Intercos Europe S.p.A.

(sole shareholder)

Registered Office in Milan – Piazza Eleonora Duse 2

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

Milan REA Register No. 1125524

Direction and coordination by INTERCOS S.p.A.

Register of Companies and Tax Code No. 00712410190

SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

PREPARED IN CONFORMITY WITH IFRS ADOPTED BY THE EUROPEAN UNION

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Building a better working world

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Independent auditors' report
pursuant to art. 14 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

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

1. We have audited the financial statements of Intercos Europe S.p.A. as of 31 December 2013 and for the year then ended, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of Intercos Europe S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated 19 April 2013.

3. In our opinion, the financial statements of Intercos Europe S.p.A. at 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Intercos Europe S.p.A. for the year then ended.

4. The Directors of Intercos Europe S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations is consistent with the financial statements of Intercos Europe S.p.A. at 31 December 2013.

Milano, 10 April 2014

Reconta Ernst & Young S.p.A.
Signed by: Paolo Zocchi, Partner

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

Reconta Ernst & Young S.p.A.
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Intercos Europe S.p.A.

(sole shareholder)
Registered office in Milan - Via Santa Tecla 3
Share capital Euros 3,000,000 paid in
Milan REA Register No. 1125524
Direction and coordination by Intercos S.p.A.
Register of Companies and Tax Code No. 00712410190

Separate Financial Statements at December 31, 2013

REPORT ON OPERATIONS

To the shareholders,

Intercos Europe S.p.A., a leader in the research, development and manufacture of cosmetics for the most important world brands, closed the year 2013 with a profit of Euros 3,702,436.

2013 was again characterized by a considerable growth in terms of orders received and sales in all of the geographical areas and business lines. This was made possible, in a still weak European market, by diversifying activities in the various geographical areas and by the channel and product strategies adopted by the Group.

The key data of the Company for the year 2013 is as follows:

(in thousands of euros)	*2013*	*2012*	*Change*
Revenues	177,614	165,019	12,595
EBITDA (1)	17,115	19,015	(1,900)
Operating profit	8,250	13,580	(5,330)
Pre-tax profit	10,473	6,916	3,556
Profit for the year	3,702	7,506	(3,803)

(in thousands of euros)	*12/31/2013*	*12/31/2012*	*Change*
Net invested capital (2)	71,518	66,957	4,561
Employee benefit obligations	5,137	5,106	31
Equity	18,186	17,535	651
Net financial position	(43,201)	(32,521)	(10,680)

(in thousands of euros)	*12/31/2013*	*12/31/2012*	*Change*
Capital expenditures	4,738	527	4,211
Employees (number at year-end)	733	744	(11)

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

1. *Reference Scenario*

Macroeconomic Overview

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

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

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

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

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

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

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

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

Market Scenario

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

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

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

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

2. *Programs and Projects completed in 2013*

A brief description follows of the programs and projects completed in 2013:

- Following the resolution passed by the board of directors, with effect from October 24, 2013, the registered office of the Company was transferred from Via Santa Tecla 3 to Piazza Duse 2, always in Milan.
- In July 2013 the parent Intercos S.p.A. acquired the majority interest in the company Drop Nail S.r.l., which carries out research, development, manufacture and marketing especially of nail polish. As a result of this acquisition the company also added this new cosmetic segment to its lines of sale, that is, the marketing of nail polish.
- On July 10, 2013, at Confindustria of Monza and Brianza, Intercos Europe S.p.A. and the trade union representatives of the factory at Limbiate, assisted by local trade union organizations, concluded a procedure for collective dismissal begun on May 27, 2013 for 146 workers at the Limbiate plant following cessation of the working activities of the factory. According to the agreement signed, workers will be paid CIGS unemployment benefits for two years before being dismissed under the mobility procedure. Furthermore, in a measure designed to supplement the income of the workers receiving CIGS unemployment benefits, such persons will have the possibility of requesting early payment of employee severance indemnity due and set aside by the Company. This agreement was ratified by the Ministry of Labor and Welfare in Rome on July 25, 2013.

- The process for the review of the control model of the Intercos Group begun in 2012 was further developed in 2013. This project makes it possible to have greater transparency in the cost of the product.

3. *2013 Profit and Financial Review*

Revenues total Euros 177,614 thousand compared to Euros 165,019 thousand in 2012.

