Intercos S.p.A.

Financial statements as at December 31, 2016

Independent auditor’s report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010

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INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N. 39, DATED 27 JANUARY 2010
(Translation from the original Italian text)

To the Shareholders of
Intercos S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Intercos S.p.A., which comprise the statement of financial position as at December 31, 2016, the statement of comprehensive income, statement of changes in equity and the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of Intercos S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Intercos S.p.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

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

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by the law, on the consistency of the Report on Operations with the financial statements. The Directors of Intercos S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. In our opinion the Report on Operations is consistent with the financial statements of Intercos S.p.A. as at December 31, 2016.

Milan, April 5, 2017

EY S.p.A.
Signed by: Paolo Zocchi, Partner

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

Intercos S.p.A.

Registered Office in Milan – Piazza Generale Armando Diaz 1
Share capital Euros 10,710,193 fully paid-in

Financial Statements at December 31, 2016

REPORT ON OPERATIONS

Intercos S.p.A. is a leader in the research, development and manufacture of cosmetics for the major world brands and closed the year 2016 with a **profit** of ***€16,409,112***.

2016 saw the Company move forward with the strategy to preserve its leadership position in the field of innovation and, through its subsidiaries, succeed in the acquisition of new customers across all distribution segments, penetrate new emerging markets such as Korea and China, and diversify by product

1. *Global scenario*

World Economic Overview

The state of the global economy has improved slightly. However, the future outlook is still being affected by various factors of uncertainty. In the United States, much depends on the economic policies of the new administration, which have not yet been defined in detail: an expansive impact, which is currently difficult to quantify, may derive from the measures announced with regard to the budget policy, but there may also be negative effects due to the adoption and spread of trade restrictions. Global growth could be hindered by the upsurge of turbulence in the emerging economies, associated with the normalization of U.S. monetary policy.

The continuous rebalancing of China from a situation of growth driven by investments to one of growth based on consumption will probably lead to a deceleration of the driving force of its economy. Meanwhile, the recession in Latin America may find relief from a slight recovery in the prices of raw materials and from financial conditions which have generally been streamlined. Sanctions have played a role in the collapse of the economy in Russia and in the negative GDP, and the protracted period of major political upset in Brazil has had a significant impact on its economy.

In the Eurozone, growth continues at a moderate pace, in the direction of gradual consolidation. The risks of deflation have been reduced; inflation rose in December but, overall, inflation still remains low. In order to maintain the expansive monetary conditions which will ensure a rise in inflation, the ECB's Governing Council has extended the length of its securities market program until at least December 2017, and will extend it further if necessary. From April, monthly purchases will return to €60 billion, as in the initial phase of the program.

According to the indicators currently available, in autumn, the recovery of the Italian economy continued, albeit at a moderate pace. Considering the trend of industrial production, electrical consumption and goods shipments, all of these sectors increased. Economic activity was stimulated by the restart of investments and the expansion of household expenditures. In the third quarter of 2016, total employment stabilized; the number of company employees with permanent and short-term contracts increased. In recent months, the expansion of credit to the private non-financial sector continued, and there was also an increase in loans to companies. However, growth remains moderate.

The forecasts for the Italian economy, based on the most recent trends, suggest that, on average, GDP should grow about 0.9% in 2017 and 1.1% in both 2018 and 2019. Economic activity should again be supported by domestic demand and, already in 2017, by the gradual strengthening of foreign demand. In 2019, the level of GDP growth should still be lower than in 2007.

Overall it is thought that, with regard to these predictions, risks for growth are mainly orientated downwards. Apart from financial factors, the main sources of uncertainty lie in the global context. There is a particularly high risk that the expansion of the global economy may be affected, besides what was considered in the forecasts, by the upsurge and spread of protectionist measures, as well as by potential turbulence in the emerging economies.

2. *Market Scenario*

The **global market of the Color Cosmetics sector** has a retail value of approximately USD 60 billion, with a 6.6% year-over-year increase against 6.5% in 2015.

With regard to the various geographical regions, Western Europe continues to expand, growing 3.9% compared to 3.4% in 2015.

In North America, the market gained 7.1% versus 2.3% in the prior year.

The Asian market (excluding Japan) expanded by 10% compared to 2015. China, in particular, grew 10.5% against 2015 in a market worth USD 4.5 billion.

Emerging markets displayed a positive trend of +9.6%, with Brazil posting a 5% increase over 2015.

3. *Important Factors significantly impacting Operating Performance*

Technological innovation

Intercos has adopted an R&D investment policy geared to identifying and developing innovative products and efficient and competitive manufacturing processes. The search for innovation in terms of both process and final product begins from the knowledge of the Make-up markets and the relative distribution channels; this know-how gives the Company an advantage in adapting to the changing demand of consumers, actively anticipating them and influencing them.

4. Significant Events in 2016

During 2016, certain reorganization activities that regarded the Company can be summarized as follows:

A. **On January 19, 2016**, Intercos S.p.A. signed a settlement agreement with the company Woojung Tech. Co., Ltd. and Mr Dong-Pil Choi to definitively and amicably close the dispute initiated in September 2014 between the Company and the latter, in relation to which a summons was filed by Intercos S.p.A. for trade secret misappropriation before the Courts in Los Angeles, California. The settlement agreement called for, among other things, payment by Woojung to the Company of a total of USD 1,350 thousand that was received in full during the year.

B. **On February 9, 2016**, the board of directors of Intercos S.p.A. approved the transfer of the Company's registered office from Milan, Piazza Eleonora Duse 2, to Milan, Piazza Generale Armando Diaz 1.

C. **On February 10, 2016**, following the intent manifested by Drop Nail S.r.l.'s minority shareholder, Paragon Cosmetics S.r.l., to: 1) divest of its 40% interest in the capital of Drop Nail S.r.l., equal to a nominal amount of €20 thousand and 2) sell its remaining receivable due from Drop Nail S.r.l., for the shareholder loans extended in the past, for a total amount of €1 thousand – Intercos S.p.A, as part of its business plan aimed at strengthening its product range represented by nail polishes and nail care products, purchased Paragon's investment and receivable for €543 thousand, thus bringing its investment to €1,181 thousand, representing 100% of the capital of the company Drop Nail S.r.l.

D. **On March 25, 2016**, the Company waived a part of its non interest-bearing shareholder loan due from Drop Nail S.r.l. and, precisely, a total of €1,000 thousand, with such amount to be recorded in equity, under Other reserves, subaccount Payment against share capital, bringing its investment to €2,181 thousand.

E. **On August 1, 2016**, the Company conferred its investment in the company Hana Co. Ltd (representing 20% of the entire share capital di Hana) to Intercos Asia Pacific Limited, according to the terms and conditions of the "Equity Transfer Agreement" signed between the companies. The price agreed for the transfer of this equity investment – corresponding to USD 1,500,000 – was satisfied by Intercos Asia Pacific through the issue of 318,881 new shares of the same Intercos Asia Pacific at a value per share of USD 4.704 and the simultaneous transfer of the shares to the Company.

F. **Also on August 1, 2016,** Intercos S.p.A., as the sole shareholder of Intercos America Inc., subscribed to a capital increase by Intercos America Inc. for a total of USD 25,000 thousand to be paid in several tranches as follows: 1) USD 5,000 thousand by a cash injection; 2) USD 10,000 thousand by the partial waver of intercompany loans that were extended by Intercos S.p.A. to Intercos America Inc., which amounted to a total of USD 37,900 thousand; and 3) USD 10,000 thousand by payment in separate tranches based on resolutions passed beforehand by the board of directors of Intercos America, in the event of specific and significant financial needs of the same Intercos America Inc., with the understanding that the last tranche will be paid no later than one year from the date of August 1, 2016.

G. **On September 8, 2016**, the Company reviewed and updated its Organizational, Management and Control Model adopted pursuant to Legislative Decree 231/2001 on November 20, 2012, which had already been updated on March 31, 2014 and on April 10, 2015. Following the revision of the Organization Model, the Company also updated the Ethics Code and the Code of Conduct.

H. **In October 2016**, the Company launched of a new line of business dedicated to private labels and formed a limited liability company called **Intercos Concept S.r.l**. The company will perform services for companies, including commercial, marketing, promotional, organizational, technical, consulting and other types of services, as it pertains to private labels, and, therefore, directed to the development of brands for clients that operate in the retail commercial sector of colored products for make-up, creams, personal-care products, nail polish, perfume and cosmetic products in general, as well as like products, accessories or, in any case, products that complement cosmetics.

I. **Also in October 2016**, in order to render management more efficient, the Company increased the number of members of the board of directors from 5 to 7 and the bylaws, which called for only five members, were amended.

J. **In December 2016**, the Company, as the sole shareholder of Intercos Concept S.r.l., made a payment against share capital of €350,000 to Intercos Concept S.r.l., to be recognized in equity of the latter and recorded in the Other reserves, subaccount Payment against share capital, bringing its investment to €360,000, representing 100% of the company's share capital.

5. *Profit and Financial Performance in 2016*

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

In consideration of the above, an operating income statement by activity was drawn up for the year ended December 31, 2016 and is presented as follows:

(in € thousands)	Royalty income	Service Fees	Rent income/ Other revenues	Finance/taxes and corporate costs	2016	2015
Revenues from sales and services	16,915	19,665			36,580	38,301
Rent income and other revenues		28	2,849	161	3,039	2,815
Financial income				2,528	2,528	2,573
Dividends				16,194	16,194	12,091
Gain on the sale of fixed assets		9			9	307
Gain on the sale of investments				-	0	24
Total Revenues (A)	**16,915**	**19,702**	**2,849**	**18,883**	**58,350**	**56,111**
Purchases of raw materials, consumables and merchandise for sale	(435)	(672)	0	0	(1,107)	(1,210)
Purchases of services and leases and rents	(3,503)	(5,377)	(239)	(4,451)	(13,570)	(12,733)
Employee benefit expenses	(4,398)	(10,757)	0	(1,775)	(16,929)	(15,679)
Other expenses and accruals	0	(628)	0		(628)	(517)
Capitalized internal construction costs	4,990				4,990	4,608
Financial expenses	0	0	0	(6,568)	(6,568)	(10,113)
Total operating expenses (B)	**(3,346)**	**(17,434)**	**(239)**	**(12,795)**	**(33,813)**	**(35,644)**
Operating profit (A-B)	**13,569**	**2,268**	**2,611**	**6,088**	**24,537**	**20,467**
Operating margin	**80%**	**12%**	**92%**	**32%**	**42%**	**36%**
Nonrecurring income and expenses				522	522	(625)
Depreciation, amortization, impairment reversals (losses)	(3,233)	(1,892)	(2,555)	0	(7,679)	(7,288)
Income taxes				(969)	(969)	(1,869)
Profit for the year	**10,337**	**377**	**56**	**5,641**	**16,410**	**10,685**

The Company, in its role of direction and coordination as the Group holding Company, has recharged its corporate costs to the subsidiaries for a total of €19,484 thousand. Such fees are determined on the basis of **service agreements**. In 2015, revenues from service fees amounted to €21,276 thousand.

Royalty income (totaling €16,915 thousand), instead, includes income 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. Royalty income in 2015 totaled €17,025 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;
- packaging, excluding the “delivery system” segment.

Other revenues amount to €1,633 thousand and principally refer to rent charged to Group companies.

Financial income is €2,528 thousand and comprises interest income of €2,423 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 2016 as the investment holding Company of the Group amount to €16,194 thousand, as detailed below:

(in € thousands)	2016	2015
CRB S.A.	5,140	4,042
Intercos Paris	200	800
Intercos Europe S.p.A.	10,000	5,000
Intercos UK	854	-
Interfila Shanghai	-	2,248
Total	**16,194**	**12,091**

The policies adopted by management, focusing on the optimization of its financial resources, have produced a positive change in the **net financial position**. At December 31, 2016, in fact, net debt amounts to €101,782 thousand. This is a reduction of €1,216 thousand, or 1.18%, from €102,998 thousand at December 31, 2015.

Additional information is provided in the Notes.

6. *Capital expenditures in Property, plant and equipment and Intangible Assets*

Capital expenditures in property, plant and equipment, in 2016, total €465 thousand and refer mainly to plant, equipment and molds used in the laboratories and manufacturing.

Capital expenditures in intangible assets, in 2016, largely refer to research & development activities and software development and total €6,980 thousand.

Additional information is provided in the Notes.

7. *Research & Development*

The innovation that Intercos has pursued over the course of the years is certainly the critical factor of success that has always allowed 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:

- “Gelling Powder” project, year 2012, unamortized amount: €533 thousand di euro, remaining period of amortization: 0.7 years.

- “Exclusive Materials” project, year 2014, unamortized amount: €2,062 thousand; remaining period of amortization: 2.3 years.

- “Back Injection” project, year 2014, unamortized amount: €918 thousand; remaining period of amortization: 2.7 years.

- “Nails” project, completed in 2015, unamortized amount: €782 thousand; remaining period of amortization: 3.7 years.

- “Slurry” project, also completed in 2015, unamortized amount: €960 thousand; remaining period of amortization: 3.9 years.

- “Cotti” Back Injection project, completed in 2016, unamortized amount: €3,268 thousand; remaining period of amortization: 4.6 years.

- “Future Cushion” project, also completed in 2016, unamortized amount: €379 thousand; remaining period of amortization: 4.5 years.

- “Shielded Lakes” project completed in 2016, unamortized amount: €1,192 thousand; remaining period of amortization: 4.5 years.

- “Markers” project completed in 2016, unamortized amount: €1,395 thousand; remaining period of amortization: 4.2 years.

- “Prisma Wave” project completed in 2016, unamortized amount: €484 thousand; remaining period of amortization: 4.2 years.

