
U.S. dollar	(1,104)	950
Other currencies	(0.20)	0.20
Total	(1,104)	950

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 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.

Variable-rate borrowings expose Intercos S.p.A. to risk originating from the volatility of interest rates (cash flow risk). With regard to this risk, for purposes of suitable hedging, the company may use derivative contracts which limit the impact of interest rate fluctuations on the income statement.

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

The following sensitivity analysis was performed which illustrates 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, 2013, 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 payables and receivables and also cash and cash equivalents and derivative financial instruments whose value is influenced by changes in interest rates.

(in thousands of euros)

	2013	
	(0.5%)	+0.5%
Euro	(452)	558
U.S. dollar	(71)	158
Total	(523)	716

Credit risk

Following the contribution of the industrial business segment in 2011, the financial statements of the company at December 31, 2013 do not show "Receivables from third parties" but rather "Receivables from group companies". Therefore, credit risk is no longer a significant risk and is managed together with liquidity risk since the Administration Function has procedures in place aimed at ensuring the timely payment of receivables among Group companies in order to improve the group's management of liquidity.

Liquidity risk

Prudent management of liquidity risk arising from the normal operations of the company implies maintaining sufficient cash and funds obtainable through an adequate amount of committed credit lines.

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

The amount of liquid reserves at December 31, 2013 compared to the end of the prior year is as follows:

<i>(in thousands of euros)</i>	12/31/2012	12/31/2013
Cash and cash equivalents	1,518	8,418
Unused committed credit lines	0	4,000
Total	1,518	12,418

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 net of the exchange effect.

	Within 1 year	1 to 5 years	Beyond 5 years	TOTAL At December 31, 2013
Borrowings from banks and other lenders - m-l/term	21,758	140,321		162,079
Loans to Group companies	125	375		500
Finance leases payable	96	166		262
Medium/long-term debt	21,980	140,861	0	162,841
Borrowings from banks and other lenders - s/term	2,174			2,174
Fair value of derivatives	0			0
Trade payables	4,656			4,656
Short-term debt	6,830	0	0	6,830
Total	28,810	140,861	0	169,671

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 S.p.A. and the categories of assets and liabilities identified in accordance with the requirements of IFRS 7:

(in thousands of euros)

at December 31, 2013	Financial assets at fair value through profit or loss	Receivables and loans	Available-for- sale financial assets	Assets held to maturity	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	-	21,428	-	-	-	-	-
Trade receivables	-	16,696	-	-	-	-	-
Other assets	-	6,784	-	-	-	-	-
Loans payable	-	-	-	-	-	500	-
Borrowings from banks and other lenders	-	-	-	-	-	144,053	-
Trade payables	-	-	-	-	-	4,656	-
Other payables	-	-	-	-	-	8,932	-
Derivatives (liabilities)	-	-	-	-	-	0	-
Total	-	44,908	-	-	-	158,140	-
Cash and cash equivalents	-	8,418	-	-	-	-	-

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.

4. 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.

5. Property, plant and equipment

Movements in Property, plant and equipment in 2013 are as follows:

	At January 1, 2013	Increases/ Depreciation	Decreases/ Impairments	Reclassifications	At December 31, 2013
Historical cost					
Land and buildings	65,428	59	-	-	65,487
Plant and machinery	11,992	109	-	(1)	12,100
Industrial equipment	324	167	-	2	494
Office furniture and equipment	4,702	97	(0)	40	4,838
Motor vehicles and internal transportation equipment	933	110	(229)	(0)	814
Cell phones	11	1	-	-	12
Assets under construction and payments on account	0				0
Total historical cost	83,390	542	(230)	41	83,743
Accumulated depreciation					
Land and buildings	31,067	2,711			33,778
Plant and machinery	9,938	836		(1)	10,773
Industrial equipment	193	101			294
Office furniture and equipment	4,409	76	(0)	(1)	4,483
Motor vehicles and internal transportation equipment	594	147	(219)	0	522
Cell phones	11	0			11
Assets under construction and payments on account	0				0
Total accumulated depreciation	46,212	3,870	(220)	(1)	49,861
Net carrying amount					
Land and buildings	34,361	(2,652)	-	-	31,709
Plant and machinery	2,054	(727)	-	(0)	1,327
Industrial equipment	131	66	-	2	200
Office furniture and equipment	293	21	-	40	355
Motor vehicles and internal transportation equipment	339	(37)	(10)	(0)	291
Cell phones	0	1	-	-	1
Assets under construction and payments on account	0				0
Total net carrying amount	37,178	(3,328)	(10)	42	33,882

Increases during the year mainly refer to the purchase of machinery for the production of products, generic and specific plant as well as sundry laboratory equipment.

5.1 Leases

Assets acquired under finance lease contracts arranged by Intercos 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 the comparison with December 31, 2012:

	At December 31, 2012			At December 31, 2013		
	Capitalized cost	Accumulated depreciation	Net carrying amount	Capitalized cost	Accumulated depreciation	Net carrying amount
Other assets	693	(397)	296	578	(323)	255
TOTAL	693	(397)	296	578	(323)	255

As required by IAS 17, paragraph 31, disclosure is given of the total future minimum lease payments at the end of the year equal to Euros 262 thousand, divided as follows: Euros 96 thousand within 12 months and Euros 166 thousand between one and five years. There are no amounts due beyond five years. Potential lease installments recorded as expenses during the year total Euros 101 thousand.

6. Intangible assets

Movements in Intangible assets in 2013 are as follows:

	At January 1, 2013	Increases	Writedowns	Reclassifications	Amortization	At December 31, 2013
Research and development costs	6,848	99	0	0	2,527	4,420
Patent and software rights	2,049	455	0	493	1,330	1,666
Concessions and licenses	230	22	0	0	61	191
Other intangible assets	3,166	4,005	0	(493)	0	6,678
TOTAL	12,293	4,580	0	0	3,918	12,955

The increase in “Research and development costs” on products is described under the comments on “Other intangible assets” and are under development since the project begun in 2012 and continued in 2013 will be completed next year. Amortization is being taken over five years. The capitalization of the research projects includes, according to the provisions of IAS 23, a proportional amount of interest; in fact, the standard provides for this possibility also for any type of general financing (not specifically earmarked for the manufacture or purchase of a specific asset) thanks to the application of a capitalization rate to the expenses incurred. The rates used are 3.35% for investments made during the year 2009, 4.04% for those in 2010, 5.03% for those in 2011, 3.76% for those in 2012 and 4.08% for those in 2013.

The increase in “Patent and software rights” for a total of Euros 948 thousand refers to Euros 912 thousand for expenses incurred on the development of the SAP applications package and other software packages and Euros 36 thousand for expenses sustained to file patents.

“Other intangible assets” total Euros 6,678 thousand.

The increase during the year refers: (i) to the continuation of the project “Exclusive materials and Tailor-made solution for Cosmetics Applications” in the R&D area for Euros 2,093 thousand, for a total amount of Euros 4,035 thousand, started in 2012 and expected to be completed in 2014, in addition to a new project named “Back Injection” for an amount of Euros 1,075 thousand, started in 2013, and expected to be completed during the first few months of 2014; (ii) the development of software to implement and improve the control model process not only locally but for the entire Group for Euros 1,568 thousand.

As far as the principal projects capitalized under “Development costs” are concerned, the remaining periods of amortization are the following:

- “New make-up technologies” Project, year 2009, unamortized amount: Euros 336 thousand, remaining amortization period: 0.6 years.
- “Prisma Shine” Project, year 2010, unamortized amount: Euros 1,332 thousand, remaining amortization period: 1.7 years.
- “Gelling Powder” Project, year 2011, unamortized amount: Euros 2,664 thousand, remaining amortization period: 3.7 years

Additional details on R&D are described in the Report on Operations under performance in 2013.

7. Goodwill

Movements in Goodwill are as follows:

	At January 1, 2013	Changes during the year	At December 31, 2013
Goodwill	33,653	--	33,653

Goodwill is tested annually for impairment.