In 2013 the classification of sales by geographical area was changed to reflect the country of residence of the customer on the sales invoice. The figures for 2012 have been reclassified for purposes of comparison.

(in thousands of euros)

	2013	**2012 reclassified**	**2012**
Italy	42,105	25,384	20,795
France	40,275	39,078	42,227
U.S.A.	31,509	40,341	61,312
EMEA (excluding France and Italy)	59,643	55,748	36,402
Asia	4,082	4,468	4,283
Total	**177,614**	**165,019**	**165,019**

EMEA = Europe, Middle East and Africa.

In 2013 the different geographical areas show differing trends:

- The Asia area remains more or less in line with 2012.
- The Europe area was rewarded by the Group's strategy for the development of the Private Label recording an 18% increase in sales in a basically flat market.
- The EMEA Area grew its revenues by Euros 3,895 thousand, or +7% compared to 2012. This result is the consequence of greater focus exercised over the market.
- The U.S.A. area recorded a decrease of Euros 8,875 thousand, or -22% from 2012, mainly due to a change in strategy by the Group.

EBITDA is positive for Euros 17,115 thousand and down Euros 1,900 compared to the prior year. The reduction in profitability is mainly attributable to higher inventory writedowns as well as higher logistics costs.

Operating Profit of Euros 8,250 thousand was penalized for Euros 3,283 thousand by the situation regarding the cessation of activities at the Limbiate production site of which Euros 2,983 thousand as a result of the recognition of a provision for termination incentives set aside following the agreement reached for the definitive closing of the factory.

Profit for the year is Euros 3,702 thousand compared to Euros 7,506 thousand reported in 2012, or 2.0% of revenues.

Capital expenditures in property, plant and equipment amount to Euros 4,725 thousand and are primarily earmarked for strengthening the productive capacity and the efficiency of the Prisma Shine department with investments of Euros 1.1 billion, as well as further automation of the manufacture of pencils.

The **net financial position** of Euros 43,201 thousand compared to Euros 32,521 thousand was influenced by a change in the management of working capital.

Total **equity** is Euros 18,186 thousand compared to Euros 17,535 thousand at December 31, 2012, with an increase of Euros 651 thousand. In 2013 the Company paid dividends of Euros 3,000 thousand.

Costs for services and leases and rents stand at Euros 67,270 thousand (compared to Euros 63,197 thousand in 2012). The overall increase is Euros 4,072 thousand, of which Euros 772 thousand is due to higher maintenance costs, Euros 720 thousand to shipping expenses and Euros 913 thousand to commission expenses.

Employee benefit expenses in 2013 total Euros 36,954 thousand, of which Euros 6,586 thousand relates to temp work. As a percentage of revenues, employee benefit expenses are 20.8%, with an improvement over 21.5% in the prior year, thanks to a better corporate structure which permits greater synergies as a result of the new organizational model of the Group.

For purposes of commenting on changes in the statement of financial position, the statement of financial position reclassified by operating area is presented below.

(in thousands of euros)	12/31/2012	12/31/2013
Fixed assets	**37,424**	**36,319**
	-	-
Inventories	36,622	34,612
Trade receivables	31,318	36,542
Trade payables	(53,428)	(40,597)
Trade working capital	**14,513**	**30,557**
Other receivables and current payables	(2,476)	(5,526)
Net working capital	**12,037**	**25,030**
Other provisions and Non-current assets and liabilities	595	38
Invested capital	**50,055**	**61,388**
Equity	**17,535**	**18,186**
Cash	(16,902)	(10,131)
Financial payables	49,422	53,332
Net financial position	**32,521**	**43,201**
Total sources	**50,056**	**61,388**

	12/31/2012	12/31/2013
Non-current assets / Invested capital	*74.76%*	*59.16%*
Net financial position / Equity	*1.85*	*2.38*
Invested capital / Equity	*2.85*	*3.38*
Trade working capital / Revenues	*8.79%*	*17.20%*
Net working capital / Revenues	*7.29%*	*14.09%*

Compared to 2012, the ratio in terms of working capital turnover was negatively influenced by a different period in provisioning which led to a reduction in the level of trade payables. There was also a change in the composition of receivables at December 31, 2013, with an increase in the amount referring to sales in Italy. Further details are provided in the Notes.

4. Share Capital

At December 31, 2013 share capital is Euros 3,000,000 and consists of 3,000,000 ordinary shares of par value Euros 1 each.