- “Biomimicry” project completed in 2016, unamortized amount: €831 thousand; remaining period of amortization: 4.2 years.

The increase in Assets under development of €2,780 thousand is divided into: (1) €2,701 thousand for uncompleted R&D projects and (2) €79 thousand for uncompleted projects related to the “Hyperion” system to improve the Group’s data consolidation system. The increase of the year refers to:

(i) €490 thousand for the “Sharpenable Pencils” project begun in June 2016. The objective is to research new isododecane-compatible, eco-compatible and sustainable raw materials capable of characterizing new patentable polymeric formulae for a new pencil in plastic.

(ii) €529 thousand for the “Filmogenous nail polish” project begun in the second quarter of 2016. The objective is to create and manufacture new filmogenous materials capable of making solvent-based nail polishes last longer than those traditionally found on the market.

(iii) €682 thousand for the “Diplaticoni” project begun towards the end of the second quarter of 2016. The objective is to obtain a family of new Intercos proprietary eco-sustainable cosmetic raw materials, not otherwise available on the market, which can take different physical forms and thus can be used in all product categories.

(iv) €487 thousand for the “PLA” project begun during the year. The objective is to develop biodegradable polymers, focusing attention on obtaining polylactic acid powder granules in varying sizes, which could enable the use of such raw material in a wider range of cosmetic products and packaging.

(v) €126 thousand for the “Silicone ogive”, project. The objective is to identify a new silicone to develop suitable ogives for the manufacture of lipsticks that perform better than those currently in use.

(vi) €113 thousand for the “Patch” project. The objective is to develop a cosmetic patch, with a multilayer structure similar to that of transdermal patches with a decorative and/or corrective function for the eye area.

(vii) €273 thousand for the “CMR” project begun during the year. The objective is the adaptation of ceramic materials that because of their geometries or sizes can be used as “opaque fillers” in cosmetic formulae, creation of innovative SPF boosters based on substituted hydroxyapatite for the development of multifunctional sun care products and, for Make-up, the innovative formulation project for non-transfer and food-proof long-lasting make-up products (lipsticks, eyeliner and concealers).

For capitalized projects, management carefully assesses their expected economic benefits and the benefits obtained over the course of their useful life, testing for any onset of impairment.

8. *Share Capital*

On July 17, 2014, the shareholders’ meeting of Intercos S.p.A. passed a resolution to divide each outstanding no par value share into 10 no par value shares, with the consequent division of share capital of €10,710,193 into 91,319,870 shares, without any change in the lien on the divided shares.

Following the adoption of the new bylaws by resolution of the extraordinary shareholders’ meeting held on December 12, 2014, a decision was taken to convert the ordinary shares into three classes of stock, which was finalized when other shareholders invested in the Company.

The following table presents the situation at December 31, 2016 and 2015:

	At December 31, 2016	At December 31, 2015
Class A shares - number	51,624,356	51,624,356
Class B shares - number	39,267,544	39,267,544
Class C shares - number	427,970	427,970
Total share capital in euros	10,710,193	10,710,193

Class A, Class B and Class C shares all have the same rights and can be transferred by acts between living persons and by succession due to death, with effect on Intercos S.p.A. pursuant to law, without prejudice to what is established in the bylaws.

In observance of the provisions of art. 2428 of the Italian Civil Code, note should be taken that the subsidiaries neither hold nor have purchased or sold shares of the parent during the course of the year under examination, not even through fiduciaries or trustees.

9. 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 2016 and the statement of financial position at December 31, 2016 are described in the Notes.

10. *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.

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

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

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

Types of risks hedged

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

Exchange rate risk

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

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

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

The following sensitivity analysis was performed to illustrate the effects on profit and consequently on equity produced by an increase/decrease of 7.5% in exchange rates compared to the effective exchange rates at December 31, 2016.

(in € thousands)	2016	
	(7.5%)	+7.5%
U.S. dollar	(1,237)	1,064
Other currencies	(3)	3
Total	**(1,240)**	**1,067**

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 these 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 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 Administration, Finance and Control Function, using derivative contracts, where necessary.

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2016, 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.

This analysis includes variable-rate financial payables and receivables, cash and cash equivalents and derivative financial instruments whose value is affected by changes in interest rates.

(in € thousands)	2016	
	(0.5%)	+0.5%
Euro	(55)	55
U.S. dollar	(75)	75
Total	**(130)**	**130**

Credit risk

As the holding Company of the Intercos Group, the financial statements at December 31, 2016 of Intercos S.p.A. include "Receivables from Group companies" for the corporate services rendered to the subsidiaries. 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 in the ordinary operations of the Company implies maintaining an adequate level of cash as well as sufficient funds through 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 assets available at December 31, 2016 compared to the end of the prior year is as follows:

(in € thousands)	**12/31/2016**	**12/31/2015**
Cash	15,911	14,266
Unused committed credit lines	30,000	30,000
Total	**45,911**	**44,266**

The following tables present an analysis of the maturities of borrowings, other liabilities and derivatives, on a net basis.

(in € thousands)	Within 1 year	1 to 5 years	Beyond 5 years	**TOTAL** **At December 31, 2016**
Banca IMI S.p.A and Unicredit loan	2,919	22,841	0	25,760
Bonds	0	0	120,000	120,000
Payables under Law 46/Mediocredito	122	0	0	122
Finance leases payable	31	81	0	112
Medium/long-term debt	**3,072**	**22,922**	**120,000**	**145,994**
Bank overdrafts and advances account	10,330	0	0	10,330
Payables to Group companies	9,188	0	0	9,188
Fair value derivatives	447	0	0	447
Trade payables	5,607	0	0	5,607
Short-term debt	**25,572**	**0**	**0**	**25,572**
Total	**28,644**	**22,922**	**120,000**	**171,566**

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 IFRS7.

(in € thousands)

12/31/2016	**Financial assets at fair value through profit or loss**	**Receivables and loans**	**Available-for-sale financial assets**	**Held-to-maturity assets**	**Financial liabilities at fair value through profit or loss**	**Other liabilities at amortized cost**	**Hedging derivatives**
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Loans receivables	-	48,934	-	-	-	-	-
Trade receivables	-	24,541	-	-	-	-	-
Other assets	-	8,627	-	-	-	-	-
Loans payable	-	-	-	-	-	9,188	-
Borrowings from banks and other lenders	-	-	-	-	-	156,324	-
Trade payables	-	-	-	-	-	5,607	-
Other payables	-	-	-	-	-	13,046	-
Derivatives (liabilities)	-	-	-	-	447	0	-
Total	**-**	**82,101**	**-**	**-**	**447**	**184,166**	**-**
Cash and cash equivalents	-	15,912	-	-	-	-	-

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.

11. *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 increased by 12 people, from 193 at year-end 2015 to 205 at year-end 2016.

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

12. *Subsequent Events, Performance in first few Months of 2017, Future Outlook*

There were no events subsequent to the date of the financial statements which, if previously known, would have required an adjustment to the financial statements.

As for developments in the early months of 2017, a description of significant subsequent events is presented below:

- **In January and February 2017**, the Company negotiated, with a syndicate of banks composed of Banca IMI S.p.A., IntesaSanpaolo S.p.A., Unicredit S.p.A., BNL S.p.A. and ICBC (Europe) SA – Milan Branch, certain amendments to the loan contract signed on March 24, 2015 by the company, Intercos Europe S.p.A., Banca IMI S.p.A. and Unicredit S.p.A., the total amount of which, after such amendments, will nevertheless remain at €80,000 thousand. More specifically, the amendments refer to: **a)** an increase in the amount of the Term Facility from €50,000 thousand to €60,000 thousand, with BNL S.p.A. entering the loan contract as a lender of such Term Facility, with a commitment of €20,000 thousand; **b))** a reduction in the amount of the Revolving Facility from €30,000 thousand to €20,000 thousand, with ICBC (Europe) SA – Milan Branch entering the loan contract as the sole lender of such Revolving Facility, with a commitment of €20,000 thousand; **c)** an amendment to move the due date on the Term Facility to December 31, 2021; **d)** a new interest rate per year for the Term Facility, equal to the 6-month Euribor (and 6-month Libor for the tranche in U.S. dollars), plus 150 basis points; **e)** a new interest rate per year for the Revolving Facility, equal to the 6-month Euribor or the 3-month Euribor, plus 100 basis points; **f)** a commitment fee of the Revolving Facility equal to 25 basis points; and **g)** an amendment to the definition of Permitted Indebtedness.

- **<u>Also in January and February 2017</u>**, the Company negotiated the amendments to certain terms and conditions of the €120,000 thousand non-convertible bonds due March 28, 2022 with a 3.875% fixed rate per year, the issue of which was approved by the board of directors on February 19, 2015. More specifically, the amendments refer to: **a)** the reduction in the interest rate from 3.875% to 3.25% per year; **b)** the amendment to move the maturity date to March 28, 2023; **c)** the extension of the period – from March 28, 2018 to March 28, 2020 (excluded) – in which the bonds can be repaid in advance by paying only the so-called "Make Whole Amount"; and **d)** the recalculation of the reimbursement cost of the bonds, establishing that, in the event of repayment between March 28, 2020 and March 27, 2021 (included), the cost will be 101% of the face value of the bonds (instead of 100% as currently established for the same period) whereas in the event of repayment between March 28, 2021 and the new maturity date of the bonds, the cost will be equal to the face value of the bonds as currently established.

13. *Appropriation of the profit for the year*

To the shareholders,

We ask you to approve the Directors' Report on Operations for the year 2016 and the financial statements for the year ended December 31, 2016 as submitted to you, appropriating the profit for the year of €16,409,112 entirely to retained earnings.

Milan, March 27, 2017

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

____

Intercos S.p.A.

Registered Office in Milan – Piazza Generale Armando Diaz 1
Share capital Euros 10,710,193 fully paid-in

SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2016

PREPARED IN CONFORMITY WITH IFRS ADOPTED BY THE EUROPEAN UNION

Corporate Information

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

INDEPENDENT AUDITORS

EY S.p.A.

This Financial Statement has been translated into English solely for the convenience of the international reader. In case of discrepancies, the Italian language document is the sole authoritative and universally valid version.

Statement of Financial Position at December 31, 2016

	(in euros)	December 31, 2016	December 31, 2015
	ASSETS		
	NON-CURRENT ASSETS		
5	Property, plant and equipment	*25,635,935*	*28,250,983*
6	Intangible assets	*20,204,610*	*17,681,404*
7	Goodwill	*33,653,547*	*33,653,547*
8	Investments in subsidiaries	*107,303,676*	*89,958,752*
9	Deferred tax assets	*1,360,684*	*2,872,176*
10	Other non-current assets	*3,474,794*	*3,614,414*
	Non-current assets	*191,633,247*	*176,031,276*
	CURRENT ASSETS		
11	Trade receivables	*24,540,638*	*21,629,991*
12	Taxes receivable	*2,395,946*	*3,213,872*
13	Other current assets	*8,626,623*	*4,346,382*
14	Loans receivable from Group companies – short-term	*48,933,711*	*46,361,137*
15	Cash and cash equivalents	*15,912,182*	*14,293,774*
	Current assets	*100,409,099*	*89,845,156*
	TOTAL ASSETS	*292,042,346*	*265,876,432*

	(in euros)	December 31, 2016	December 31, 2015
	EQUITY AND LIABILITIES		
	EQUITY		
	Share capital	*10,710,193*	*10,710,193*
	Legal reserve	*2,142,038*	*2,142,038*
	Other reserves	*62,395,860*	*62,395,860*
	Retained earnings	*23,863,282*	*7,451,554*
16	**TOTAL EQUITY**	***99,111,373***	***82,699,645***
	LIABILITIES		
	NON-CURRENT LIABILITIES		
17	Borrowings from banks and other lenders – non-current	*141,186,046*	*141,673,216*
18	Provisions	*133,392*	*65,843*
19	Deferred tax liabilities	*5,855,996*	*6,320,338*
20	Employee benefit obligations	*1,213,179*	*1,267,759*
	Non-current liabilities	***148,388,612***	***149,327,156***
	CURRENT LIABILITIES		
21	Borrowings from banks and other lenders – current	*16,099,925*	*18,126,522*
22	Loans payable to Group companies	*9,188,261*	*3,640,569*
	Other financial payables	*601,204*	*797,731*
23	Trade payables	*5,606,542*	*5,666,759*
24	Other payables	*13,046,430*	*5,618,050*
	Current liabilities	***44,542,361***	***33,849,631***
	TOTAL EQUITY AND LIABILITIES	***292,042,346***	***265,876,432***

Statement of Comprehensive Income for the year ended December 31, 2016

	(in euros)	2016	2015
25	Revenues	*36,580,094*	*38,300,961*
26	Other income	*19,241,862*	*15,237,104*
27	Purchases of raw materials, semifinished products and consumables	*(1,107,188)*	*(1,209,995)*
28	Costs for services and leases and rents	*(13,570,440)*	*(12,732,929)*
29	Employee benefit expenses	*(16,929,453)*	*(15,678,589)*
30	Accruals	*(100,000)*	*0*
31	Other operating expenses	*(528,392)*	*(516,549)*
32	Capitalized internal construction costs	*4,990,268*	*4,607,793*
	Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses)	***28,576,751***	***28,007,796***
33	Depreciation, amortization and impairment reversals (losses)	*(7,679,448)*	*(7,288,117)*
34	Valuation adjustments to financial assets	*0*	*0*
35	Nonrecurring income (expenses)	*521,598*	*(624,863)*
	Operating profit	***21,418,901***	***20,094,816***
36	Financial income	*2,527,660*	*2,573,123*
37	Financial expenses	*(6,568,327)*	*(10,113,291)*
38	Income taxes	*(969,123)*	*(1,868,770)*
	Profit for the year from continuing operations	***16,409,112***	***10,685,878***
	Profit for the year from discontinued operations	***0***	***0***
	Other comprehensive income		
	Other comprehensive income that will not be reclassified subsequently to the income statement		
	Profit for the year	***16,409,112***	***10,685,878***
39	Actuarial gains (losses) on remeasurement of employee defined benefit plans	*(2,615)*	*71,209*
	Total Other comprehensive income	***(2,615)***	***71,209***
	Total comprehensive income for the year	***16,406,497***	***10,757,087***