For purposes of impairment testing, the goodwill of Euros 33,653 thousand was allocated to the Make-up Cash-Generating Unit (CGU).

The impairment test was developed on the basis of the plan drawn up by company management. In particular, management used the 2014 economic budget prepared by the Group at the end of 2013, in the process of being approved by the board of directors, and the net assets development plan 2014 with the 2014-2018 economic, financial position and cash flows plan, also awaiting approval.

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 economic and financial projections relative to a maximum period of three years based on assumptions included in the plan officially 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 8.88% for the Make-up CGU. The terminal value was determined by applying a perpetual growth factor that is 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, 2013, there were no impairment losses arising on recorded goodwill resulting from the

impairment tests conducted since the value in use determined for each CGU identified was higher than the relative carrying amount.

8. Investments in subsidiaries

Movements in Investments in subsidiaries are as follows:

	At December 31, 2013
Beginning balance	77,883
Revaluations	
Impairments	(98)
Disposals	(589)
Acquisitions – Share capital increases	5,375
Total	82,571

Details and movements during the year are as follows:

	At 1/1/2013	Revaluations	(Impairments)	Acquisitions	Sales	At 12/31/2013
Intercos Europe S.p.A. (ex Color Cosmetics S.r.l.)	32,418	0	0	0	0	32,418
Kit Productions S.r.l.	7	0	0	0	0	7
Intercos Regulatory Service S.r.l. in liquidation	98	0	(98)	0	0	0
Marketing Projects S.r.l. in liquidation	40	0	0	0	0	40
Ager S.r.l.	17	0	0	85	0	102
Drop Nail S.r.l.	0	0	0	337	0	337
Intercos America Inc.	11,272	0	0	0	0	11,272
Intercos do Brasil	3,157	0	0	4,766	0	7,923
Intercos Paris Sarl	188	0	0	0	0	188
Intercos UK Ltd	580	0	0	0	0	580
CRB S.a.	15,544	0	0	0	0	15,544
Intercos Technology Co.Ltd.	2,037	0	0	0	0	2,037
Interfila Shanghai	2,738	0	0	0	0	2,738
Intercos Cosmetics Suzhou Co. Ltd.	9,198	0	0	187	0	9,385
Intercos Asia Pacific Sdn Bhd	589	0	0	0	(589)	0
Total	77,883	0	(98)	5,375	(589)	82,571

During the year, the company subscribed to the capital increase of Intercos do Brasil for Euros 4,765 thousand (USD 6,500 thousand), of which Euros 1,106 thousand (USD 1,500 thousand) was paid in; the payment of the remaining amount of the share issue of USD 5,000 thousand will be made by the end of 2014.

The company increased its investment in Ager S.p.A. to 76% by purchasing a 24% stake in the company for

Euros 85 thousand.

In September 2013 the entire interest held in Intercos Asia Pacific was sold to third parties and a gain was realized of Euros 1,765 thousand. As part of the same transaction, the remaining interest in Intercos Cosmetics was purchased from third parties for Euros 187 (USD 250 thousand).

The company also purchased an additional stake in Drop Nail S.r.l. for Euros 337 thousand.

The definitive closing of Regulatory Service S.r.l. after it was put into a voluntary liquidation in 2012, led to the writeoff of the investment which generated an impairment loss of Euros 68 thousand.

Further details are provided under “Significant events in 2013”.

There were no indicators of impairment identified in relation to the carrying amount of the equity investments as presented in the following table:

	Carrying amount	% holding	Equity	Change
Intercos Europe S.p.A.	32,418	100%	18,186	(14,232)
Kit Productions S.r.l.	7	70%	552	545
Marketing Projects S.r.l. in liquidation	40	100%	428	388
Ager S.r.l.	102	76%	1,176	1,074
Drop Nail S.r.l.	337	60%	9	(328)
Intercos America Inc.	11,272	100%	12,973	1,701
Intercos do Brasil	7,923	100%	5,226	(2,697)
Intercos Paris Sarl	188	100%	497	309
Intercos UK Ltd	580	65%	3,190	2,610
CRB S.a.	15,544	100%	9,989	(5,555)
Intercos Technology Co.Ltd.	2,037	100%	8,090	6,053
Interfila Shanghai	2,738	100%	6,810	4,072
Intercos Cosmetics Suzhou Co. Ltd.	9,385	100%	10,810	1,425
Total	82,571		77,937	(4,634)

With regard to the subsidiaries Intercos Europe S.p.A. And CRB S.A. which show a negative difference, it should be noted that the economic plans of the two companies indicate good future profitability which will make it possible to close the current gap between the carrying amount of the investment and the corresponding share of net equity. Furthermore, it should also be noted that the two companies paid dividends in 2013.

As for the negative differences regarding the subsidiaries Intercos do Brasil and Drop Nail, these companies are in the start-up stage and a multi-year plan has been drawn which indicates a good recovery of profitability.

9. Deferred tax assets

Deferred tax assets amount to Euros 9,375 thousand at December 31, 2013; the rate used for IRES is 27.5%. Deferred tax assets were also calculated on prior years' revised tax losses that resulted from the request filed for the recalculation of taxable income/tax losses from 2007 to 2011 as a result of IRAP taxes on labor costs that became deductible for IRES taxes purposed under ex Legislative Decree 201/2011.

In addition, it should be mentioned that the tax losses for the year 2007 arose prior to the national tax consolidation regime so they can be utilized only by Intercos S.p.A.

The total amount of available tax losses was reduced by the amount used when the IPEC appeal was presented to definitely close the dispute that arose with the Revenue Agency for the year 2008 (for Euros 1,355 thousand) as well as the utilization in the year of up to the 80% limit of consolidated taxable income that arose in 2013 (for Euros 10,690 thousand).

The following table gives the details by source of deferred tax assets at December 31, 2013 and 2012.

Description	12/31/2013			12/31/2012		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Exchange losses	1,732	476	-	4,414	1,214	-
Stock options	57	16	-	57	16	-
Provisions	112	31	-	-	-	-
Tax loss 2007	1,396	384	-	1,396	384	-
Consolidated loss 2008	-	-	-	886	244	-
Consolidated loss 2009	5,089	1,400	-	14,066	3,868	-
Consolidated loss 2010	6,398	1,759	-	6,398	1,759	-
Consolidated loss 2011	14,426	3,967	-	14,426	3,967	-
Consolidated loss 2012	4,742	1,304	-	4,742	1,304	-
Derivatives	-	-	-	2,094	576	-
Other	138	38	-	135	37	-
Total	34,090	9,375	-	48,614	13,369	-

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.

10. Other non-current receivables

Details of Other non-current receivables at December 31, 2013 and 2012 are as follows:

	At December 31,	
	2013	2012
VAT receivable on refund request year 2009	2,300	2,300
VAT receivable on refund request year 2010	1,400	1,400
Interest on VAT receivables	432	309
IRES receivable year 2004 and following years ex Legislative Decree 185/2008	230	230
IRES receivable year 2007 ex Legislative Decree 201/2011	422	422
Security deposits	121	7
Total	4,906	4,668

VAT receivables relating to the years 2009 and 2010 for which refund requests were filed are shown as non-current since it is believed that their settlement will not take place in 2014.

The IRES tax receivable under ex Legislative Decree 185/2008 derives from specific requests filed by the

company for the years 2004 – 2005 – 2006 (for a total of Euros 130 thousand) and 2007 (for Euros 100 thousand).

The IRES tax receivable under ex Legislative Decree 201/2011 derives from the request relating to the year 2007 filed by the company after the tax was recalculated following recognition of the deductibility of IRAP tax on labor costs; it takes into account the results of the new calculation for the subsidiaries which had adhered to the tax consolidation for that year.

11. Trade receivables

Details of Trade receivables at December 31, 2013 and 2012 are as follows:

	At December 31,	
	2013	2012
Receivables from third party customers (Credit notes to be issued)	(2)	17
Receivables from Group companies	16,698	32,316
Total	16,696	32,333

Additional details on credit risk are described in the introduction to the notes in “Risk Management” under the General criteria for the preparation of the financial statements.