There were no changes during the year as can be seen in the following table at December 31, 2013:

Shareholder	Beginning value	Ending value	%
Intercos S.p.A.	3,000,000	3,000,000	100.00%
CAPITAL PAID IN at 12/31/2013	**3,000,000**	**3,000,000**	**100.00%**

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

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

5. Related Party Transactions

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

The details of the effects of related party transactions on the income statement for 2013 and the statement of financial position at December 31, 2013 are described in the Notes.

6. *Risk Management and Uncertainties*

Intercos Europe S.p.A.'s business is exposed to various types of risk: market risk (including exchange rate and interest rate risks), credit risk and liquidity risk. Detailed comments on each of these are provided under "Risk Management" in the Notes.

7. *Environment and Employees*

The headcount of Intercos Europe at December 31, 2013 is 722 compared to 744 at the end of 2012, with a reduction of 22 persons.

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 at work causing serious injury to Company employees, nor charges that the Company was harming the environment.

8. Subsequent Events

The Company expects to maintain its leading position in the market segment in which it operates again in 2014. The first quarter displays positive performance. The expectations of the Company are confirmed by the trend in orders received in the first two months of the year, which recorded a 14% increase.

9. Appropriation of Profit for the Year

To the shareholders,

We ask you to approve the Directors' Report on Operations for the year 2013 and the financial statements for the year ended December 31, 2013 as submitted to you, appropriating the profit for the year as follows: Euros 702,436 to the extraordinary reserve and Euros 3,000,000 for the payment of dividends to Intercos S.p.A.

Milan, March 31, 2014

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

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Boards and Independent Auditors

BOARD OF DIRECTORS

Name	Post
Dario Gianandrea Ferrari	Chairman and CEO
Paolo Valsecchi	CEO
Martin Breuer	CEO
Matteo Milani	CEO
Gianandrea Ferrari	Director

BOARD OF STATUTORY AUDITORS

Name	Post
Matteo Tamburini	Chairman
Mario Valenti	Standing statutory auditor
Giuseppe Moretti	Standing statutory auditor
Marino Marrazza	Alternate statutory auditor
Stefano Lenoci	Alternate statutory auditor

INDEPENDENT AUDITORS

Reconta Ernst & Young S.P.A

Statements of Financial Position at December 31, 2013 and December 31, 2012

	(in euros)	At December 31,	
	ASSETS	*2013*	*2012*
	NON-CURRENT ASSETS		
7	Property, plant and equipment	*15,950,358*	*16,976,639*
8	Intangible assets	*68,856*	*147,115*
9	Goodwill	*20,300,000*	*20,300,000*
10	Deferred tax assets	*5,485,835*	*3,400,180*
11	Other non-current receivables	*3,155,737*	*3,094,929*
	Non-current assets	***44,960,786***	***43,918,863***
	CURRENT ASSETS		
12	Inventories	*34,612,276*	*36,622,416*
13	Trade receivables	*36,541,849*	*31,317,923*
14	Taxes receivable	*1,884,043*	*1,054,373*
15	Other current assets	*1,235,463*	*1,741,655*
16	Cash and cash equivalents	*10,130,680*	*16,901,564*
	Current assets	***84,404,311***	***87,637,931***
	TOTAL ASSETS	***129,365,097***	***131,556,994***
	EQUITY		
	Share capital	*3,000,000*	*3,000,000*
	Legal reserve	*600,000*	*111,140*
	Other reserves	*9,248,879*	*5,231,813*
	Retained earnings (Accumulated losses)	*5,337,618*	*9,192,111*
17	**TOTAL EQUITY**	***18,186,497***	***17,535,064***
	LIABILITIES		
	NON-CURRENT LIABILITIES		
18	Borrowings from banks and other lenders	*35,105,390*	*35,126,822*
19	Provisions	*3,062,987*	*203,347*
20	Deferred tax liabilities	*404,120*	*590,819*
21	Employee benefit obligations	*5,136,631*	*5,106,025*
	Non-current liabilities	***43,709,128***	***41,027,013***
	CURRENT LIABILITIES		
18	Borrowings from banks and other lenders	*18,226,340*	*162,052*
22	Loans payable to Group companies - short-term	*0*	*14,133,247*
23	Trade payables	*40,597,196*	*53,427,605*
24	Other payables	*8,645,936*	*5,272,012*
	Current liabilities	***67,469,472***	***72,994,916***
	TOTAL EQUITY AND LIABILITIES	***129,365,097***	***131,556,994***