Statement of Cash Flows for the year ended December 31, 2016

(in € thousands)	2016	2015
Profit from continuing operations	16,409	10,686
Profit for the year	**16,409**	**10,686**
Depreciation, amortization and impairment reversals (losses)	7,679	7,288
Change in provisions	14	(521)
Financial income (expenses)	4,040	7,540
Decrease / (Increase) in trade receivables, net	(2,911)	(9,985)
Increase / (Decrease) in trade payables	(61)	(2,179)
Decrease / (Increase) in other assets	(2,025)	8,627
Increase / (Decrease) in other payables	6,970	(459)
Cash flows provided by operating activities (a)	**30,115**	**20,997**
Acquisition of property, plant and equipment, net	(396)	(841)
Acquisition of intangible assets, net	(6,980)	(5,906)
Acquisition of investments	(17,345)	(6,569)
Cash flows (used in) investing activities (b)	**(24,721)**	**(13,316)**
Share capital increase	0	0
(Increase) / Decrease in financial receivables	(2,573)	(25,066)
Increase / (Decrease) in short-term financial payables	5,547	(2,159)
Increase / (Decrease) in long-term financial payables	(2,711)	37,159
Interest (paid) / received during the year	(4,040)	(7,540)
Cash flows provided by (used in) financing activities (c)	**(3,777)**	**2,394**
Cash flows during the year (a)+(b)+ (c)	**1,617**	**10,075**
Cash and cash equivalents at beginning of the year	14,295	4,220
Cash and cash equivalents at end of the year	15,912	14,295
Cash flows during the year	**1,617**	**10,075**

Statement of Changes in Equity

(in € thousands)	Share capital	Share premium reserve	Legal reserve	Other reserves	Retained earnings (Accumulated losses)	Profit (loss) for the year	TOTAL
Equity at 12/31/2014	**10,710**	**62,396**	**807**	**-150**	**(3,981)**	**2,216**	**71,998**
Capital increase with share premium							0
Appropriation 2014 profit			1335		881	(2,216)	0
Total comprehensive income 2015				16		10,686	10,702
Equity at 12/31/2015	**10,710**	**62,396**	**2,142**	**(134)**	**(3,100)**	**10,686**	**82,700**
Capital increase with share premium							0
Appropriation 2015 profit					10,686	(10,686)	0
Actuarial gain				2			2
Total comprehensive income 2016						16,409	16,409
Equity 12/31/2016	**10,710**	**62,396**	**2,142**	**(132)**	**7,586**	**16,409**	**99,111**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Intercos S.p.A. is a corporation organized under the laws of the Republic of Italy. The Company was formed on July 5, 2017 and has its registered office in Milan at Piazza Diaz 1.

At the reporting date, the share capital of the company is held as follows:

SHAREHOLDERS	NUMBER OF SHARES	% HELD
"DAFE 4000 S.P.A."	37,591,900 Class "A"	41.17%
"DAFE 5000 S.R.L."	14,032,456 Class "A"	15.37%
"DAFE 3000 S.R.L."	97,950 Special Class "C"	0.107%
"CP7 BEAUTY LUXCO S. À R.L."	39,267,544 Class "B"	43%
"MANAGERS"	330,020 Special Class "C"	0,36%

Significant events in 2016

A. **On January 19, 2016**, Intercos S.p.A. signed a settlement agreement with the company Woojung Tech. Co., Ltd. and Mr Dong-Pil Choi to definitively and amicably close the dispute initiated in September 2014 between the company and the latter, in relation to which a summons was filed by Intercos S.p.A. for trade secret misappropriation before the Courts in Los Angeles, California. The settlement agreement called for, among other things, payment by Woojung to the Company of a total of USD 1,350 thousand that was received in full during the year.

B. **On February 9, 2016**, the board of directors of Intercos S.p.A. approved the transfer of the company's registered office from Milan, Piazza Eleonora Duse 2, to Milan, Piazza Generale Armando Diaz 1.

C. **On February 10, 2016**, following the intent manifested by Drop Nail S.r.l.'s minority shareholder, Paragon Cosmetics S.r.l., to: 1) divest of its 40% interest in the capital of Drop Nail S.r.l., equal to a nominal amount of €20 thousand and 2) sell its remaining receivable due from Drop Nail S.r.l., for the shareholder loans extended in the past, for a total amount of €1 thousand – Intercos S.p.A, as part of its business plan aimed at strengthening its product range represented by nail polishes and nail care products, purchased Paragon's investment and receivable for €543 thousand, thus bringing its investment to €1,181 thousand representing 100% of the capital of the company Drop Nail S.r.l.

D. **On March 25, 2016**, the Company waived a part of its non interest-bearing shareholder loan due from Drop Nail S.r.l. and, precisely, a total of €1,000 thousand, with such amount to be recorded in equity, under Other reserves, subaccount Payment against share capital, bringing its investment to €2,181 thousand.

E. **On August 1, 2016**, the Company conferred its investment in the company Hana Co. Ltd (representing 20% of the entire share capital of Hana) to the company Intercos Asia Pacific Limited, according to the terms and conditions of the "Equity Transfer Agreement" signed between the companies. The price agreed for the transfer of this equity investment – corresponding to USD 1,500,000 – was satisfied by Intercos Asia Pacific through the issue of 318,881 new shares of the same Intercos Asia Pacific at a value per share of USD 4.704 and the simultaneous transfer of the shares to the Company.

F. **Also On August 1, 2016,** Intercos S.p.A., as the sole shareholder of Intercos America Inc., subscribed to a capital increase by Intercos America Inc. for a total of USD 25,000 thousand to be paid in several tranches as follows: 1) USD 5,000 thousand by a cash injection; 2) USD10,000 thousand by the partial waver of intercompany loans that were extended by Intercos S.p.A. to Intercos America Inc., which amounted to a total of USD 37,900 thousand; and 3) USD 10,000 thousand by payment in separate tranches based on resolutions passed beforehand by the board of directors of Intercos America, in the event of specific and significant financial needs of the same Intercos America Inc., with the understanding that the last tranche will be paid no later than one year from the date of August 1, 2016.

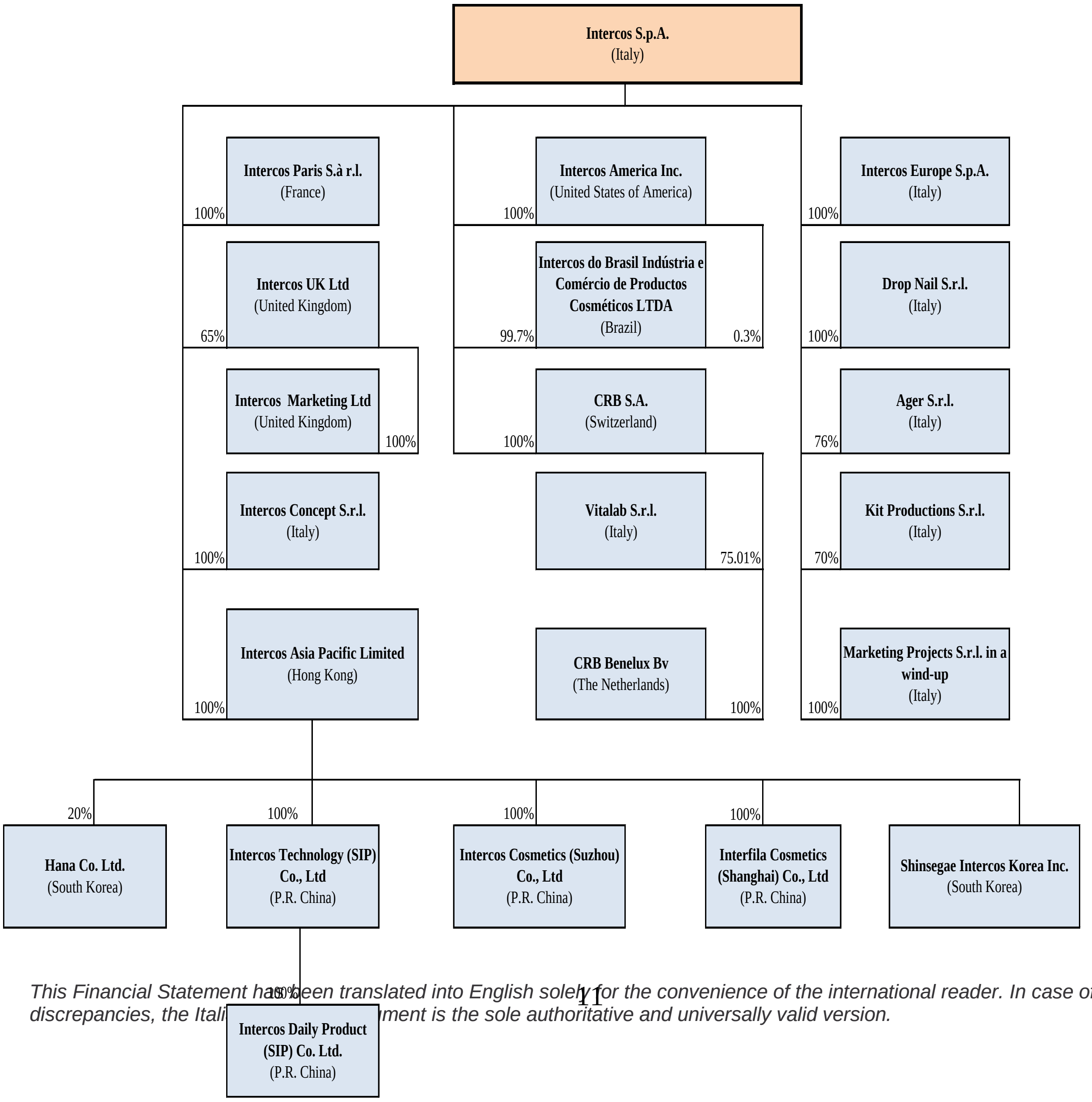
G. **On September 8, 2016**, the Company reviewed and updated its Organizational, Management and Control Model adopted pursuant to Legislative Decree 231/2001 on November 20, 2012, which had already been updated on March 31, 2014 and on April 10, 2015. The Company also updated the Ethics Code and the Code of Conduct on the same date.

H. **On October 21, 2016**, the Company launched of a new line of business dedicated to private labels and formed a limited liability company called **Intercos Concept S.r.l**. The company will perform services for companies, including commercial, marketing, promotional, organizational, technical, consulting and other types of services, as it pertains to private labels, and, therefore, directed to the development of brands for clients that operate in the retail commercial sector of colored products for make-up, creams, personal-care products, nail polish, perfume and cosmetic products in general, as well as like products, accessories or, in any case, products that complement cosmetics.

I. **<u>Also On October 21, 2016</u>**, the Company increased the number of members of the board of directors from 5 to 7 and the bylaws, which called for only five members, were amended.

J. **<u>In December 2016</u>**, the Company, as the sole shareholder of Intercos Concept S.r.l., made a payment against share capital of €350,000 to Intercos Concept S.r.l., to be recognized in equity of the latter and recorded in the Other reserves, subaccount Payment against share capital, bringing its investment to €360,000, representing 100% of the company's share capital.

As at the date of the preparation of the financial statements, the Company's business is carried out through the following companies of the Group:



2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements for the year ended December 31, 2016 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, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), and adopted by the European Commission for the preparation of the consolidated and separate financial statements of companies with equity securities and/or debt listed on one of the regulated markets in the European Union.

By IFRS is meant all "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"), adopted by the European Union and contained in the relative European Union Regulations published up to the date on which the Board of Directors of Intercos S.p.A. approved the draft financial statements of the Company. 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 27, 2017.

New accounting standards, interpretations and amendments adopted during the year

The accounting principles adopted in the preparation of the financial statements at December 31, 2016 are consistent with those applied in the prior year, except for the adoption of recently issued standards, interpretations and amendments in effect from January 1, 2016, as listed below.

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

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

Regulation 2015/2173. issued by the European Commission on November 24, 2015 endorsed the amendments contained in the document "*Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11)", issued by the IASB on May 6, 2014. The amendments clarify the accounting for the acquisition of both the initial interest and additional interests in a joint operation (which do not modify the type of interest) in which the activity constitutes a business, as defined in IFRS 3, which requires the application of all of the principles on business combinations.

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

Regulation 2015/2343 of December 15, 2015 endorsed the "*Annual Improvements to IFRSs – 2012-2014 Cycle*" issued by the IASB on September 25, 2014, which: (i) for IFRS 5, clarifies that any reclassification of an asset (or disposal group) from held for sale to held for distribution to shareholders/partners (or vice versa), must not be considered as a new divestment plan but rather as a continuation of the original plan; (ii) for IFRS 7, *Financial Instruments: Disclosures* provides additional guidance in the determination of whether or not there exists continuing involvement in a financial asset that has been transferred, where a service agreement pertaining to it exists; the same standard also clarifies the non-applicability of the additional disclosure in connection with the offsetting of financial assets and liabilities in interim financial statements; (iii) for IAS 19, clarifies that the discount rate to use to calculate the present value of bonds must be determined with reference to the market returns of high-quality corporate bonds denominated in the same currency rather than with reference to the county of reference; (iv) for IAS 34, clarifies that the information required by IAS 34 on significant events and transactions can be disclosed in the notes to an entity's interim financial statements or cross-referenced to some other statements that are available to users of the financial statements on the same terms and at the same time as the interim financial statements, otherwise the interim financial report is incomplete.