12. Taxes receivable

	At December 31,	
	2013	2012
VAT receivable of the year	398	1,093
VAT 2008 refund receivable	2,400	2,400
Receivable from tax authorities for IRES	710	1,846
Receivable from tax authorities for IRAP	81	403
Other taxes receivable	1,756	1,014
Total	5,345	6,756

“Receivable from tax authorities for IRES” of Euros 710 thousand consists of the group IRES receivable referring to prior years for Euros 647 thousand not yet utilized and IRES receivables referring to 2013 transferred by the subsidiaries to the tax consolidation for Euros 63 thousand.

“Receivable from tax authorities for IRAP” refers to the amount reported in the prior year’s return (for Euros 419 thousand) net of the payable that arose when the tax was liquidated in 2013 (for Euros 338 thousand).

Other taxes receivable” include withholding taxes on royalties and commissions relating to 2012 (for Euros 1,196 thousand), to 2013 (for Euros 558 thousand) and on other (for the remaining Euros 2 thousand).

“VAT 2008 refund receivable” is included in taxes receivable since it is the oldest of the receivables of this nature and it is supposed that it will be reimbursed by the end of the following year.

13. Other current receivables

Details of Other current receivables at December 31, 2013 and 2012 are as follows:

	At December 31,	
	2013	2012
Receivables from subsidiaries for tax consolidation	4,276	203
Sundry receivables	2,172	281
Accrued income and prepaid expenses	336	228
Total	6,784	712

“Receivables from subsidiaries for tax consolidation” include:

- the IRES receivable from the subsidiary Ager S.r.l. from the 2013 IRES settlement following its adherence to the national tax consolidation regime, mentioned in the introduction to notes, for Euros 1 thousand;
- the IRES receivable from the subsidiary Intercos Europe S.p.A. from the 2013 IRES settlement, for Euros 4,075 thousand;
- the IRES receivable from the subsidiary Marketing Projects S.r.l. in liquidation, as a result of the transfer of a tax credit and from the 2012 IRES settlement of the subsidiary which overall generated a net IRES payable of the same amount transferred to Intercos S.p.A. as part of the group settlement.

“Sundry receivables” at December 31, 2013 comprise advances to suppliers for Euros 51 thousand, a receivable from local entities for expense refund requests for Euros 172 thousand, receivables in accordance with contractual agreement due within the year for Euros 1,948 thousand following the sale of the investment in the company Intercos Asia Pacific.

“Accrued income and prepaid expenses” at December 31, 2013 include prepaid rent, insurance, utilities and hires for a total of Euros 336 thousand.

14. Loans receivable from Group companies – short term

Details of Loans receivable from Group companies at December 31, 2012 and December 31, 2013 are as follows:

At December 31, 2012	within 12 months	beyond 12 months	Total
Intercos Europe S.p.A.	14,405	-	14,405
Intercos Technology Co. Ltd	758	-	758
Intercos America Inc.	18,737	-	18,737
Total	33,900	-	33,900

At December 31, 2013	within 12 months	beyond 12 months	Total
CRB S.A.	2,668	-	2,668
Intercos Europe S.p.A.	503	-	503
Intercos do Brasil	873	-	873
Intercos Technology Co. Ltd	678	-	678
Intercos America Inc.	16,706	-	16,706
Total	21,428	-	21,428

The company, in its role as the coordinator of the financial resources of the Group, extends, according to need, interest-bearing loans to subsidiaries in order to optimize their resources.

The decrease in loan receivables from the subsidiary Intercos Europe S.p.A. is due to the repayment of tranches during the course of the year.

The loan due from Intercos America Inc was partially repaid during the year for Euros 9,986 thousand and a new loan was extended in December 2013 for USD 12,000 thousand, equal to Euros 8,788 thousand, recording a foreign exchange loss of Euros 514 thousand.

During the year loans were also granted to a C.R.B. S.A. and Intercos do Brasil.

15. Cash and cash equivalents

Details of Cash and cash equivalents at December 31, 2013 and 2012 are as follows:

	At December 31,	
	2013	2012
Bank and postal deposits	8,402	1,499
Cash on hand	17	19
Total	8,419	1,518

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

The change compared to December 31, 2012 is due to a higher concentration of collections received close to the end of the year at December 31, 2013.

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

16. Equity

Equity amounts to Euros 69,868 thousand (Euros 60,294 thousand at December 31, 2012).

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

Share capital

On October 21, 2010, the company voted to increase share capital against payment of Euros 5,330,000 with additional paid-in capital of Euros 44,670,730. Of that amount, Euros 2,665,000 of share capital and Euros 22,335,365 of additional paid-in capital was subscribed and paid in at that time by the shareholder DAFE 3000 S.r.l. since the other shareholders waived their right to subscription entitlement. Then on March 30, 2011, the shareholder DAFE 3000 S.r.l. subscribed to and paid in the remaining share capital of Euros 2,665,000 and additional paid-in capital of Euros 22,335,365 so that share capital at this date is fully subscribed to and paid in and equal to Euros 10,710,193 (with total additional paid-in capital of Euros 62,395,860).

The following table presents a comparison at December 31, 2012 and December 31, 2013:

	Class A shares (number)	Class B shares (number)	Class D shares (number)	Total value
At December 31, 2012	5,330,000	50,193	5,330,000	10,710,193
At December 31, 2013	5,330,000	50,193	5,330,000	10,710,193

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

Nature/Description <i>(in thousands of euros)</i>	Balance at December 31, 2013	Possibility of utilization
Share capital	10,710	
Additional paid-in capital (*)	62,396	A, B, C
Other reserves (*) (**)	(65)	
Legal reserve	326	B
Retained earnings (Accumulated losses)	(13,112)	
Profit for the year (*)	9,613	A, B, C
Equity at 12/31/2013	69,868	

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 can be distributed only on condition that the legal reserve has reached the limit established by art. 2430 of the Italian Civil Code

(**) This refers to the reserve set up in respect of the higher or lower value attributed to the employee severance indemnities remeasured in accordance with IAS 19.

17. Borrowings from banks and other lenders

On September 18, 2007, Intecos Group S.r.l. (the present Intecos S.p.A.) and the then “subsidiary” Intecos S.p.A., now merged in the first, signed a loan contract with Intesa San Paolo S.p.A., BNP Paribas, Calyon and Natixis S.A. for a total of Euros 250 million (Intecos S.p.A for Euros 177 million and Intecos Group S.r.l. for Euros 73 million).

On March 12, 2008, Intesa Sanpaolo S.p.A., BNP Paribas and Natixis S.A. transferred a part of their investment in the financing contract signed in Milan on September 18, 2007 for a total amount of Euros 250 million to new financing banks, with effect on March 18, 2008 and both Intecos Group S.r.l. and

Intercos S.p.A. signed the deeds extending the already-existing loan guarantees on the September 18, 2007 loan to the new banks.

As a result of the merger by incorporation of the then “subsidiary” Intercos S.p.A. in Intercos Group S.r.l. (the present Intercos S.p.A.), on March 12, 2009, as established by the loan contract, Intercos Group S.r.l. repaid the “A1” line equal to Euros 63 million obtained for the purchase of the investment in the merged company Intercos S.p.A. and, at the same time, obtained a new financing line (“D” line) for the same amount, due in 2016.

After default on the balance sheet and financial covenants at December 31, 2009, on October 14, 2010, the syndicate of banks signed a restructuring agreement for Intercos S.p.A.’s debt and redefined the new economic and financial covenants based on the new 5-year Business Plan of the Group.

As established by IAS 39, the transaction costs for the loan were included in determining the effective interest rate on the loan and will therefore be amortized over the course of the remaining period of the restructured liability.