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

		Year ended December 31,	
	(in euros)	**2013**	**2012**
25	Revenues	*177,613,690*	*165,018,643*
26	Other income	*4,707,476*	*4,102,254*
27	Purchases of raw materials, semifinished products and consumables	*(57,974,010)*	*(54,731,898)*
28	Change in inventories of raw materials, semifinished and finished products	*(1,710,141)*	*4,588,695*
29	Purchases of services and leases and rents	*(67,269,870)*	*(63,197,455)*
30	Employee benefit expenses	*(36,954,365)*	*(35,539,503)*
31	Accruals	*(67,500)*	*(130,000)*
32	Other operating expenses	*(1,230,327)*	*(1,095,994)*
	Operating profit (loss) before depreciation, amortization, impairment reversals (losses) and nonrecurring expenses	***17,114,953***	***19,014,742***
33	Depreciation, amortization and impairment reversals (losses)	*(5,581,582)*	*(5,434,612)*
34	Restructuring costs	*(3,282,980)*	*0*
	Operating profit	***8,250,391***	***13,580,130***
35	Finance income	*93,174*	*41,672*
36	Finance expenses	*(1,427,351)*	*(3,149,177)*
37	Income taxes	*(3,213,778)*	*(2,966,699)*
	Profit for the year	***3,702,436***	***7,505,926***
	Other components of comprehensive income *Other comprehensive income that will not be reclassified subsequently to the income statement:*		
38	Remeasurement of employee defined benefit plan	*(51,004)*	*(450,370)*
	Total Other components of comprehensive income	***(51,004)***	***(450,370)***
	Total comprehensive income for the year	***3,651,432***	***7,055,556***

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

(in thousands of euros)

	Year ended December 31,	
	2013	2012
Cash and cash equivalents at beginning of the year	**16,902**	**3,286**
Cash flows provided by (used in) operating activities		
Profit for the year	3,702	7,506
Depreciation, amortization and impairment reversals/losses	5,582	5,435
Extraordinary expenses	0	0
Impairment of investments	0	0
Net change in employee severance indemnities	31	500
Change in provisions	2,860	103
Change in deferred income taxes	(2,272)	3,319
(Gains) losses on disposal of fixed assets	3	(12)
Change in working capital:		
Inventories	2,010	(4,589)
Trade receivables	(5,224)	11,404
Other assets	(384)	(2,051)
Trade payables	(12,830)	3,696
Other liabilities	3,374	1,429
Total	**(3,150)**	**26,741**
Cash flows used in investing activities		
Acquisitions of:		
. Intangible assets	(13)	(2)
. Property, plant and equipment	(4,467)	(4,912)
. Investments	0	2,738
Total investments in intangible assets, property, plant and equipment and equity investments	(4,480)	(2,176)
Total	**(4,480)**	**(2,176)**
Cash flows provided by (used in) financing activities		
Change in share capital and reserves	(51)	(450)
Change in bank borrowings	18,043	(19,704)
Payment of dividends	(3,000)	0
Change in receivables	0	0
Change in financial payables	(14,133)	9,204
Total	**859**	**(10,949)**
Cash flows provided (used) during the year	**(6,771)**	**13,616**
Cash and cash equivalents at end of the year	**10,131**	**16,902**

Statement of Changes in Equity

(in thousands of euros)

Description	Share capital	Additional paid-in capital	Legal reserve	Other reserves	Revaluation reserve	Profit (loss) for the year	TOTAL
Balance at December 31, 2011	**3,000,000**	**17,300,407**	**111,140**	**2,332,520**	**2,901,768**	**(15,166,445)**	**10,479,391**
Total comprehensive income				(450,253)			(450,253)
Coverage of loss 2011		(16,544,522)		1,378,077		15,166,445	0
Profit 2012						7,505,926	7,505,926
Balance at December 31, 2012	**3,000,000**	**755,885**	**111,140**	**3,260,344**	**2,901,768**	**7,505,926**	**17,535,064**
Total comprehensive income						(51,004)	(51,004)
Appropriation of profit 2012			488,860	4,008,836	8,231	(7,505,926)	(3,000,000)
Profit 2013						3,702,436	3,702,436
Balance at December 31, 2013	**3,000,000**	**755,885**	**600,000**	**7,269,180**	**2,909,999**	**3,651,432**	**18,186,496**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Intercos Europe S.p.A (formerly Color Cosmetics S.r.l.) is a corporation organized under the laws of the Republic of Italy. It was set up on December 22, 1982 and has its registered office in Milan, at Piazza Eleonora Duse 2.