Regulation 2015/2406, issued by the European Commission on December 18, 2015, endorsed the amendments contained in the document "*Disclosure Initiative* (Amendments to IAS 1)" issued by the IASB on December 18, 2014. The document clarifies guidance on materiality, the disaggregation and aggregation of line items, the systematic presentation of notes and the identification of accounting policies and information requirements for other components of comprehensive income arising from the measurement of investments accounted for using the equity method.

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

Regulation 2016/1703, issued by the European Commission on September 22, 2016, endorsed the amendments contained in the document "*Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28)", issued by the IASB on December 18, 2014. The amendments clarify the requirements when accounting for investment entities and provide relief in particular circumstances.

The above amendments did not have any impact on the results of operation or the financial position of the Company.

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

The standards, amendments and interpretations endorsed by the European Commission in 2016, but not yet effective, are listed and described below.

Regulation 2016/1905, issued by the European Commission on September 22, 2016, endorsed the amendments contained in the document IFRS 15 "*Revenue from Contracts with Customers*", issued by the IASB on May 28, 2014. IFRS l5 provides a single model for the recognition of revenues (including contract revenues) based on the transfer of control of a good or a service to a customer. The standard provides a more structured approach) to the measurement and recognition of revenues, with a detailed Application Guide. More specifically, the core principle of IFRS 15 is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step model framework is as follows: (i) identification of the contract (contracts) with a customer; the provisions of the standard are applied to each single contract except in cases in which the standard requires that the entity consider more contracts together and then account for the contracts accordingly; (ii) identification of the performance obligations, that is, the goods or services promised in the contract; (iii) determination of the transaction price; in the event the consideration is variable, the entity shall estimate the consideration, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved; (iv) allocation of the transaction price to the performance obligations identified, generally on the basis of the stand-alone sales prices of each good or service and (v) recognition of revenue when or as the entity satisfies a performance obligation. IFRS 15 establishes the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows. On the basis of the Company's business model and a preliminary analysis conducted on the main contracts outstanding, it is believed that the application of IFRS 15 will not have any significant effects. The provisions of IFRS 15, subsequently to the changes brought about by the amendments issued on September 11, 2015, are effective for annual periods beginning on or after January 1, 2018. At this time, the Company does not expect to early adopt the standard. The standard is applicable retroactively using one of two methods: a) retrospectively to each prior reporting period presented in accordance with IAS 8 (full retrospective approach) or b) retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application (modified retrospective approach). If the second approach b) is elected, IFRS 15 is applied retrospectively only to contracts that are not completed contracts at the date of initial application (January 1, 2018). Intercos is assessing which of the two retrospective options to apply.

The Company expects to complete its analysis on the application of IFRS 15 by the end of 2017, in time for the evaluation of the quantitative aspects of the adoption of the new standard, to be disclosed in the annual financial statements at December 31, 2017.

Regulation 2016/2067, issued by the European Commission on November 22, 2016, endorsed the amendments contained in the document IFRS 9 "*Financial Instruments*", issued by the IASB on July 24, 2014, together with the relative Basis for Conclusions and Application Guide, superseding all previous versions of the standard. The new requirements: (i) modify the classification categories of financial assets and establish that such classification should be based on the contractual cash flow characteristics of the asset and also on the entity's business model; (ii) eliminate also the obligation to separate embedded derivatives in financial assets; (iii) identify a new loss impairment model that considers forward-looking information based on the premise of providing for expected credit losses as compared to the "incurred loss" model which postpones the recognition of credit losses until the manifestation of a loss event, with reference to: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, lease receivables, contract assets, and certain loan commitments and financial guarantee contracts; (iv) introduce a fundamental review of the qualification of hedging transactions with the objective of guaranteeing that these are aligned to the entity's risk management strategies and based on a more principle-based approach. IFRS 9 has therefore also amended IFRS 7 "*Financial Instruments: Disclosures*". The provisions in the above documents, which replace those contained in IAS 39 "*Financial Instruments: Recognition and Measurement*", are effective for annual periods beginning on or after January 1, 2018. The impact of the adoption of this standard is currently under evaluation, although no significant effects are expected from the application of this standard on recurring transactions.

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

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

Since the documents below have not yet been endorsed by the European Commission, the effective date of application may be postponed to a date subsequent to that established in the relative documents.

With reference to the description of recently issued standards, the pronouncements by the IASB, not yet endorsed by the European Commission, are reported below.

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

On January 13, 2016, the IASB issued IFRS 16 "*Leases*", which defines leases as a contract that conveys the right to control the use of an underlying asset for a period of time in exchange for consideration, and eliminates, for the lessee, the distinction between finance and operating lease, introducing a single lessee accounting model for the recognition of leases. The application of this model requires the entity to recognize: (i) in the statement of financial position, an asset representing the relative right-of-use, and a liability, representing the payment obligation as established in the contract, unless the lease term is 12 months or less or the underlying asset has a low value; (ii) in the income statement, depreciation of the right-of-use assets and separately the interest on the lease liability. For purposes of the preparation of the financial statements, lessors continue to classify leases as operating or finance. The provisions of IFRS 16, which replace those contained in IAS 17 "*Leasing*" and in the relative interpretations, are effective for annual periods beginning on or after January 1, 2019, except for any postponements established during the endorsement process by the European Commission.

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

On January 29, 2016, the IASB issued "*Disclosure Initiative* (Amendments to IAS 7)". The amendments clarify how to improve the information on financial liabilities provided to users of financial statements for monetary and non-monetary changes in liabilities due to financing transactions, deriving, to the extent necessary, from: (i) financing cash flows; (ii) the acquisition or loss of control of a subsidiary or a business: (iii) changes in exchange rates; (iv) changes in fair value; and (v) other changes. These amendments are effective for annual periods beginning on or after January 1, 2017, except for any postponements established during the endorsement process by the European Commission.

On April 12, 2016, the IASB issued "*Clarifications to IFRS 15 Revenue from Contracts with Customers*", which clarify: (i) when a contractual promise to transfer a good or service is separately identifiable from other performance obligations contained in the contract; (ii) how to determine if an entity is a principal or an agent, according to whether the entity provides the goods or services or arranges for the goods or services to be provided; (iii) how to determine whether the revenue from a license agreement should be recognized over time or a specific point in time. The document also provides two practical expedients (optional) to the transition requirements of IFRS 15, according to which the entity can elect: (i) in the case it uses the full retrospective method, not to restate the completed contracts at the beginning of the first comparative period presented (the standard already called for a similar approach in the case of the modified retrospective approach; and (ii) to determine, instead of separately accounting for the effects of each single change, the aggregate effects of all the changes since the start of the contract until the start of the first comparative period presented or at the date of the first-time application, respectively, in the case of the full retrospective method and the modified retrospective approach. These amendments are effective for annual periods beginning on or after January 1, 2018, except for any postponements established during the endorsement process by the European Commission.

On June 20, 2016, the IASB issued "*Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)", which: (i) clarifies the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions; (ii) specifies that the modification from cash-settled to equity-settled share-based payment generates the derecognition of the original liability, the recognition of the share-based payment at the modification date fair value to the extent services have been rendered up to the modification date and any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in the income statement immediately; (iii) with regard to share-based payment transactions with net settlement features arising from amounts withheld by an employer because of tax laws or regulations, introduces an exception so that these are classified as equity-settled in their entirety provided the share-based payment transactions would have been classified as equity-settled had it not included the net settlement feature because of the application of tax laws. These amendments are effective for annual periods beginning on or after January 1, 2018, except for any postponements established during the endorsement process by the European Commission.

The amendments contained in the document "*Annual Improvements to IFRS Standards 2014 - 2016 Cycle*", issued by the IASB on December 8, 2016, refer to: (i) IFRS 1, deleting the short-term exemptions provided with reference to IFRS 7, to IAS 19 and to IFRS 10 with regard to "*Investment Entities*" for the first-time adopter; (ii) to IFRS 12, clarifying the scope of the standard by specifying that the disclosure requirements, except for those in paragraphs B10-B16, apply to all interests of an entity that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5; (iii) to IAS 28, clarifying that an investment company, a mutual fund, an investment fund or similar entity or a joint venture can elect to measure investments in an associate or a joint venture at fair value through the income statement separately for each single investment upon initial recognition. The amendments also clarify that an entity that is not an investment entity that holds an investment in an associate or joint venture that is an investment entity, may elect to keep the fair value measurement made by these investment entities to measure its own investments. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, while the amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017, except for any postponements established during the endorsement process by the European Commission.

On the same date the IASB issued IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*", which establishes that, when there are transactions that include the receipt or payment of advance consideration in a foreign currency, the exchange rate to be applied for initial recognition of the assets, costs or revenues that are generated by the receipt or payment in advance, corresponds to the exchange rate in force at the date of the advance receipt or payment. These amendments are effective for annual periods beginning on or after January 1, 2018, except for any postponements established during the endorsement process by the European Commission.

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

Summary of significant accounting policies

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

The financial statements are prepared under the going concern concept.

The most significant accounting policies adopted are described below. The accounting polices described have been applied on a basis consistent with all 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 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 of the cost relating to the expansion, renovation or improvement of the structural elements in use by 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 amounts 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 financial payables. The assets are depreciated according to the policies and rates indicated for property, plant and equipment unless the term of the lease contract is shorter than the useful life represented by these rates and reasonable certainty of transferring ownership of the leased asset at the natural expiration of the contract is not assured. In that case, the depreciation period is represented by the term of the lease contract. The lease payment is divided into its components of financial expense, recognized in the income statement, and the repayment of principal, recorded as a reduction of the financial payables.

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 assets without physical substance, controlled by the company and able to produce expected future economic benefits, as well as goodwill, when acquired against payment. Identifiability of an intangible asset is defined as the possibility of distinguishing it from goodwill. This requisite is normally satisfied when: (i) the asset arises from contractual or other legal rights, or (ii) the asset is separable, i.e. is capable of being sold, transferred, rented or exchanged individually or as an integral part of other assets. An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those 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) R&D 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 all the following conditions are met:

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

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

Impairment of property, plant and equipment and intangible assets

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

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

Investments in subsidiaries

Investments in subsidiaries are measured at acquisition cost. Subsidiaries are entities in which the Company has the right, directly or indirectly, to exercise control, as defined by IFRS 10 - "*Consolidated Financial Statements*". More specifically, control exists when the controlling entity, at the same time:

- has decision-making power to direct the relevant activities of the investee;
- is exposed, or has rights, to variable returns (positive and negative) from its involvement with investee;
- has the ability to use its power over the investee to affect the amount of the investor's returns.

Evidence of control must be verified on a continuous basis by the Company, with the aim of considering all relevant facts and circumstances that may imply a change in one or more elements that determine whether control over an investee exists. When there is objective evidence of an impairment, recoverability of the carrying amount is verified by comparing the carrying amount of the investment against its recoverable amount consisting of the greater of fair value, net of disposal costs, and value in use. The value in use is calculated, generally, within the limits of the corresponding share of the investee's equity in the consolidated financial statements. The investors' share of any loss of the investee, in excess of the carrying amount of the investment, is recorded in a specific provision to the extent that the investor has incurred legal or constructive obligations on behalf of the investee, or, in any case, is committed to cover the losses. Where an impairment loss of an investment subsequently no longer exists or has decreased, the carrying amount of the investment measured at cost is increased up to the limit of the recorded impairment loss with recognition of the effect in the income statement.

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 rate of return 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 all the risks and expenses relating to the liability have been transferred to third parties.

Derivative instruments

In accordance with its financial policies, the Company may use derivative financial instruments to hedge interest and foreign exchange rate exposure. In particular, derivative financial instruments may be 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 Financial expenses.

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

Employee benefit obligations

Defined benefit pension plans, which also included until December 31, 2006 the employee severance indemnities due to Italian employees as set forth in article 2120 of the Italian Civil Code, are based on the working life and the compensation received by the employee over a predetermined service period. In particular, the liability relating to employee severance indemnities is recognized in the financial statements based on actuarial calculations since it qualifies as an employee benefit due on the basis of a defined benefit plan. Recognition of a defined benefit plan in the financial statements requires actuarial techniques to estimate the amount of benefits accruing to employees in exchange for work performed during the current and prior years and the discounting of such benefits in order to determine the present value of the Company's commitments. The determination of the present value of such commitments is calculated using the Projected Unit Credit Method. This method, which is one of the actuarial techniques used for calculating accrued benefits, considers each active service period by the employee in the company as an additional unit which gives the right to benefits: the actuarial liability must therefore be quantified on the basis of only the service life accrued at the date of measurement; therefore, the total liability is normally recalculated on the basis of the ratio of the number of years of service accrued at the measurement date to the total estimated service life that will be reached at the time of settlement. Furthermore, this method calls for considering future increases in compensation, for whatever reasons (inflation, career, contract renewals, etc.) up until the time of termination of employment.

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

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

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

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

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

Translation of foreign currency balances and transactions

Transactions in foreign currency are translated to Euro 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.

Revenue recognition

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

Performance of services

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

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

- the amount of revenues can be determined with reliability;
- it is probable that any future economic benefit associated with the item of revenue will flow to the entity;
- the stage of completion at the date of the financial statements can be measured reliably;
- the costs incurred for the transaction and the costs to be incurred to complete 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.

Financial income and expenses

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

Income taxes

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

Deferred income taxes are calculated on temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and their tax bases (full liability method), except for goodwill. Deferred tax assets, 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; in the calculation, account was taken of the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017 as established by Law 208 of December 28, 2015, known as the Stability Law 2016.