At December 31, 2013, the loan was drawn down by Intercos S.p.A. for Euros 142 million: from Tranche A2 for Euros 67 million, Tranche C (USD) for Euros 12.4 million equivalent to USD 18.4 million, Tranche C (EUR) for Euros 24 million, Tranche D for Euros 22.4 million and the revolving line (EUR) for Euros 16 million.

Details of medium/long-term debt outstanding at December 31, 2013 together with the relative due dates referring to the loan with the banking syndicate are as follows:

	Bank	Amount	Internal rate of return	
Intercos S.p.A.	Banking syndicate	60,705	4.04%	Tranche A 2 2007-2016 (EUR)
Intercos S.p.A.	Banking syndicate	13,319	2.61%	Tranche C 2007-2015 (USD)
Intercos S.p.A.	Banking syndicate	13,419	2.72%	Tranche C 2007-2015 (EUR)
Intercos S.p.A.	Banking syndicate	22,298	3.09%	Tranche D 2009-2016 (EUR)
Intercos S.p.A.	Banking syndicate	10,566	2.36%	Tranche Capex (EUR)
Total (*)		120,307		
Intercos S.p.A.	Other lenders	0	4.27%	Low-rate loan Law 46 grant 10626
Intercos S.p.A.	Other lenders	108	4.38%	Low-rate loan Law 46 grant 10957
Intercos S.p.A.	Other lenders	72	4.38%	Low-rate loan Law 46 grant 11155
Intercos S.p.A.	Other lenders	354	3.36%	Low-rate loan Law 46 grant 11337
Total		534		

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

During the year Tranche B in USD for USD 6.9 million equivalent to Euros 5 million was repaid, totally extinguishing the loan, whereas on July 27, 2013 the Revolving Tranche “4” was obtained for Euros 6 million and during the year Revolving Tranche 2 was extinguished for Euros 10 million

The loan is subject to financial covenants calculated on the consolidated financial statements. On the basis of the calculations made, for the year ended December 31, 2013, such financial covenants have been complied with. It should be noted that following an excess of cash calculated on the items in the 2012 financial statements, it became necessary to early repay a part of the debt for a total amount of Euros 14,629 thousand.

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

December 31, 2012

	Within 1 year	1 to 5 years	Beyond 5 years	Total
Bank overdrafts and advance accounts	0	0	0	0
Payable to Banca Intesa	38,785	129,316	0	168,101
Finance leases payable	92	186	0	278
Debt under Law 46/Mediocredito	353	817	0	1,170
Total	39,230	130,319	0	169,549

December 31, 2013

	Within 1 year	1 to 5 years	Beyond 5 years	Total
Bank overdrafts and advance accounts	0	0	0	0
Payable to Banca Intesa	20,494	120,306	0	140,800
Finance leases payable	96	166	0	262
Debt under Law 46/Mediocredito	283	534	0	817
Other payables	2,174	0	0	2,174
Total	23,047	121,006	0	144,053

18. Other financial payables (derivative instruments)

Other financial payables show a zero balance given that the interest rate swap put in place with Intesa SanPaolo on January 1, 2012 was paid by the end of the year.

19. Loans payable to Group companies – medium/long-term

Loans payable to Group companies – medium/long-term for Euros 375 thousand refer to the loan taken out on December 27, 2010 (for a total of Euros 775 thousand) with the subsidiary Ager S.r.l. through the conversion of a part of the trade payables outstanding at the date the contract was signed. The loan is repayable in four annual installments at 3% interest annually.

20. Provisions

Movements in “Provisions” in 2013 are as follows:

	At December 31, 2013	At December 31, 2012
Beginning balance	300	300
Accrual	112	106
Utilization	(254)	(106)
Total	158	300

The accrual was made as a prudent measure in respect of labor questions that arose at the end of the year that will be settled in 2014.

The utilization of the provision was in respect of the dispute over IRES and IRAP taxes for the year 2007, described in Note 9, for the appeal presented during the year.

During 2013 following an assessment consent agreement, the question of IRES and IRAP taxes for the year 2008 was settled.

21. Deferred tax liabilities

Deferred tax liabilities amount to Euros 6,424 thousand, with a decrease of Euros 1,716 thousand compared to the prior year. For a better understanding, details are provided in the following table of the temporary differences which gave rise to the calculation of deferred income taxes at the rate of 27.5% for IRES tax and 3.90% for IRAP tax.

Description	12/31/2013			12/31/2012		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
IAS differences on depreciation	17,598	4,840	686	18,808	5,172	734
PPE revaluation	1,527	420	59	1,747	480	69
Exchange gains	291	80	-	3,292	905	-
Elimination of tax effect on PPE	739	203	-	877	241	-
Difference on employee severance indemnities	7	2	-	51	14	-
IAS 39 effective interest	485	134	-	1,910	525	-
Total	20,647	5,679	745	26,685	7,337	803

22. Employee benefit obligations

Movements in Employee benefit obligations in 2013 are as follows:

	At December 31, 2013	At December 31, 2012
Beginning balance	1,436	1,355
Actuarial gains/losses	39	83
Utilization	(496)	(70)
Interest cost	444	63
Transfers	0	5
Total	1,424	1,436

The following table presents the assumptions used in determining the actuarial value of Employee benefit obligations for the year 2013.

	At December 31, 2013	At December 31, 2012
Discount rate	2.77%	3.20%
Annual inflation rate	2.00%	2.00%
Annual employee severance indemnities increase rate	3.00%	3.00%
Annual compensation growth rate	1.50%	1.50%

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

The sensitivity analysis of the main valuation parameters on the data at December 31, 2013 is presented below:

	At 12/31/2013
Inflation rate + 0.25%	1.440
Inflation rate -0.25%	1.408
Discount rate +0.25%	1.400
Discount rate -0.25%	1.448
Turnover rate +1%	1.424

A breakdown of headcount at December 31, 2013 and at December 31, 2012 is as follows:

	Headcount at December 31, 2013	Headcount at December 31, 2012
Managers	14	15
Supervisors and white collars	141	132
Blue collars	26	26
Total	181	173

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

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

23. Borrowings from banks and other lenders

Details on borrowings from banks and other lenders – non-current are presented in Note 17.

24. Loans payable to Group companies – short-term

Loans payable to Group companies – short-term include the current portion of the loan due to the subsidiary Ager S.r.l. for Euros 125 thousand. Further details are provided in Note 19.

25. Trade payables

Trade payables at December 31, 2013 and 2012 are as follows:

	At December 31,	
	2013	2012
Trade payables to third party suppliers	3,223	2,967
Trade payables to Group companies	1,433	1,219
Total	4,656	4,186

26. Other payables

Details of Other payables at December 31, 2013 and 2012 are as follows:

	At December 31,	
	2013	2012
Taxes payable	735	0
Payables to employees	1,890	2,467
Social security agencies payable	833	243
Payables to tax authorities for withholdings	706	643
Accrued liabilities	80	47
Payables to subsidiaries for tax consolidation	973	1,442
Payables to subsidiaries for capital increase	3,614	320
Sundry payables	101	2,351
Total	8,932	7,514

“Taxes payable” include only IRES payable resulting from the existing tax consolidation procedure.

“Payables to employees” principally comprise the employee incentive plan of Euros 1,081 thousand and related social security contributions of Euros 327 thousand, vacation pay accrued and not taken of Euros 577 thousand and related social security contributions of Euros 162 thousand, accrued compensation for the 14th month salary of Euros 215 thousand and other minor payables to employees of Euros 17 thousand.

“Social security agencies payable” refer to social security costs on December compensation to employees, paid in January and social security costs on additional months’ salaries.

“Payables to tax authorities for withholdings” refer to IRPEF withholding taxes on employee compensation of Euros 703 thousand and withholding taxes on self-employed compensation for the remaining Euros 3 thousand.

“Accrued liabilities” include interest of Euros 12 thousand, insurance premiums of Euros 22 thousand and other costs of Euros 46 thousand.

“Sundry payables” for a total of Euros 101 thousand refer entirely to the amount to be paid to third parties as a result of taking over the instalments on the loan secured by Drop Nail S.r.l.