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

In addition, the company has adhered to the national tax consolidation procedure under articles 117-129 of T.U.I.R. with Ager S.r.l., Kit Productions S.r.l., Intercos Europe S.p.A., Vitalab S.r.l., Drop Nail S.r.l. and Marketing Projects S.r.l. in liquidation as the “consolidated” companies.

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

Intercos S.p.A., in fact, is exposed to various types of risks 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 Administration, Finance and Control Function, which sets down written policies for the management of the above risks and the use of suitable financial instruments.

Types of risks hedged

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

Exchange rate risk

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

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

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

The following sensitivity analysis was performed to illustrate the effects on profit and consequently on equity produced by an increase/decrease of 7.5% in the exchange rates compared to the effective exchange rates at December 31, 2016.

(in € thousands)	2016	
	(7.5%)	+7.5%
U.S. dollar	(1,237)	1,064
Other currencies	(3)	3
Total	**(1,240)**	**1,067**

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 these 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 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 Administration, Finance and Control Function, using derivative contracts, where necessary.

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2016, with all other variables remaining constant.

The potential effects reported above 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, cash and cash equivalents and derivative financial instruments whose value is affected by changes in interest rates.

(in € thousands)	2016	
	(0.5%)	+0.5%
Euro	(55)	55
U.S. dollar	(75)	75
Total	**(130)**	**130**

Credit risk

As the holding company of the Intercos Group, the financial statements at December 31, 2016 of Intercos S.p.A. include Receivables from Group companies for the corporate services rendered to subsidiaries. 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 in the ordinary operations of the Company implies maintaining an adequate level of cash as well as sufficient funds through 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 assets available at December 31, 2016 compared to the end of the prior year is as follows:

(in € thousands)	2016	2015
Cash and cash equivalents	15,911	14,266
Unused committed credit lines	30,000	30,000
Total	**45,911**	**44,266**

The following tables present an analysis of the maturities of borrowings, other liabilities and derivatives, on a net basis.

(in € thousands)	Within1 year	From 1 to 5 years	Beyond 5 years	**December 31, 2016**
Banca IMI S.p.A and Unicredit loan	2,919	22,841	0	25,760
Bond	0	0	120,000	120,000
Payables under Law 46/Mediocredito	122	0	0	122
Finance leases payable	31	81	0	112
Medium/long-term debt	**3,072**	**22,922**	**120,000**	**145,994**
Bank overdrafts and advance accounts	10,330	0	0	10,330
Payables to Group companies	9,188	0	0	9,188
Fair value of derivatives	447	0	0	447
Trade payables	5,607	0	0	5,607
Short-term debt	**25,572**	**0**	**0**	**25,572**
Total	**28,644**	**22,922**	**120,000**	**171,566**

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 IFRS7.

(in € thousands)

12/31/2016	**Financial assets at fair value through profit or loss**	**Receivables and loans**	**Available-for-sale financial assets**	**Held-to-maturity assets**	**Financial liabilities at fair value through profit or loss**	**Other liabilities at amortized cost**	**Hedging derivatives**
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Loans receivable	-	48,934	-	-	-	-	-
Trade receivables	-	24,541	-	-	-	-	-
Other receivables	-	8,627	-	-	-	-	-
Loans payable	-	-	-	-	-	9,188	-
Borrowings from banks and other lenders	-	-	-	-	-	156,324	-
Trade payables	-	-	-	-	-	5,607	-
Other payables	-	-	-	-	-	13,046	-
Derivatives (liabilities)	-	-	-	-	447	0	-
Total	**-**	**82,101**	**-**	**-**	**447**	**184,166**	**-**

Cash and cash equivalents	-	15,912	-	-	-	-	-

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

Derivatives

IFRS require the fair value categorization of derivative financial instruments within the fair value hierarchy based on inputs that are observable in the market or other financial parameters (e.g. interest rate, exchange rate curves, etc.). Derivatives in foreign currency to hedge exchange rate risk fall under Level 2 of the fair value hierarchy since the fair value of these instruments is determined by recalculating the present value at the official year-end rate for exchange rates and interest rates quoted in the market.
The following table illustrates the fair value of the financial instruments portfolio:

Fair value hierarchy at the reporting date

(in € thousands)	**December 31, 2016 Level 2**	**December 31, 2015 Level 2**
Assets		
Currency Forwards/ swaps/ options		
Fair value hedge	-	-
Liabilities		
Currency Forwards / swaps/ options		
Fair value hedge	447	586

Fair value hedges are used to hedge exchange rate risk on financial assets and liabilities recorded in the financial statements.
With reference to the derivatives to hedge exchange rate risk, an indication is given below of the estimated dates of flows in U.S. dollars.

Notional amount in thousands of USD

	December 31, 2016		**December 31, 2015**	
Due	**Collection**	**Payment**	**Collection**	**Payment**
Within 1 year	17,500	-	24,000	-
1 to 5 years	-	-	-	-
Beyond 5 years	-	-	-	-
Total	**17,500**	**-**	**24,000**	**-**

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 internally 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 year.

- *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 2016 are as follows:

(in € thousands)	*January 1, 2016*	*Increases / Depreciation*	*Translation differences / Reclassifications.*	*Decreases / Utilization*	*December 31, 2016*
Historical cost					
Land and buildings	68,485	97	0	0	68,582
Plant and machinery	12,499	109	0	(93)	12,515
Industrial equipment	617	119	0	(5)	731
Office furniture and equipment	4,963	121	0	(171)	4,912
Motor vehicles and internal transportation equipment	745	0	0	(101)	644
Cell phones	13	0	0	0	13
Assets under construction and payments on account	60	19	0	0	79
Total	87,382	465	0	(370)	87,477
Accumulated depreciation					
Land and buildings	41,780	2,555	0	0	44,335
Plant and machinery	11,766	149	0	(40)	11,874
Industrial equipment	508	88	0	(5)	592
Office furniture and equipment	4,533	118	0	(170)	4,481
Motor vehicles and internal transportation equipment	533	101	0	(87)	546
Cell phones	12	0	0	0	12

Assets under construction and payments on account	0	0	0	0	0
Total	59,132	3,011	0	(303)	61,840
Net carrying amount	28,251	(2,546)	0	(67)	25,636

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

5.1 Leasing

Assets acquired under finance lease contracts entered into 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 a comparison with the prior year:

	At December 31, 2015			At December 31, 2016		
(in € thousands)	Capitalized cost	Accumulated depreciation	Net carrying amount	Capitalized cost	Accumulated depreciation	Net carrying amount
Other assets	*773*	*(572)*	***201***	773	(647)	**126**
TOTAL	**773**	**(572)**	**201**	**773**	**(547)**	**126**

As required by IAS 17, disclosure is provided on the total future minimum lease payments at the end of the year, which total €113 thousand, divided as follows: €49 thousand within 12 months and €64 thousand between one and five years. There are no amounts due beyond five years. Lease installments recorded as expenses during the year total €10 thousand.

6. Intangible assets

Movements in Intangible assets in 2016 are as follows:

(in € thousands)	January 1, 2016	Increases	Disposals	Reclassifications	Amortization	December 31, 2016
Development costs	7,664	2,490	0	5,809	(3,157)	12,806
Patent and software rights	2,565	1,394	0	740	(1,050)	3,649
Concessions and licenses	435	316	0	428	(250)	929
Other intangible assets	7,017	2,780	0	(6,977)	0	2,820
TOTAL	**17,682**	**6,980**	**0**	**0**	**(4,456)**	**20,204**

The increase in Development costs for products is described under the comments on “Assets under development” since the projects begun in 2016 will be completed next year. Amortization is expected to be taken over five years. The capitalization of the research projects includes, according to the provisions of IAS

23, a proportional amount of borrowing costs; the standard provides for this possibility also in the case of 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 5.03% for investments made in 2011, 3.76% for those in 2012, 4.08% for those in 2013, 5.29% in 2014, 3.98% in 2015 and 4.01% in 2016.

The increase in Patent and software rights for a total of €1,394 thousand refers to €738 thousand for expenses sustained in the development of the SAP software applications package, €288 thousand for the development of software for the "Price Excellence" project, in addition to € 368 thousand for expenses incurred to file patents.

Development costs total €12,806 thousand, and refer to the following R&D projects:

- "Gelling Powder" project, year 2012, unamortized amount: €533 thousand di euro, remaining period of amortization: 0.7 years.

- "Exclusive Materials" project, year 2014, unamortized amount: €2,062 thousand; remaining period of amortization: 2.3 years.

- "Back Injection" project, year 2014, unamortized amount: €918 thousand; remaining period of amortization: 2.7 years.

- "Nails" project, completed in 2015, unamortized amount: €782 thousand; remaining period of amortization: 3.7 years.

- "Slurry" project, also completed in 2015, unamortized amount: €960 thousand; remaining period of amortization: 3.9 years.

- "Cotti" Back Injection project, completed in 2016, unamortized amount: €3,268 thousand; remaining period of amortization: 4.6 years;

- "Future Cushion" project also completed in 2016, unamortized amount: €379 thousand; remaining period of amortization: 4.5 years.

- "Shielded Lakes" project completed in 2016, unamortized amount: €1,192 thousand; remaining period of amortization: 4.5 years.

- "Markers" project completed in 2016, unamortized amount: €1,395 thousand; remaining period of amortization: 4.2 years.

- "Prisma Wave" project completed in 2016, unamortized amount: €484 thousand; remaining period of amortization: 4.2 years.

- Biomimicry" project completed in 2016, unamortized amount: €831 thousand; remaining period of amortization: 4.2 years.

The increase in Assets under development of €2,780 thousand is divided into: (1) €2,701 thousand for uncompleted R&D projects and (2) €79 thousand for uncompleted projects related to the "Hyperion" system to improve the Group's data consolidation system. The increase of the year refers to:

(i) €490 thousand for the "Sharpenable Pencils" project begun in June 2016. The objective is to research new isododecane-compatible, eco-compatible and sustainable raw materials capable of characterizing new patentable polymeric formulae for a new pencil in plastic.

(ii) €529 thousand for the "Filmogenous nail polish" project begun in the second quarter of 2016. The objective is to create and manufacture new filmogenous materials capable of making solvent-based nail polishes last longer than those traditionally found on the market.

(iii) €682 thousand for the "Diplaticoni" project begun towards the end of the second quarter of 2016. The objective is to obtain a family of new Intercos proprietary eco-sustainable cosmetic raw materials, not otherwise available on the market, which can take different physical forms and thus can be used in all product categories.

(iv) €487 thousand for the "PLA" project begun during the year. The objective is to develop biodegradable polymers, focusing attention on obtaining polylactic acid powder granules in varying sizes, which could enable the use of such raw material in a wider range of cosmetic products and packaging.

(v) €126 thousand for the "Silicone ogive", project. The objective is to identify a new silicone to develop suitable ogives for the manufacture of lipsticks that perform better than those currently in use.

(vi) €113 thousand for the "Patch" project. The objective is to develop a cosmetic patch, with a multilayer structure similar to that of transdermal patches with a decorative and/or corrective function for the eye area.

(vii) €273 thousand for the "CMR" project begun during the year. The objective is the adaptation of ceramic materials that because of their geometries or sizes can be used as "opaque fillers" in cosmetic formulae, creation of innovative SPF boosters based on substituted hydroxyapatite for the development of multifunctional sun care products and, for Make-up, the innovative formulation project for non-transfer and food-proof long-lasting make-up products (lipsticks, eyeliner and concealers).

For capitalized projects, management carefully assesses their expected economic benefits and those obtained over the course of their useful life, testing for any onset of impairment.

Additional details on R&D are discussed in the Directors' Report on Operations under profit and financial performance and factors affecting operating performance in 2016.

7. Goodwill

Movements in Goodwill are as follows:

(in € thousands)	**January 1, 2016**	**Change during the year**	**December 31, 2016**
Goodwill	**33,654**	**--**	**33,654**

Goodwill is tested annually for impairment.

For purposes of impairment testing, the goodwill of €33,654 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 and updated for the five-years 2016-2020.

The impairment test was conducted by comparing the total carrying amount of goodwill and the aggregate net assets able to independently produce cash flows (CGU), to which goodwill can reasonably be allocated, with the higher of the value in use of the CGU and the recoverable amount through sale. In particular, the value in use was determined using the discounted cash flow method by discounting to present value the operating flows from the profit and financial projections based on assumptions included in the plan approved by management. The valuation model determines the value in use as the sum of operating cash flows (defined as gross operating margin net of implicit income tax on operating profit, and also changes in net working capital, changes in employee severance indemnities and acquisitions and disposals of fixed assets) for each year of the plan. The cash flows were discounted at a WACC rate of 9.1% for the Make-up CGU (8.6% at December 31, 2015). The terminal value was determined by applying a perpetual growth factor that is basically representative of the expected inflation rate of 2% to the operating cash flows for the last year of the normalized plan.

No impairment losses on the carrying amount of goodwill resulted from the impairment tests conducted at December 31, 2016 as the value in use determined for the CGU identified was higher than the relative carrying amount. In the same manner, the sensitivity analyses carried out did not show any impairment losses.