“Payables to subsidiaries for the tax consolidation” of Euros 973 thousand includes IRES receivables transferred from the subsidiaries below and generated as follows:

Description	December 31, 2013			Total
	Intercos Europe S.p.A.	Marketing Projects S.r.l. in liquidation	Kit Productions S.r.l.	
Reimbursement ex Legislative Decree 185/08	68	1	-	69*
Reimbursement ex Legislative Decree 201/11	870	15	-	885§
Settlement 2011	-	8	-	8
Settlement 2012	480	-	-	480
Transfer of IRES receivable 2012	(516)	-	-	(516)
Settlement 2013	-	15	32	47
Total	902	39	32	973

* Of which Euros 23 thousand refers to the merged company Interfila S.r.l.

§ Of which Euros 370 thousand refers to the merged company Interfila S.r.l.

“Payables to subsidiaries for capital increase” includes the entire remaining amount due to the subsidiary Intercos do Brasil for the subscription to its share capital increase. Further details are provided under “Significant events in 2013”.

As concerns the IRES tax reimbursement request after 10% of the IRAP tax became deductible, each company recorded a receivable from the tax authorities in its financial statements for the years 2004, 2005 and 2006 whereas for 2007, since there was a tax consolidation procedure, a receivable was recorded from

Intercos S.p.A. which, as the consolidating company, recorded a corresponding receivable from the tax authorities in its financial statements.

Similarly, with regard to the requests filed under Legislative Decree 201/2011 for the years 2007-2008-2009-2010-2011 in which the tax consolidation procedure was adopted, Intercos S.p.A., as the consolidating company, recorded in intercompany payables the receivable positions arising from the recalculation of IRES for the subsidiaries which had adhered to the tax consolidation for each of those years.

Instead, the payable to Marketing Projects for the 2011 settlement has not yet been paid in accordance with the “Tax consolidation agreements” among the various companies which provide for the right of each company which transfers a tax loss to obtain an amount equal to the related tax benefit only in the year in which the above loss is used to compensate the taxable income of the Group, a situation which did not arise as can be seen in the relative tax return for the tax consolidation filed for 2012.

26 bis. Guarantees and other commitments

Guarantees provided refer to sureties and guarantees in favor of third parties provided by Intercos S.p.A., on its behalf (Euros 2,518 thousand at December 31, 2013 and on behalf of its subsidiaries (Euros 4,786 thousand at December 31, 2013).

To guarantee the September 18, 2007 loan from the banking syndicate, the following transactions took place:

1. As a result of the merger of Interfila S.r.l. in Color Cosmetics S.r.l., the latter increased its share capital to the extent of the share capital of the merged Interfila S.r.l. and thus from Euros 35,700 to Euros 555,700 and transformed the company into a joint-stock company under the name of Intercos Europe S.p.A.
2. Intercos S.p.A. as the sole shareholder of Interfila S.r.l. received 520,000 new shares in the exchange (exchange shares).
3. The pledge which Interfila had already given to the lending banks was transferred to the exchange shares.
4. On September 22, 2011, Color Cosmetics S.r.l. resolved to further increase share capital from Euros 555,700 to Euros 3,000,000 and this capital increase was fully subscribed to and paid in by Intercos S.p.A. through the conferral of the industrial business segment.
5. Intercos S.p.A. owns another Euros 2,480,000 shares which represent 100% of share capital of the company Intercos Europe S.p.A.

Following the above transactions, Intercos S.p.A. extended the pledge made by Interfila on the exchange shares to the shares referred in 5. above on behalf of the lending banks.

Moreover, a mortgage was taken out with Banca Intesa in 2008 to guarantee the payable, equal to two times the agreed credit line (Euros 500,000 thousand).

Among the most important guarantees provided to third parties at December 31, 2013 are the following:

- the guarantee provided in favor of the company Madina S.r.l. for an amount of Euros 2,000 thousand to guarantee the transaction for the sale of the business segment put in place in 2012 by the subsidiary Marketing Project S.r.l. in liquidation which is expected to be released in March 2015;
- the guarantee provided in favor of the company Cometa S.r.l. for Euros 250 thousand to guarantee the lease contract which ends on July 1, 2015.

27. Revenues

Intercos S.p.A.'s activity, following the contribution operation which took place on September 30, 2011, is that of the corporate holding company, while retaining exclusive ownership of the buildings, trademarks and brands and industrial patents, the equity investments in the Italian and foreign companies, research and development and strategic marketing activities and management of all the corporate financial and administration functions of the Group. Bearing this in mind, the details of revenues in 2013 are presented below:

	2013	2012
Administrative services recharged to Group companies	17,562	15,411
Royalty income	13,693	11,592
Total Revenues	31,254	27,003

The main item of revenues is composed of the services recharged by Intercos S.p.A., in its direction and coordination function as the group holding company, to its subsidiaries (for a total of 17,562 thousand). This is the consideration calculated on the basis of the Service Agreements stipulated specifically to govern the method of reallocating corporate services. Royalty income, instead, includes the consideration determined on the basis of License Agreements specifically designed to regulate the method of reallocating license costs for the use of the formulae archives by the subsidiaries.

As will be recalled, the company began to charge the companies of the Group royalties for the use of formulae developed in Italy following the reorganization begun in 2009 and completed in 2011. As a result of the corporate restructuring operation of the Group, which took place in 2011, all the investments (in Italian and foreign companies) are concentrated in the parent Intercos S.p.A., including Interfila Shanghai acquired during 2012 from the subsidiary Intercos Europe S.p.A., as well as the corporate and R&D activities, transforming the company into an investment holding and services company for the Group, including R&D activities conducted for the benefit of all the Group companies.

Royalties are calculated on the net sales of the beneficiary company and also take into account the type of products sold; the following expenses are excluded from the calculation of the net sales on which royalties are calculated:

- shipping and indirect taxes and duties recharged to the customer in the price of the product;

- products sold on the basis of formulae developed by the customer;
- processing;
- packaging.

28. Other income

Details of Other income in 2013 and 2012 are as follows:

	2013	2012
Prior period income, sundry allowances	272	858
Insurance compensation	45	9
Rent income	1,854	1,842
Dividends	11,103	9,991
Gains on the sale of investments	1,765	0
Other revenue from costs recharged	324	403
Gain on disposal of property, plant and equipment	8	9
Total	15,371	13,112

“Prior period income” includes, among other, the release of a provision account for Euros 176 thousand as a result of the payment of the registration tax to the Tax Bureau “Regulation of Management of Source Deduction of Income Tax for Non-Resident Enterprises” following the transfer of the investment in the subsidiary Interfila Shanghai from Intercos Europe S.p.A. to Intercos S.p.A., the expense of which falls on the transferor and not on the transferee.

“Rent income” of Euros 1,854 thousand comes from the rent charged from October 1, 2011 to Intercos Europe S.p.A. on the portion of the Agrate Brianza and Dovera buildings used by the company for its operations.

The company as the parent received dividends of Euros 11,103 thousand in 2013, as follows:

	2013	2012
C.r.b SA	7,323	-
Intercos Paris	400	700
Intercos UK	380	-
Intercos Europe S.p.A.	3,000	-
Intercos America	-	9,291
Total	11,103	9,991

29. Purchases of raw materials, semifinished products and consumables

Details of Purchases of raw materials, semifinished products and consumables in 2013 and in 2012 are as follows:

	2013	2012
Consumables	38	0
Stationery and forms	10	2
Purchase of samples and sample lines	625	360
Pilot molds and equipment	457	184
Total	1,130	546

30. Costs for services and leases and rents

Details of Costs for services and leases and rents in 2013 and 2012 are as follows:

	2013	2012
Shipping of samples and sample lines	186	122
Other transportation	13	3
Sundry services	2,275	1,131
Maintenance	444	157
Sundry utilities	609	596
Legal and notary fees	86	159
Board of statutory auditors' compensation	66	75
Consulting fees	1,555	1,433
Insurance	168	169
Royalties	262	145
Other costs	3,738	2,990
Total	9,402	6,980

“Consulting fees” include fees for services rendered by highly qualified technical-professional external people and companies lending support in administration, tax, legal, IT and technical (market research, sector studies, etc.) areas.

“Sundry services” are detailed as follows:

	2013	2012
Performance of services	157	123
Temp work.(service)	10	8
Sundry services rendered by subsidiaries	1,672	769
Laboratory analyses	419	209
Waste disposal	2	13
Other services rendered	15	10
Total	2,275	1,132

The sundry services rendered by subsidiaries include costs recharged by the subsidiaries for example for utilities, cleaning and custodian services, incurred by the subsidiaries referring to Intercos S.p.A. for the portion established by existing contracts.

“Other costs” comprise the following expenses:

- Travel for Euros 768 thousand;
- Commercial information expenses for Euros 41 thousand;
- EDP for Euros 1,667 thousand;
- Rent for Euros 559 thousand;
- Rentals for Euros 345 thousand;
- Employee-related for Euros 301 thousand;
- Banking fees and commissions for Euros 57 thousand.

31. Employee benefit expenses

Details of Employee benefit expenses in 2013 and 2012 are as follows:

	2013	2012
Salaries and wages	6,277	6,647
Social security	2,098	2,182
Defined contribution plan costs	460	590
Temp work	241	259
Board of directors' compensation	2,657	2,639
Coordinated and continual and occasional collaboration work	324	271
Total	12,055	12,588

For a more correct representation in the financial statements, this line item includes compensation to the board of directors' and compensation for coordinated and continual and occasional collaboration work.

32. Accruals

Accruals amount to Euros 112 thousand and were set aside in respect of “Provisions” under liabilities to cover the potential risk of pending disputes as better described in Note 20.

33. Other operating expenses

Details of Other operating expenses in 2013 and 2012 are as follows:

	2013	2012
Promotional expenses	482	433
Prior period expenses, sundry allowances	145	182
Sundry taxes and duties	354	410
Association membership dues	26	38
Motor vehicle expenses	77	113
Other costs	47	48
Total	1,131	1,224

“Promotional expenses” mainly refer to costs to take part in trade shows and advertising for Euros 198

thousand and giveaways and entertainment expenses for Euros 283 thousand.

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

“Sundry taxes and duties” consist of city taxes for Euros 249 thousand and indirect taxes and duties for Euros 105 thousand including registration tax for Euros 66 thousand.

“Other costs” comprise general expenses for Euros 21 thousand, fines and tickets for Euros 6 thousand and contributions and gifts for Euros 20 thousand.

34. Depreciation, amortization and impairment reversals (losses)

Details of Depreciation, amortization and impairment reversals (losses) in 2013 and 2012 are as follows:

	2013	2012
Amortization of intangible assets	3,918	3,867
Depreciation of property, plant and equipment	3,870	4,089
Impairment loss on property, plant and equipment	0	0
Impairment loss on intangible assets	0	515
Total	7,788	8,471

Further details are provided in Notes 5 and 6 relating to “Property, plant and equipment” and “Intangible assets”.

35. Valuation adjustments to financial assets

Valuation adjustments to financial assets include, as better described under “Significant events in 2013” the impairment loss recognized for Euros 68 thousand as result of the cessation of activities following the voluntary liquidation of Regulatory Services S.r.l. begun in 2012 and closed in October 2013.

36. Nonrecurring income (expenses)

Nonrecurring income (expenses) amount to Euros 1,098 thousand of expenses and refer to a legal case being tried in America regarding a dispute over the use of a patent.

37. Finance income

Details of Finance income in 2013 and 2012 are as follows:

	2013	2012
Interest on loans to subsidiaries	958	1,259
Sundry interest	3	19
IRS fair value adjustment	15	0
Interest from the tax authorities	124	124
Total interest and dividends	1,099	1,402
Foreign exchange gains	0	0
Foreign exchange losses	0	0
Net foreign exchange differences	0	0
Total financial income, net	1,099	1,402

“Net foreign exchange differences” were reclassified to finance expenses since the net balance in 2013 is a loss.

38. Finance expenses

Details of Finance expenses in 2013 and 2012 are as follows:

	2013	2012
Interest on medium/long-term borrowings	3,775	5,067
Interest on short-term borrowings	16	143
Sundry interest	1,486	822
Interest on loans from subsidiaries	31	11
Interest differential on interest rate swaps	0	3,009
IRS fair value adjustment	0	(2,014)
Interest and finance expenses	5,308	7,038
Foreign exchange losses	(2,854)	680
Foreign exchange gains	3,355	(640)
Net foreign exchange differences	501	39
Total Interest and finance expenses, net	5,809	7,077

“Interest on medium/long-term borrowings” is already net of the adjustment arising from the application of IAS 39 relating to the measurement of loans.

“Sundry interest” includes:

- the positive financial component of the actuarial measurement of employee benefit obligations for Euros 44 thousand;
- interest arising from the application of IAS 17 relating to leased assets and other bank interest expenses for Euros 7 thousand.

“Interest on loans from subsidiaries” includes only the interest accrued during the year on the loan extended to Intercos S.p.A. by the subsidiary Ager S.r.l.

39. Income taxes

Details of Income taxes in 2013 and 2012 are as follows:

	2013	2012
Current income taxes	339	353
Deferred income taxes	(1,081)	(747)
Prior years' taxes	259	(763)
Total	(483)	(1,157)

“Current income taxes” only include the tax charge for 2013 IRAP taxes for Euros 339 thousand.

As for deferred income taxes, reference should be made to Notes 9 and 21.

“Prior years’ taxes” primarily include the amount paid under the assessment consent agreement to definitively close the dispute with the Revenue Agency relating to the year 2008 with regard to IRES, IRAP and VAT taxes.

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

(thousands of euros)

IRES

Pre-tax profit	9,130
Theoretical IRES (27.5%)	2,511
<i>Temporary differences deductible in future years</i>	5,242
<i>Non-deductible costs</i>	3,672
<i>Temporary differences taxable in future years</i>	(4,705)
<i>Reversal of temporary differences of prior years</i>	(255)
<i>Other deductions and recoveries (*)</i>	(14,603)
Tax loss	(1,519)
IRES on tax loss	(418)

(*) Of which Euros 10,548 thousand for dividends collected during the year

IRAP

Difference between production value and costs (net of dividends and the gain on the sale of the investment Intercos Malaysia)	1,040
Theoretical IRAP (3.9%)	41
<i>Costs not considered for IRAP purposes</i>	7,647
Taxable for IRAP purposes	8,687
IRAP	339

40. Remeasurement of employee defined benefit plans

The remeasurement of employee defined benefit plans includes the actuarial gains and losses in the year-end measurement of employee severance indemnities in accordance with IAS 19 for Euros 39 thousand.