8. Investments in subsidiaries

Movements in Investments in subsidiaries are as follows:

(in € thousands)	**December 31, 2016**
Beginning balance	89,959
Revaluations	-
Impairments	-
Disposals	(1,330)
Acquisitions – Share capital increases	18,675
Ending balance	**107,304**

Details and movements in Investments in subsidiaries during the year are as follows:

(in € thousands)	1/1/2016	Revaluations	Impairments	Acquisitions	Disposals	12/31/2016
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
Marketing Projects S.r.l. in liquid.	40	0	0	0	0	40
Ager S.r.l.	102	0	0	0	0	102
Drop Nail S.r.l.	639	0	0	1,541	0	2,181
Intercos America Inc.	11,272	0	0	13,457	0	24,729
Intercos do Brasil	7,608	0	0	1,987	0	9,595
Intercos Paris S.ar.l.	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
Hana Co. LTD	1,330	0	0	0	(1,330)	0
Intercos Concept S.r.l.	0	0	0	360		360
Intercos Asia Pacific Limited	20,232	0	0	1,330	0	21,562
Total	**89,959**	**0**	**0**	**18,675**	**(1,330)**	**107,304**

During the course of the year, the Company finalized acquisition and sale transactions. Additional details are provided under “Significant events in 2016”.

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

(in € thousands)	Carrying amount	% holding	Equity	Change
Intercos Europe S.p.A. (ex Color Cosmetics S.r.l.)	32,418	100%	42,152	9,734
Kit Productions S.r.l.	7	70%	692	685
Marketing Projects S.r.l. in liquid.	40	100%	406	366
Ager S.r.l.	102	76%	1,190	1,088
Drop Nail S.r.l.	2,181	100%	366	(1,815)
Intercos America Inc.	24,729	100%	20,807	(3,922)
Intercos do Brasil	9,595	100%	5,188	(4,407)
Intercos Paris S.ar.l.	188	100%	606	418
Intercos UK Ltd	580	65%	2,492	1,912
CRB S.A.	15,544	100%	11,551	(3,993)
Intercos Concept S.r.l.	360	100%	260	(100)
Intercos Asia Pacific Limited	21,562	100%	**23,940**	**2,378**
Total	**107,304**		**109,650**	**2,346**

As for the subsidiaries CRB S.A. and Intercos America Inc., which show negative changes, it should be noted that the economic plans of the companies indicate good future profitability which will make it possible to close the current gap between the carrying amount of the investments and the corresponding share of net equity. It should also be noted that the company CRB S.A. paid dividends in 2016 of €5,140 thousand.

Concerning the negative changes in the subsidiaries Intercos do Brasil, Drop Nail S.r.l. and Intercos Concept S.r.l., these companies are still in the start-up stage and a multi-year plan has been drawn up which indicates a good recovery of profitability.

9. Deferred tax assets

Deferred tax assets amount to €1,361 thousand at December 31, 2016 , with a reduction of €1,511 thousand compared to December 31, 2015. The calculation of deferred tax assets takes into account the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017, as established by Law 208 (the Stability Law 2016) of December 28, 2015.

The following table gives details according to the source of deferred tax assets at December 31, 2016 and 2015.

(in € thousands)	**12/31/2016**			**12/31/2015**		
	Taxable	Ires	Irap	Taxable	Ires	Irap
Exchange losses	5,458	1,310	-	3,211	883	-
Provisions	128	31	-	60	17	-
Consolidated tax loss 2011 (residual amount)	-	-	-	2,419	665	-
Consolidated tax loss 2012	-	-	-	4,742	1,304	-
Difference on employee severance indemnity	84	20	-	12	3	-
Total	**5,670**	**1,361**	**-**	**10,444**	**2,872**	**-**

The Company, at this time, also in light of the budgets forecasting future earnings approved by the board of directors, believes that it can generate taxable income sufficient to recover the deferred tax assets recorded in the financial statements. It should be noted that the tax loss carryforwards were completely utilized to partially reduce the taxable income resulting from the consolidated tax return for the year ended December 31, 2016.

10. Other non-current assets

Details of Other non-current assets at December 31, 2016 and 2015 are as follows:

	December 31,	
(in € thousands)	**2016**	**2015**
VAT 2009 refund receivable	2,300	2,300
Interest on VAT receivables	147	147
Security deposits	121	120
Other receivables	907	1,048
Total	**3,475**	**3,614**

The VAT refund receivable relating to the year 2009 is shown as non-current as it is believed that settlement will not take place in 2017.

Other receivables include the interest-bearing receivable to be collected on the sale in 2013 of the investment in the Malaysian company, Intercos Asia Pacific.

According to the underlying contractual agreements, the above receivable will be collected after 2017 and, more precisely, the plan calls for extinction in July 2019. The receivable is for USD 956 thousand, or an equivalent amount of €907 thousand, which includes the exchange valuation of €191 thousand.

11. Trade receivables

Details of Trade receivables at December 31, 2016 and 2015 are as follows:

	December 31,	
(in € thousands)	**2016**	**2015**
Receivables from third party customers	295	281
Receivables from Group companies	24,246	21,349
Total	**24,541**	**21,630**

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

12. Taxes receivable

	December 31,	
(in € thousands)	**2016**	**2015**
VAT receivable of the year	187	1,110
IRES receivable 2004 and following years ex Legislative Decree 185/2008	-	42
IRES receivable 2007 ex Legislative Decree 201/2011	422	422
IRAP receivable	110	5
Other taxes receivable	1,678	1,635
Total	**2,397**	**3,214**

The IRES receivable 2007 under ex Legislative Decree 201/2011 refers to an application filed by the Company after recalculating the IRES tax following the recognition IRAP taxes deductibility (relating to the labor cost component); it takes into account the results of the new calculation for the subsidiaries that had adhered to the tax consolidation for that year. It is believed that the reimbursement will be obtained in 2017 and therefore the receivable is classified as current.

IRAP receivable refers to advances paid in excess of the tax due for the current year.

Other taxes receivable include withholding taxes on royalties and commissions earned in 2016 of €759 thousand and in prior years of €919 thousand.

13. Other current assets

Details of Other current assets at December 31, 2016 and 2015 are as follows:

(in € thousands)	December 31, 2016	2015
Receivables from subsidiaries under the tax consolidation	8,404	3,721
Sundry receivables	47	338
Accrued income and prepaid expenses	175	287
Total	**8,626**	**4,346**

Receivables from subsidiaries under the tax consolidation include:

- the IRES receivable from the subsidiary Intercos Europe S.p.A. on the 2016 IRES settlement of €8,321 thousand;
- the IRES receivable from the subsidiary Ager S.r.l. on the 2016 IRES settlement of €39 thousand;
- the IRES receivable from the subsidiary Kit Productions S.r.l. on the 2016 IRES settlement of €44 thousand.

Sundry receivables amounting to €47 thousand mainly refer to advances from suppliers for €44 thousand.

Accrued income and prepaid expenses at December 31, 2016 include prepaid rent, insurance, utilities and rentals for a total of €175 thousand.

14. Loans receivable from Group companies – short term

Details of Loans receivable from Group companies – short-term at December 31, 2015 and at December 31, 2016 are as follows:

(in € thousands)

December 31, 2015	Within 12 months	Beyond 12 months	Total
CRB SA	1,846	-	1,846
Intercos Europe S.p.A.	13,500	-	13,500
CRB Benelux	18	-	18
Intercos Korea	200	-	200
Drop Nail S.r.l.	1,129	-	1,129
Intercos do Brasil	367	-	367
Intercos Technology Co. Ltd	919	-	919
Intercos America Inc.	28,382	-	28,382
Total	**46,361**	-	**46,361**

(in € thousands)

December 31, 2016	Within 12 months	Beyond 12 months	Total
Intercos Asia Pacific	1,423	-	1,423
Intercos Europe S.p.A	13,000	-	13,000
Drop Nail S.r.l.	880	-	880
Intercos do Brasil	2,419	-	2,419
Intercos Technology Co. Ltd	949	-	949
Intercos America Inc.	30,263	-	30,263
Total	**48,934**	**-**	**48,934**

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

During 2016, loans were extended to:

- the subsidiary Intercos Asia Pacific for USD 1,500 thousand, corresponding to €1,423 thousand, which includes an exchange valuation of €85 thousand;
- Intercos do Brasil for USD 2,550 thousand, corresponding to €2,667 thousand, repaying at the same time USD 400 thousand, equal to €369 thousand, bringing the receivable balance to €2,419 thousand, with an exchange valuation of €121 thousand;
- Drop Nail S.r.l. for €750 thousand. It should be noted that during the year the Company waived its right to the loan of €1,000 thousand, as better described in the paragraph on Significant events in 2016;
- the Company converted the loan receivable from Intercos America Inc. to equity for USD 10,000 thousand, equal to €7,678 thousand, as better described in the paragraph on Significant events in 2016; at the same time, another loan was extended for USD 11,000 thousand, or €10,114 thousand, which added to the residual receivable brings the balance to USD 31,900 thousand, equal to €30,263 thousand, including the exchange valuation of €1,319 thousand.

15. Cash and cash equivalents

Details of Cash and cash equivalents at December 31, 2016 and 2015 are as follows:

	December 31,	
(in € thousands)	**2016**	**2015**
Bank and postal deposits	15,891	14,266
Cash on hand	21	27
Total	**15,912**	**14,294**

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

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

16. Equity

Equity amounts to €99,111 thousand (€82,700 thousand at December 31, 2015).

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

Share Capital

At December 31, 2016, share capital is fully subscribed to and paid in and equal to €10,710,193 (with a total share premium of €62,395,860).

On July 17, 2014, the Intercos S.p.A. shareholders' meeting passed a resolution to divide each share outstanding into 10 no par value shares so that the share capital of €10,710,193 is divided into 91,319,870 shares, without any change in the lien already on the divided shares.

Following the adoption of the new bylaws by resolution of the extraordinary shareholders' meeting held on December 12, 2014, a decision was taken to convert the ordinary shares into three classes of stock, which was finalized when other shareholders invested in the company.

The following table presents the situation at December 31, 2016 and 2015:

(in € thousands)	**December 31, 2016**	**December 31, 2015**
Class A shares - number	51,624,356	51,624,356
Class B shares - number	39,267,544	39,267,544
Class C shares - number	427,970	427,970
Total share capital in euros	10,710,193	10,710,193

Class A, Class B and Class C shares all have the same rights and can be transferred by acts between living persons and by succession due to death, with effect on the Company pursuant to law, without prejudice to what is established in the bylaws.

Subject to the provisions of art. 2428 of the Italian Civil Code, note should be taken that the Company neither holds nor has purchased or sold shares during the course of the year under examination, not even through fiduciaries or trustees.

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

Description *(in € thousands)*	**Balance at** **December 31, 2016**	**Possibility of utilization**
Share capital	10,710	
Share premium reserve (*)	62,396	A, B, C
Other reserves (*) (**)	(133)	
Legal reserve	2,142	B
Retained earnings	7,587	
Profit for the year (*)	16,409	A, B, C
Equity at 12/31/2016	**99,111**	

A: Available for capital increases

B: Available to cover losses
C: Distributable to shareholders

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

(**) This refers to the reserve formed 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 – non-current

In 2015, Intercos S.p.A. contracted with banks for the following: (1) a bond of €120 million maturing after seven years from issue at a fixed rate of 3.875% and (2) a new loan contract of €80 million due at the end of 2020 at a lower variable rate than the old loan agreement (variable rate at the 1-month, 3-month and 6-month Euribor/Libor and a spread of between 1.5% and 2.65%)

The bond is listed on the Irish Stock Exchange and initially subscribed to by institutional investors. The new loan agreement was signed with Banca IMI S.p.A. and Unicredit S.p.A.

The new loan modified the economic terms of the loan, in addition to several contract clauses relating to the change of control and financial covenants.

In addition, the renegotiation of the terms also extended the main repayment dates of the loan, originally in 2018 and 2019, to 2020 for the new loan contract and 2022 for the bond.

The following table provides details of medium/long-term debt outstanding at December 31, 2016 together with the relative due dates:

Description	Rate	Nominal amount	Financial expenses	Internal rate of return	Debt discounted	Due date
Bond (fixed rate)	**3.88%**	**120,000**	**2,721**	**4.26%**	**121,415**	**March 28, 2022**
EUR line	**3-m Euribor + spread**	**10,962**	**160**	**2.19%**	**10,869**	**December 31, 2020**
USD line	**3-m Libor $ + spread**	**14,989**	**215**	**3.18%**	**14,852**	**December 31, 2020**
Revolving line	**3-m Euribor + spread**	**-**	**375**		**(260)**	**December 31, 2020**
		145,951	**3,512**	**-**	**146,876**	

The internal rate of return is the rate used for IAS 39 measurements on the loans shown in the table.

(in € thousands)	Due date	
	Short-term	**Long-term**
Bond (fixed rate)	3,542	117,874
EUR line	1,051	9,818
USD line	1,437	13,414
Revolving line	(260)	0
	5,770	141,106

Financial payables are secured by collateral (pledges and special liens) as better described in the Note on Guarantees and other commitments.

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

December 31, 2015

(in € thousands)	Within 1 year	1 to 5 years	Beyond 5 years	**TOTAL December 31, 2015**
Banca IMI and Unicredit loan	4,585	23,961	0	28,546
Bond	3,542	17,708	99,775	121,025
Debt under Law 46/Mediocredito	118	122	0	240
Finance leases payable	90	111	0	201
Medium/long-term debt	**8,335**	**41,902**	**99,775**	**150,012**
Bank overdrafts and advance accounts	10,000	0	0	10,000
Payables to Group companies	3,641	0	0	3,641
Fair value derivatives	586	0	0	586
Short-term debt	**14,226**	**0**	**0**	**14,226**
Total	**22,561**	**41,902**	**99,775**	**164,238**

December 31, 2016

(in € thousands)	Within 1 year	1 to 5 years	Beyond 5 years	TOTAL December 31, 2016
Banca IMI and Unicredit loan	2,228	23,232		25,460
Bonds	3,542	17,708	100,166	121,416
Debt under Law 46/Mediocredito	122	0		122
Finance leases payable	31	81		112
Medium/long-term debt	**5,922**	**41,021**	**100,166**	**147,109**
Bank overdrafts and advance accounts	10,330	0	0	10,330
Fair value derivatives	447	0	0	447
Short-term debt	**10,777**	**0**	**0**	**10,777**
Total	**16,700**	**41,021**	**100,166**	**157,887**

The total includes other financial liabilities of €601 thousand.