41. 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 2013 and the statement of financial position at December 31, 2013 are as follows (amounts in thousands of euros):

Transactions with Group companies

Revenues analyzed as follows:			
- Intecos Europe S.p.A.	17,837		Revenues mainly include revenues from services fees and royalties
- Intecos America Inc.	8,652		
- Crb S.A.	1,898		
- Intecos UK	79		
- Intecos Technology	994		
- Interfila Shanghai	606		
- Intecos Cosm.Suzhou	471		
- Kit Productions S.r.l.	105		
- Ager S.r.l.	20		
- Intecos Paris	399		
- Vitalab	8		
		31,069	

Other revenues and income analyzed as follows:			
- Intecos Europe S.p.A.	1,904		Other revenues and income mainly includes income from dividends, rent and recoveries of expenses
- Intecos America Inc.	43		
- Crb S.A.	188		
- Intecos Technology	12		
- Kit Productions S.r.l.	1		
- Drop Nail	3		
- CRB Benelux	1		
		2,152	

Finance income analyzed as follows:			
- Intercos Europe S.p.A.	192		Finance income includes interest income on loans receivable
- Intercos America Inc.	636		
- CRB SA	84		
- Intercos Do Brasil	20		
- Drop Nail	2		
- Intercos Technology	23		
		957	

Finance expenses			
- Crb S.A.	16		Finance expenses refer to interest expenses on loans payable
- Ager S.r.l.	15		
		31	

Purchases/Costs for goods and services analyzed as follows:			
- Intercos Europe S.p.A.	1,231		These refer to purchases of raw materials and consumables, laboratory analysis, consulting fees, commissions and other costs
- Intercos America Inc.	999		
- Crb S.A.	2		
- Intercos Suzhou	5		
- Intercos Technology	269		
- Kit Productions S.r.l.	1		
- Crb Benelux	350		
- Ager .S.r.l.	279		
		3,136	

Trade receivables analyzed as follows:			
- Intercos Europe S.p.A.	9,456		Trade receivables refer mainly to receivables in connection with the activities of the Group
- Intercos America Inc.	4,216		
- Crb S.A.	691		
- Marketing Projects S.r.l. in liquidation	98		
- Intercos UK	39		
- Intercos Technology	688		
- Intercos Do Brasil	19		
- Vitalab	8		
- Interfila Shanghai	606		
- Drop Nail	5		
- Ager S.r.l.	16		
- Intercos Cosmetics Suzhou	454		
- Intercos Paris Sarl	350		
- Kit Productions S.r.l.	114		
		16,760	

Trade payables analyzed as follows:			Trade payables regard mainly payables in connection with the supply of services referred to above
- Intercos Europe S.p.A.	420		
- Intercos America Inc.	863		
- Intercos Technology	63		
- Ager S.r.l.	86	1,432	

Other receivables referring entirely to:			Other receivables refer to the tax consolidation procedure
- Marketing Projects S.r.l. in liq.	200		
-Ager S.r.l.	0		
-Intercos Europe S.p.A.	4,080	4,280	
Other payables analyzed as follows:			Other payables refer to the tax consolidation procedure
- Marketing Projects S.r.l. in liq.	39		
- Kit Productions S.r.l.	32		
- Intercos Europe S.p.A.	902	973	
Financial receivables analyzed as follows:			Financial receivables refer to loans made to subsidiaries
- Intercos America Inc.	16,677		
- Crb S.A.	2688		
- Drop Nail	503		
- Intercos Do Brasil	834		
- Intercos Technology	725	21,427	
Financial payables	500	500	Financial payables refer to the loan received from Ager S.r.l.
Other payables	3,625	3,625	Other payables include the payable for the capital increase of Intercos do Brasil

Transactions with other related parties

Costs for services and leases and rents		
- Dafe International S.r.l.	129	These refer to consulting
- Sci Maragia	30	These refer to rent
- Studio Morri e Cornelli	140	These refer to consulting

The persons identified as key executives are mainly the directors of the company. Their compensation is disclosed in the following Note 42.

42. Corporate boards at December 31, 2013 and compensation for the year:

	Number of members	Compensation (€/1000)
Board of Directors	5	2,657
Board of Statutory Auditors	3	66
Total	8	2,723

43. Summary of fees to the audit firm

	Fees (€/1000)
Fees for the audit of the financial statements – separate financial statements	55
Fees for the audit of the financial statements – consolidated financial statements	30
Fees for other sundry services other than the audit	14
Total	99

44. Subsequent events

There are no subsequent events to report after the date of December 31, 2013.

Milan, March 31, 2014

These financial statements, consisting of the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes, 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 records.

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

Intercos S.p.A.
Registered Office in Milan – Piazza Eleonora Duse 2
Share capital Euros 10,710,193 fully paid-in

Separate Financial Statements at December 31, 2013

REPORT ON OPERATIONS

To the shareholders,

Intercos S.p.A, a leader in the research, development and manufacture of cosmetics for the most important world brands, closed the year 2013 with a **profit of Euros 9,613,012**.

In 2013 the Company completed the review of its functional organization and firmed the new product and coordination processes. The sales volumes of the subsidiaries in 2013 once again increased considerably in terms of orders received and sales in all of the geographical areas and business lines. This was made possible, in a still weak European market, by diversifying activities in the various geographical areas and by the channel and product strategies adopted by the Group.

1. *Reference scenario*

Macroeconomic Overview

In 2013, the international economic cycle became stronger, with production accelerating in the more economically advanced countries but showing different trends in the emerging markets.

International trade increased at a moderate pace but had positive repercussions on the dynamics of world trade.

In the United States, signs continue to suggest that the economy is getting stronger, thanks to less uncertainty about financial policies. The U.S. economy reported GDP growth which settled at 4% in the third quarter of 2013. The rate of unemployment in the United States continues to decline.

Growth also remained strong in the United Kingdom, driven by internal demand. Here the evolution of the labor market and other indexes are in keeping with a stabilization of growth at high levels. In Japan, too, despite a slight contraction in the third quarter, economic activity continued to accelerate, sustained by high exports.

Economic activity in the main emerging countries showed different trends. There was a strengthening of economic activity in China, thanks to a policy aimed at supporting investments and exports, whereas the Russian economy continued to stagnate and, in Brazil, the GDP is experiencing slowdowns.

In the Eurozone, the GDP remained weak, with growth of approximately 0.1%. Italy managed to break its recessive phase and, in France, the GDP decreased by 0.1% due to a contraction of exports and investments. Production slowed in Germany and France, whereas, in Italy, it increased by half a percentage point.

International trade showed signs of recovery, with growth of approximately 3%. Inflation remained at moderate levels with the consumer price index increasing by 1.2% in the United States and 2.1% in the United Kingdom. In emerging countries, inflation remained high in India, Brazil and Russia.

According to figures recently published by the OECD, global GDP growth in 2014 settled at approximately 3.6%. In the main emerging economies, GDP was stronger than in 2013, with the exception of Brazil. World trade in 2014 is expected to grow by 4.8%.

Market Scenario

The **global market of the Color Cosmetics segment**, which today is about USD 58 billion (retail value), highlights a slight slowdown in 2013 from a 4.5% growth rate (2012 over 2011) to 3.8% in 2013.

An analysis of the different geographical areas indicates a slight recovery in Western Europe so that it now shows a positive growth (0.3%) after basically zero growth in 2012. Instead, as far as North America is concerned, the market grew 2.6%, slowing down from the growth reported in 2012 (4.4%).

Positive growth is recorded in emerging markets (+6.9%) where Brazil posts an increase of 11% over 2012.

The Asian market (excluding Japan) gives a positive sign and confirms growth of 6.4% over 2012. China affirms its strong upswing over 2012 at +11% in a market valued at USD 3.0 billion.

2. Programs and Projects completed in 2013

During the course of 2013, some restructuring activities were undertaken by the Company which, in particular and briefly, referred to the following transactions:

- On April 15, 2013 the Company purchased from third parties an additional 24% stake in the share capital of the company Ager S.r.l. Following this purchase Intecos S.p.A. now holds a total 76% interest in Ager S.r.l.
- In July 2013 the Company finalized the acquisition from third parties of a 60% investment in the share capital of Drop Nail S.r.l. The company is active in the research, development, manufacture and marketing of nail polish. This transaction allowed the Company to introduce the cosmetic line for nail polish and complete its commercial offering.
- On September 18, 2013 as part of its restructuring operation, the Company completed the acquisition from third parties of an additional equity interest in the company Intecos Cosmetics (Suzhou), in which it already holds a 98.33% stake, thus bringing its ownership interest to 100%.

- Again on September 18, 2013, the Company perfected the sale of the 58% investment held in Intercos Asia Pacific. The carrying amount of the investment in the financial statements was Euros 589 thousand, corresponding to Malaysian ringgits (MRY) 2,150 thousand, and the sale was made for consideration of USD 3,021 thousand, corresponding to Euros 2,263 thousand.
- On October 3, 2013 the share issue of the subsidiary Intercos do Brasil was subscribed for USD 6,500 thousand, bringing the investment held by the Company to 99.57% of share capital.
- Following the resolution passed by the board of directors, with effect from October 3, 2013, the registered office of the Company was transferred from Via Santa Tecla 3 to Piazza Duse 2, always in Milan.
- On December 16, 2012, the early liquidation of the subsidiary Intercos Regulatory Services S.r.l. was approved and the company was put into a wind-up on December 28, 2012. The company was liquidated on October 31, 2013.