The loan carries financial covenants calculated on the basis of the consolidated financial statements. These covenants can be summarized as follows:

1. Net financial position / EBITDA
2. EBITDA / Net financial expenses
3. Available cash flows / Debt service*

(*) Net financial expenses + principal instalments repaid + Leasing.

The calculations made indicate these financial covenants have been complied with for the ended December 31, 2016.

18. Provisions

Movements in Provisions in 2016 are as follows:

(in € thousands)	December 31, 2016	December 31, 2015
Beginning balance	66	366
Accrual	100	0
Utilization	(33)	(301)
Ending balance	**133**	**66**

The utilization of the provision for €33 thousand refers to the dispute with employees settled during the year.

The accrual during the year for €100 thousand includes the best estimate regarding a probable customs dispute involving an employee.

19. Deferred tax liabilities

Deferred tax liabilities amount to €5,856 thousand, with a decrease of €464 thousand compared to the prior year. For a better understanding, details of the temporary differences which gave rise to the calculation of deferred income taxes are provided in the following table; account was taken of the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017, as established by Law 208 of December 28, 2015 (the Stability Law 2016). The new estimate generated income of €238 thousand in the income statement.

Description *(in € thousands)*	**December 31, 2016**			**December 31, 2015**		
	Taxable	Ires	Irap	Taxable	Ires	Irap
Differences on depreciation	13,965	3,352	545	15,176	3,685	592
PPE revaluation	889	213	35	1,102	272	43
Exchange gains	6,793	1,630	-	5,451	1,499	-
Elimination of tax effect on PPE	339	81	-	393	96	-
Employees severance indemnity discounted under IAS 19 application	-	-	-	99	27	-
Capitalization of R&D personnel expenses	-	-	-	2,724	-	106
Total	**21,986**	**5,276**	**580**	**24,945**	**5,579**	**741**

20. Employee benefit obligations

Movements during the year in Employee benefit obligations are as follows:

(in € thousands)	**December 31, 2016**	**December 31, 2015**
Beginning balance	1,268	1,418
Actuarial gains (losses)	39	(100)
Utilizations	(185)	(117)
Interest cost	21	21
Transfers	70	45
Ending balance	**1,213**	**1,268**

The following table presents the assumptions used in determining the actuarial value of Employee benefit obligations at December 31, 2016.

	December 31, 2016	**December 31, 2015**
Discount rate	1.62%	2.30%
Annual inflation rate	1.50%	2.00%
Annual rate of increase in employee severance indemnities	2.62%	3.00%
Annual rate of increase in salaries	1.50%	1.50%

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease in the main assumptions used on the data at December 31, 2016.

	Deferred Benefit Obligation at December 31, 2016 *(in € thousands)*
Inflation rate +0.25%	1,226
Inflation rate -0.25%	1,201
Discount rate +0.25%	1,193
Discount rate -0.25%	1,233
Turnover rate +1%	1,211
Turnover rate -1%	1,216

The following table presents the assumptions used in determining the actuarial value of Employee benefit obligations at December 31, 2016.

	December 31, 2016	**December 31, 2015**
Discount rate	1.62%	2.30%
Annual inflation rate	1.50%	2.00%
Annual rate of increase in employee severance indemnities	2.62%	3.00%
Annual rate of increase in salaries	1.50%	1.50%

The annual discount rate used to calculate the present value of the obligation was determined on the basis, 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).

A breakdown of the headcount at December 31, 2016 and at December 31, 2015 is as follows:

	Headcount at December 31, 2016	**Headcount at December 31, 2015**
Executives	18	17
Mid-level managers and white-collars	167	151
Blue-collars	20	25
Total	**205**	**193**

Additional details are as follows:

	Headcount 2014	Headcount 2015	Headcount 2016
Employees at January 1	181	190	193
Employees at December 31	190	193	205
Of whom			
Permanent	175	189	196
Fixed term	15	4	9
Total	**190**	**193**	**205**

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

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

21. Borrowings from banks and other lenders – current

Details on Borrowings from banks and other lenders – current are presented in Note 17.

22. Loans payable to Group companies

Loans payable to Group companies – short term total €9,188 thousand. Details are as follows:

	December 31,	
(in € thousands)	2016	2015
Intercos UK	0	546
Ager S.r.l.	1,000	1,000
Intercos Europe S.p.A.	0	0
Kit Production S.r.l.	350	350
Intercos America Inc.	7,838	1,746
Total	**9,188**	**3,642**

With particular reference to the subsidiary Intercos America Inc., the amount of €9,188 thousand refers to the following transaction:

on January 20, 2015 the company entered into a soft cash pooling transaction. This transaction involves the bank accounts to which Intercos America has title and calls for an end-of-day sweep of liquidity exceeding USD 500 thousand on the bank accounts in favor of Intercos S.p.A. The liquidity is automatically taken from the account and invested overnight and in the morning of the next working day, the overnight investment is closed and re-credited to the original accounts. This is called a sweep back. Intercos America's payable therefore records the same cash as the cash pooling account at the date of December 31, 2016.

As for the other loans, the positions have remained unchanged although the various due dates have been extended.

23 Trade payables

Trade payables at December 31, 2016 and December 31, 2015 are as follows:

	December 31,	
(in € thousands)	**2016**	**2015**
Trade payables to third party suppliers	3,447	3,598
Trade payables to Group companies	2,159	2,069
Total	**5,607**	**5,667**

24. Other payables

Details of Other payables at December 31, 2016 and 2015 are as follows:

	December 31,	
(in € thousands)	**2016**	**2015**
Taxes payable	7,039	0
Payables to employees	3,040	2,727
Social security agencies payable	1,041	985
Payables to tax authorities for withholdings	727	737
Accrued liabilities	53	60
Payables to subsidiaries for tax consolidation	1,146	1,022
Payables to subsidiaries	0	85
Sundry payables	1	2
Total	**13,046**	**5,618**

The balance of taxes payable for a total €7,039 thousand refers to IRES taxes for the year payable to the tax authorities on the tax consolidation.

Payables to employees and Social security agencies payable mainly comprise amounts due at December 31, 2016 paid at the beginning of the following year, equal to €618 thousand, and related social security contributions of €251 thousand, the employee incentive plan of €1,343 thousand and related social security contributions of €425 thousand, vacation pay accrued and not used of €771 thousand and related social security contributions of €213 thousand, accrued compensation for the 14th month salary of €258 thousand and other minor payables of €201 thousand.

Social security agencies payable refer to social security contributions and costs on December compensation to employees paid in January, social security costs on additional months' salaries and also other social security costs such as those for INAIL, Fonchim and Faschim.

Payables to tax authorities for withholdings refer to IRPEF withholding taxes on employee compensation of €726 thousand and withholding taxes on self-employed compensation for the remaining €1 thousand.

Accrued liabilities include interest of €43 thousand and insurance premiums of €10 thousand.

Payables to subsidiaries for the tax consolidation of €1,146 thousand include the receivables for IRES transferred from the subsidiaries below and referring to the following:

(in € thousands)

Description	**Intercos Europe S.p.A.**	**Marketing Projects S.r.l. in liquidation**	**Drop Nail S.r.l.**	**Vitalab S.r.l.**	**Total**
Reimbursement ex Legislative Decree 201/2011	870	16	0	0	886*
Settlement 2016	0	8	194	58	260
Total	**870**	**24**	**194**	**58**	**1,146**

* Of which €370 thousand refers to the merged company Interfila S.r.l.

With regard to the applications 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 of the subsidiaries which had adhered to the tax consolidation for each of those years.

24 bis. Guarantees and other commitments

Guarantees provided refer to sureties and guarantees provided by the Company, on its behalf (€16,365 thousand at December 31, 2016) and on behalf of subsidiaries (€5,630 thousand at December 31, 2016).

<u>On behalf of Intercos S.p.A.</u>:

The following pledges and guarantees were provided to guarantee the March 24, 2015 bank loan:

1) in favor of Banca IMI, the following pledges and liens were provided as collateral on the loan received in compliance with the requirements of the ABI Code:

- pledge on Intercos Europe S.p.A. shares for €3,000 thousand.
- pledge on Intercos Class C shares provided by Dafe 3000 S.r.l. (97,950 shares) for €11 thousand to guarantee the pool loan;
- pledge on Intercos Class A shares provided by Dafe S.r.l. (37,591,900 shares) and by Dafe 5000 S.r.l. (14,032,456 shares) for a total amount of €6,055 thousand.

Among the most important guarantees provided to third parties at December 31, 2016 are the following:

- guarantee provided on behalf of the company Madina S.r.l. for an amount €2,000 thousand to guarantee the transaction for the sale of the business segment put it place in 2012 by the subsidiary Marketing Project S.r.l. in liquidation;
- guarantee in favor of the Revenues Agency to guarantee the VAT receivable for the 2009 refund request of €2,785 thousand, expiring on February 3, 2018;
- guarantee in favor of the Revenues Agency to guarantee the VAT receivable for the 2010 refund request of €1,513 thousand, expiring on November 30, 2018;
- guarantee given in April 2014 through a surety policy provided by HSBC Brazil in favor of the company owner of the building where Intercos do Brasil has its manufacturing activities for BRL 800 thousand, corresponding to €233 thousand.
- guarantee of the Long Term Credit Facility provided by HSBC on behalf of Intercos Technology for USD 2,500 thousand, corresponding to €2,372 thousand.
- guarantee on the lease contract of Intercos America Inc. for the commercial office in New York City at 37th West 57th Street for USD 1,789 thousand, corresponding to €1,697 thousand.
- guarantee in the interests of Intercos America Inc. for the bank facility in favor of Intesa BCI for USD 1,400 thousand, corresponding to €1,328 thousand.

25. Revenues

Intercos S.p.A.'s business, following the conferral 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 2016 and 2015 are presented below:

(in € thousands)	**2016**	**2015**
Administrative services recharged to Group companies	19,665	21,276
Royalty income	16,915	17,025
Total revenues	**36,580**	**38,301**

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 €19,665 thousand). This represents the consideration calculated on the basis of the Service Agreements entered into 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., 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;
- packaging.

26. Other income

Details of Other income in 2016 and 2015 are as follows:

(in € thousands)	**2016**	**2015**
Prior period income, sundry allowances	133	382
Insurance compensation	28	4
Rent income	1,633	2,059
Dividends	16,194	12,091
Gains on the sale of investments	0	24
Other revenue from costs recharged	1,244	432
Gains on disposal of property, plant and equipment	9	245
Total	**19,242**	**15,237**

Prior period income mainly includes income on a settlement with a supplier concluded during the year.

Rent income of €1,633 thousand comes from the rent charged, starting 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.

Other revenues from costs recharged include €606 thousand of costs recharged for employees on secondment abroad and the remaining €610 thousand refers to revenues from contracts with certain customers for collaboration on the subject of Innovation.

The company as the parent received dividends of €16,194 thousand in 2016 from the following:

(in € thousands)	2016	2015
CRB S.A.	5,140	4,042
Intercos Paris	200	800
Intercos Europe S.p.A.	10,000	5,000
Intercos UK	854	-
Interfila Shanghai	-	2,248
Total	**16,194**	**12,091**

27. Purchases of raw materials, semifinished products and consumables

Details of Purchases of raw materials, semifinished products and consumables in 2016 and 2015 are as follows:

(in € thousands)	2016	2015
Consumables	19	13
Purchase of samples and sample lines	719	748
Pilot molds and equipment	369	449
Total	**1,107**	**1,210**

28. Costs for services and leases and rents

Details of Costs for services and leases and rents" in 2016 and 2015 are as follows:

(in € thousands)	2016	2015
Shipping of samples and sample lines	393	275
Other transportation	35	39
Publicity costs	351	392
Sundry services	3,561	3,580
Maintenance	266	392
Sundry utilities	1,254	1,235
Legal and notary fees	188	56
Board of statutory auditors' compensation	68	68
Consulting fees	1,918	1,785
Insurance	189	218
Royalties	156	223
Other costs	5,192	4,470
Total	**13,570**	**12,733**

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

Sundry services are detailed as follows:

(in € thousands)	2016	2015
Stationery and forms	18	12
Performance of services	274	260
Temp work.(service)	4	3
Sundry services rendered by subsidiaries	2,846	2,958
Laboratory analyses	362	292
Waste disposal	25	27
Other services rendered	33	27
Total	**3,561**	**3,580**

Sundry services rendered by subsidiaries include costs recharged by the subsidiaries, mostly for personnel who fulfill "corporate" duties and responsibilities sustained by the subsidiaries, for Intercos S.p.A., in accordance with the criteria established by existing contracts.

Other costs comprise expenses for following:

(in € thousands)	2016	2015
Travel	1,627	1,321
Commercial expenses	156	104
EDP	1,840	1,503
Rent	239	590
Rentals	304	241
Security service	92	99
Cleaning	252	168
Employee-related	683	444
Total	**5,192**	**4,470**

29. Employee benefit expenses

Details of Employee benefit expenses in 2016 and 2015 are as follows:

(in € thousands)	2016	2015
Salaries and wages	10,635	9,547
Social security	3,091	3,090
Defined contribution plan costs	680	614
Temp work	47	59
Board of directors' compensation	1,930	1,873
Coordinated and continual and occasional collaboration work	519	489
Other costs	27	7
Total	**16,929**	**15,679**

30. Accruals

The accrual of €100 thousand to the provision accounts refers to the best estimate in respect of a possible dispute concerning a customs transaction entered into by an employee of the company.