3. 2013 Profit and Financial Review

Following its restructuring in 2011, the Company is now identified as the corporate holding company. The Company has exclusive ownership of almost all the buildings, the trademarks and brands and industrial patents, the equity investments in the Italian and foreign companies, R&D and strategic marketing activities and the management of all the corporate finance and administrative functions of the Group.

In view of the above, reported below is an operating income statement by activity for the year ended December 31, 2013:

(in thousands of euros)

	Royalty income	Service Fees	Rent income/ Other revenues	Finance/ Taxes and corporate costs	Total	2013
Revenues	13,693	17,562			31,254	27,003
Rent income and other revenues			2,503		2,503	2,264
Finance income				1,099	1,099	1,402
Dividends				11,103	11,103	9,991
Gain on the sale of investment				1,765	1,765	0
Total Revenues (A)	13,693	17,562	2,503	13,967	47,724	40,660
Purchases of raw materials, consumables and merchandise for sale	(1,130)	0	0	0	(1,130)	(546)
Purchases of services and leases and rents	(931)	(5,999)	(703)	(1,769)	(9,402)	(6,980)
Employee benefit expenses	(3,367)	(8,019)	0	(671)	(12,056)	(11,732)
Other expenses and accruals	(283)	(500)	0	(460)	(1,243)	(1,460)
Finance expenses	0	0	0	(5,809)	(5,809)	(7,078)
Total operating expenses (B)	(5,711)	(14,517)	(703)	(8,709)	(29,641)	(27,796)
Operating profit (A-B)	7,981	3,044	1,800	5,259	18,084	12,864
Operating margin	58%	17%	72%	38%	38%	32%
Non-recurring income and expenses				(1,098)	(1,098)	0
Depreciation, amortization, impairment reversals (losses)	(2,971)	(2,109)	(1,746)	(1,030)	(7,856)	(8,471)
Income taxes				483	483	1,157
Profit for the year	5,010	935	54	3,613	9,613	5,550

The Company, in its role of direction and coordination as the group holding company, has recharged corporate costs to its subsidiaries for a total of Euros 13,693 thousand. Such consideration is determined on the basis of **service agreements**. In 2012 revenues for service fees amounted to Euros 15,411 thousand.

“**Royalty income**” (for a total of Euros 13,693 thousand), on the other hand, includes the consideration determined on the basis of the license agreements specifically designed to regulate the method of reallocating license costs for the use of the formulae archives by the subsidiaries. Royalty income in 2012 totaled Euros 11,592 thousand.

The amount of royalties is calculated on the net sales of the beneficiary company and also takes into account the type of products sold; the following expenses are excluded from the calculation of the net sales on which royalties are calculated:

- shipping and indirect taxes recharged to the client in the price of the product
- products sold based on formulae developed by the client
- processing
- packaging

Rent income and other revenues amount to Euros 2,664 thousand and principally refer to rent charged to the Group companies.

Finance income comes to Euros 1,099 thousand and comprises interest income of Euros 958 thousand from Group companies. The Company, in fact, in its role as coordinator of the financial resources of the group extends, according to need, interest-bearing loans to subsidiaries in order to optimize their resources.

Dividends received in 2013 as the investment holding company of the Group amounted to Euros 11,103 thousand, as detailed below:

- Euros 400 thousand from Intercos Paris S.à.r.l.
- Euros 3,000 thousand from Intercos Europe S.p.A.
- CHF 9,000 thousand (equal to Euros 7,323 thousand) from CRB S.A.
- GBP 325 thousand (equal to Euros 380 thousand) from Intercos UK Ltd

The focused policies adopted by management to optimize its financial resources has produced a positive change in the net financial position. In 2013, the net debt amounts to Euros 135,634 thousand, with a reduction of Euros 24,339 thousand, or -16.35% compared to 2012.

Further information is provided in the Notes.

4. *Capital Expenditures in Property, Plant and Equipment and Intangible Assets*

Capital expenditures in property, plant and equipment in 2013 amount overall to Euros 583 thousand and refer mainly to plant and machinery in addition to equipment and molds, used in the laboratories and manufacturing.

Capital expenditures in intangible assets in 2013 largely refer to research & development activities and software development and total Euros 4,580 thousand.

Further information is provided in the Notes.

5. *Research & Development*

The innovation that Intercos has successfully pursued over the course of the years is certainly the critical factor of success that has always enabled the Company to grow and affirm itself at an international level as a recognized example of “Made in Italy”.

Over the years the Intercos laboratories have completed a series of projects. The most important have been capitalized under “Development costs” and are listed with the remaining period of amortization for each, as follows:

- “New make-up technologies” Project, year 2009, unamortized amount: Euros 336 thousand, remaining amortization period: 0.6 years.
- “Prisma Shine” Project, year 2010, unamortized amount: Euros 1,332 thousand, remaining amortization period: 1.7 years.
- “Gelling powder” Project, year 2011, unamortized amount: Euros 2,664 thousand, remaining amortization period: 3.7 years.

“Other intangible assets” and in particular “Work in progress” includes projects for Euros 5,110 thousand that are still open at the end of the year, as follows:

- "Exclusive materials and tailor-made solution for Cosmetics Applications" for a total of Euros 4,035 thousand, begun in 2012.
- "Back Injection" for a total of Euros 1,075 thousand, begun in 2013.

Both projects are expected to be completed during 2014, with the consequent start of their amortization.

The above projects are tested periodically for impairment.

6. Share Capital

Share capital at December 31, 2013 amounts to Euros 10,710,193 and is represented by 10,710,193 shares, all with a par value of Euros 1 each. The following table gives a comparison of share capital at December 31, 2012 and 2013 by class of shares:

	Class A (*) shares (number)	Class B (*) shares (number)	Class D (*) shares (number)	Total
At December 31, 2012	5,330,000	50,193	5,330,000	10,710,193
At December 31, 2013	5,330,000	50,193	5,330,000	10,710,193

(*) Class A shares: with voting rights in both ordinary and extraordinary shareholders' meetings and the privileges indicated in articles 28 and 29 of the bylaws. Class B shares: with voting rights in both ordinary and extraordinary shareholders' meetings, with the exclusion of the pre-emptive right indicated in article 7 of the bylaws. Class D shares: without voting rights in both ordinary and extraordinary shareholders' meetings but with the privileges indicated in articles 28 and 29 of the bylaws.

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.

7. 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 2013 and the statement of financial position at December 31, 2013 are described in the Notes.

8. Risk Management and Uncertainties

Intercos 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. Detailed comments on each of these are provided under "Risk Management" in the Notes.

9. *Environment and Employees*

In order to best meet the challenges of the next few years, the Company is investing in the completion and strengthening of its functional structures.

The headcount at the end of the year increased by 8 people, from 173 in 2012 to 181 in 2013.

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 have thus ensured that, during the year, there were no cases of accidents at work causing serious injury to Company employees, nor charges that the Company was harming the environment.

10. *Subsequent Events, Performance during the First Months of 2014 and Business Outlook*

There were no events subsequent to the balance sheet date which would have resulted in an adjustment to the financial statements.

As for the business outlook in 2014 the Company expects to report a further overall growth of the Group as compared with 2013 and the performance indicators for the first quarter confirm this positive outlook.

11. *Appropriation of the Profit for the Year*

To the shareholders,

We ask you to approve the Directors' Report on Operations for the year 2013 and the financial statements for the year ended December 31, 2013 as submitted to you, appropriating the profit for the year of Euros 9,613,012 as follows: 5%, equal to Euros 480,651, to the legal reserve, and the remainder, equal to Euros 9,132,361, to retained earnings

Milan, March 31, 2014

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