31. Other operating expenses

Details of Other operating expenses in 2016 and 2015 are as follows:

(in € thousands)	**2016**	**2015**
Promotional expenses	0	59
Prior period expenses, sundry allowances	56	36
Sundry taxes and duties	316	315
Association membership dues	45	37
Motor vehicle expenses	8	29
Other costs	103	40
Total	**528**	**517**

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

Sundry taxes and duties consist of city taxes of €254 thousand, indirect taxes and duties of €54 thousand, including registration tax of €8 thousand.

Other costs comprise magazines and books of €16 thousand, fines and tickets of €43 thousand, contributions and gifts of €2 thousand, losses from theft of €39 thousand and miscellaneous expenses of €3 thousand.

32. Capitalized internal construction costs

The total costs amount to €4,990 thousand and include the amounts capitalized for costs inherent to R&D projects.

Additional details are provided in Note 6 – Intangible assets.

33. Depreciation, amortization and impairment reversals (losses)

Details of Depreciation, amortization and impairment reversals (losses) in 2016 and 2015 are as follows:

(in € thousands)	**2016**	**2015**
Amortization of intangible assets	4,456	3,649
Depreciation of property, plant and equipment	3,011	3,301
Impairment of assets	212	338
Total	**7,679**	**7,288**

Impairment of assets refers entirely to the writeoff of dividend withholding taxes.

Additional information is provided in Notes 5 and 6 relating to Property, plant and equipment and Intangible assets.

34. Valuation adjustments to financial assets

There were no valuation adjustments to financial assets in 2016 .

35. Nonrecurring income (expenses)

(in € thousands)	2016	2015
Nonrecurring expenses	(688)	(625)
Nonrecurring income	1,210	0
Total	**522**	**(625)**

Nonrecurring expenses consist of legal fees in the dispute begun in September 2014 as a result of which a summons was filed by Intercos S.p.A. for trade secret misappropriation before the Los Angeles, California Court. This legal dispute was definitely and amicably settled by an agreement on January 19, 2016. The sums mentioned in the agreement were received during the year in the amount of USD 1,350 thousand, corresponding to €1,210 thousand.

36. Financial income

Details of Financial income in 2016 and 2015 are as follows:

(in € thousands)	2016	2015
Interest on loans to subsidiaries	2,423	1,853
Sundry interest	89	3
IRS fair value adjustment	15	2
Other financial income	0	300
Interest from the tax authorities	0	0
Total interest and dividends	**2,528**	**2,158**
Foreign exchange gains	0	4,967
Foreign exchange losses	0	(4,552)
Net foreign exchange differences	**0**	**416**
Total finance income, net	**2,528**	**2,573**

The most important item, Interest on loans to subsidiaries, refers entirely to the remuneration on the various loans receivable extended to subsidiaries, as better described in Note 14 – Loans receivable from Group companies – short term.

Exchanges differences are classified in financial expenses since the net balance is a loss in 2016.

37. Financial expenses

Details of Financial expenses in 2016 and 2015 are as follows:

(in € thousands)	2016	2015
Interest on medium/long-term borrowings	5,355	5,504
Interest on short-term borrowings	184	121
Other interest	327	3,852
Interest on loans from subsidiaries	13	42
Financial expenses on m-/l-term debt	0	350
Banking fees and commissions	338	244
Total interest and financial expenses	**6,241**	**10,113**
Foreign exchange losses	3,664	0
Foreign exchange gains	(3,337)	0
Net foreign exchange differences	**328**	**0**
Total interest and financial expenses, net	**6,568**	**10,113**

Interest on medium/long-term borrowings includes interest relating to medium/long-term debt and the adjustment arising from the application of IAS 39 relating to the measurement of loans.

Other interest includes €15 thousand of interest arising from the application of IAS 17 relating to leased assets and €292 of interest from the application of IAS 39.

Interest on loans from subsidiaries includes only the interest accrued during the year on the loans extended to Intercos S.p.A. by the subsidiaries Ager S.r.l. and Kit Production S.r.l.

Exchanges differences are classified in financial expenses since the net balance is a loss in 2016.

38. Income taxes

Details of Income taxes in 2016 and 2015 are as follows:

(in € thousands)	2016	2015
Current income taxes	1,864	1,211
Deferred income taxes	(885)	717
Prior years' taxes	(10)	(59)
Total	**969**	**1,869**

Current income taxes include the tax charge in 2016 for IRAP taxes of €397 thousand and for IRES taxes of €1,468 thousand.

For a better presentation of the effective current IRES and IRAP taxes, the income from the tax consolidation with the subsidiaries was included in the Note on deferred taxes, which had an effect on the movements during the year.

It should be noted that the calculation of income taxes has again been prepared in 2016 without taking into account the presumed IRES and IRAP tax benefit deriving from the application filed by the Company with the Revenues Agency on December 18, 2015 to elect the taxation regime based on income deriving from the use of intangible assets, the so-called Patent Box regime (pursuant to art. 1, paragraphs 37 to 45, of Law 190 of December 23, 2014). The company applied to the Revenues Agency to be taxed under this regime on December 18, 2015. The company also filed another application on December 30, 2015 to have an advanced ruling, in a discussion (*contraddittorio*) with the same Agency, on the methods and criteria of calculation of the above income. However, since this discussion has not yet begun, it is not believed that certain and definite elements exist that would to date justify the recording of deductions from taxable income that would possibly be included when the tax return is prepared.

With regard to deferred taxes, reference should be made to Notes 9 and 21.

Prior years' taxes primarily include lower IRES taxes of €126 thousand and higher IRAP taxes of €116 thousand that arose upon preparing the respective tax returns relating to the prior year.

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

(in € thousands)

IRES

Pre-tax profit	**17,494**
Theoretical IRES (27.5%)	**4,811**
Temporary differences deductible in future years	*11,040*
Non-deductible costs	*3,202*
Temporary differences taxable in future years	*(10,004)*
Reversal of temporary differences of prior years	*(739)*
Other deductions and recoveries (*)	*(15,656)*
Taxable income	**5,337**
IRES on taxable income (8.4%)	**1,468**

(*) Of which €15,384 thousand refers to dividends collected during the year

IRAP

Difference between production value and costs (net of dividends)	**5,015**
Theoretical IRAP (3.9%)	**196**
Costs not considered for IRAP purposes	*5,156*
Taxable for IRAP purposes	**10,171**
IRAP (7.9%)	**397**

39. Actuarial gains (losses) on remeasurement of employee defined benefit plans

The remeasurement of employee defined benefit plans includes the actuarial gains and losses on the year-end measurement of employee severance indemnities in accordance with IAS 19 of €2 thousand.

40. Related party transactions

Related party transactions do not qualify as either atypical or unusual but fall under ordinary 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 for 2016 and the statement of financial position at December 31, 2016 are as follows:

Transactions with Group companies, including joint ventures

(in € thousands)	Other revenues and income	Purchases of raw materials, semifinished products and consumables	Costs for services and leases and rent	Financial expenses	Financial income	Dividends
Kit Productions S.r.l.	41	0	0	(3)	0	0
Intercos Europe S.p.A.	24,802	(220)	(1,069)	0	504	10,000
Drop Nail S.r.l.	126	0	(236)	0	42	0
Intercos Asia Pacific	0	0	(75)	0	13	0
Vitalab S.r.l.	23	0	0	0	0	0
CRB Benelux BV	0	0	(445)	0	0	0
Intercos Korea LTD	38	(4)	0	0	1	0
Intercos do Brasil	3	0	0	0	74	0
Intercos UK Ltd.	79	0	0	(0)	0	854
Intercos Paris S.à.r.l.	279	0	0	0	0	200
Intercos America Inc.	9,081	0	(2,427)	0	1,647	0
Intercos Cosmetics Suzhou Co. Ltd	458	0	(89)	0	0	0
Intercos Technology Co. Ltd	675	(1)	(135)	0	28	0
Interfila Cosmetics (Shanghai) Co. Ltd	858	0	0	0	0	0
CRB Sa.	1,867	0	0	0	114	5,140
Ager S.r.l.	10	0	(266)	(10)	0	0
Hana Co Ltd	0	(5)	0	0	0	0
Total	**38,340**	**(230)**	**(4,741)**	**(13)**	**2,423**	**16,194**

(in € thousands)	Trade receivables	Other receivables	Current financial receivables	Loans from Group companies – short-term	Trade payables	Other payables	Other financial payables
Kit Productions S.r.l.	12	44	0	350	2	0	0
Marketing Projects S.r.l.	0	0	0	0	0	24	0
Intercos Europe S.p.A.	12,715	8,321	13,000	0	538	870	(1)
Drop Nail S.r.l.	125	0	880	0	107	194	0
Intercos Asia Pacific	619	39	1,423	0	0	0	0
Vitalab S.r.l.	16	0	0	0	0	58	0
CRB Benelux BV	0	0	0	0	0	0	0
Intercos Korea LTD	268	0	0	0	2	0	0
Intercos do Brasil	38	0	2,419	0	0	0	0
Intercos UK Ltd.	20	0	0	0	0	0	0
Intercos Paris S.à.r.l.	139	0	0	0	0	0	0
Intercos America Inc.	6,978	0	30,263	0	1,358	0	7,839
Intercos Cosmetics Suzhou Co. Ltd	1,143	0	0	0	13	0	0
Intercos Technology Co. Ltd	699	0	949	0	30	0	0
Interfila Cosmetics (Shanghai) Co. Ltd	453	0	0	0	0	0	0
CRB Sa.	1,019	0	0	0	0	0	0
Ager S.r.l.	3	39	0	1,000	108	0	0
Total	**24,246**	**8,442**	**48,934**	**1,350**	**2,159**	**1,146**	**7,838**

Transactions with other related parties

(in € thousands)	Trade receivables	Other receivables	Current financial receivables	Loans from Group companies – short-term	Trade payables	Other payables	Other financial payables
Dafe International S.r.l.	0	0	0	0	33	0	0
Je m'en Fous S.r.l.	0	0	0	0	23	0	0
Interior	0	0	0	0	20	0	0
Catterton	0	0	0	0	20	0	0
Maragia USA Inc.	0	0	0	0	28	0	0
Total	**0**	**0**	**0**	**0**	**125**	**0**	**0**

(in € thousands)	Costs for services and leases and rent	Other personnel costs	Other costs
Dafe International S.r.l.	(146)	0	0
Sci Maragia	(31)	0	0
My Style	0	(7)	0
Interior	(3)	(0)	(20)
Catterton	(60)	0	(9)
Vault	0	0	0
Maragia USA Inc.	(28)	0	0
Total	**(267)**	**(7)**	**(29)**

41. Boards at December 31, 2016 - Compensation during the year

	Number of members	Compensation *(in € thousands)*
Board of Directors	7	1,930
Board of Statutory Auditors	3	68
Total	**10**	**1,998**

The persons identified as key executives are basically the directors of the company.

42. Independent auditors' fees

(in € thousands)	Fees
Fees for the audit of the separate financial statements	55
Fees for the audit of the consolidated financial statements	37
Fees for services other than audit	5
Total	**97**

43. Subsequent events

There were no events subsequent to the date of the financial statements which, if previously known, would have required an adjustment to the financial statements.

As for developments in the beginning months of 2017, a description of significant subsequent events is presented below:

- **In January and February 2017**, the Company negotiated, with a syndicate of banks composed of Banca IMI S.p.A., IntesaSanpaolo S.p.A., Unicredit S.p.A., BNL S.p.A. and ICBC (Europe) SA – Milan Branch, certain amendments to the loan contract signed on March 24, 2015 by the company, Intercos Europe S.p.A., Banca IMI S.p.A. and Unicredit S.p.A., the total amount of which, after such amendments, will nevertheless remain at €80,000 thousand. More specifically, the amendments refer to: **a)** an increase in the amount of the Term Facility from €50,000 thousand to €60,000 thousand, with BNL S.p.A. entering the loan contract as a lender of such Term Facility, with a commitment of €20,000 thousand; **b))** a reduction in the amount of the Revolving Facility from €30,000 thousand to €20,000 thousand, with ICBC (Europe) SA – Milan Branch entering the loan contract as the sole lender of such Revolving Facility, with a commitment of €20,000 thousand; **c)** an amendment to move the due date on the Term Facility to December 31, 2021; **d)** a new interest rate per year for the Term Facility, equal to the 6-month Euribor (and 6-month Libor for the tranche in U.S. dollars), plus 150 basis points; **e)** a new interest rate per year for the Revolving Facility, equal to the 6-month Euribor or the 3-month Euribor, plus 100 basis points; **f)** a commitment fee of the Revolving Facility equal to 25 basis points; and **g)** an amendment to the definition of Permitted Indebtedness.

- **Also in January and February 2017**, the Company negotiated the amendments to certain terms and conditions of the €120,000 thousand non-convertible bonds due March 28, 2022 with a 3.875% fixed rate per year, the issue of which was approved by the board of directors on February 19, 2015. More specifically, the amendments refer to: **a)** the reduction in the interest rate from 3.875% to 3.25% per year; **b)** the amendment to move the maturity date to March 28, 2023; **c)** the extension of the period – from March 28, 2018 to March 28, 2020 (excluded) – in which the bonds can be repaid in advance by paying only the so-called “Make Whole Amount”; and **d)** the recalculation of the reimbursement cost of the bonds, establishing that, in the event of repayment between March 28, 2020 and March 27, 2021 (included), the cost will be 101% of the face value of the bonds (instead of 100% as currently established for the same period) whereas in the event of repayment between March 28, 2021 and the new maturity date of the bonds, the cost will be equal to the face value of the bonds as currently established.

Milan, March 27, 2017

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 thereto, present a true and correct view of the financial condition, the results for the year and the cash flows of the Company and correspond to the accounting books and records.

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