The Company is controlled by Intercos S.p.A., which is required to draw up the consolidated financial statements of the Intercos Group.

Significant events in 2013

- Following the resolution passed by the board of directors, with effect on October 24, 2013, the registered office of the Company was transferred from Via Santa Tecla 3 to Piazza Duse 2, always in Milan.
- In July 2013 the parent Intercos S.p.A. acquired the majority interest in the company Drop Nail S.r.l., which carries out research, development, manufacture and marketing of nail polish, in particular. As a result of this acquisition, the Company also added the new cosmetic segment to its lines of sale, the marketing of nail polish.
- On July 10, 2013, at Confindustria of Monza and Brianza, Intercos Europe S.p.A. and the trade union representatives of the factory at Limbiate, assisted by local trade union organizations, concluded a procedure for collective dismissal begun on May 27, 2013 for 146 workers at the Limbiate plant following cessation of the working activities of the factory.

According to the agreement signed, workers will be paid CIGS unemployment benefits for two years before being dismissed under the mobility procedure.

Furthermore, in a measure designed to supplement the income of the workers receiving CIGS unemployment benefits, such persons will have the possibility of requesting early payment of employee severance indemnity due and set aside by the Company. This agreement was ratified by the Ministry of Labor and Welfare in Rome on July 25, 2013.

Further details are provided in Note 34 with regard to the economic effects of the cessation of the working activities at the Limbiate plant facilities.

2. PREPARATION OF THE FINANCIAL STATEMENTS

Basis of presentation

The financial statements for the year ended December 31, 2013 of Intercos Europe S.p.A. are expressed in euros. The financial statements consist of the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity and the notes thereto. All amounts in the notes are expressed in thousands of euros, unless otherwise indicated. The statement of comprehensive income format presents a classification according to costs by nature.

The separate financial statements at December 31, 2013 have been prepared in accordance with *International Financial Reporting Standards ("IFRS")* issued by the *International Accounting Standards Board ("IASB")*, and approved by the European Commission for the preparation of consolidated and separate financial statements of companies with share capital and/or debt securities listed on a regulated market in the European Community.

By IFRS is meant all "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"), adopted by the European Union and contained in the relative European Union Regulations published up to March 31, 2014, the date on which the board of directors of Intercos Europe S.p.A. approved these draft financial statements. Any future guidance and updated interpretations will be adopted in subsequent years in the manner established each time by the benchmark accounting standards.

The financial statements were approved for publication by the board of directors on March 31, 2014.

New accounting standards, interpretations and amendments adopted by the Company

The accounting principles adopted in the preparation of the financial statements are consistent with those used in the preparation of the financial statements at December 31, 2012 except for the adoption of recently issued standards, interpretations and amendments in effect from January 1, 2013.

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

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

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

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

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

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

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

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

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

IFRS 13 – Fair Value Measurement

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

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

Standards issued but not yet in force

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

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

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

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

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

IFRS 11 – Joint Arrangements

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

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

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

IFRS 12 – Disclosure of Interests in Other Entities

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

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

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

Following the new IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities, IAS 28 has been renamed Investments in Associates and Joint Ventures and describes the application of the

equity method for investments in associates and joint ventures. The amendments are applicable for periods beginning on or after January 1, 2014.

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

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

Summary of significant accounting policies

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

The financial statements are prepared under the going concern assumption.

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

The depreciation period referring to costs for the expansion, upgrading or improvement of the structural elements used 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 amount of the assets sold or disposed of and are recognized in the income statement in the year to which they refer.

Leasehold improvements are classified in property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the lower of the remaining estimated useful life of the property, plant and equipment and the remaining term of the lease contract.

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

Gains and losses on the sale or disposal of property, plant and equipment are calculated as the difference between the proceeds from the sale and the net carrying amount of the assets sold or disposed of.

Leased assets

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

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

Intangible assets

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

(i) Goodwill

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

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

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

(ii) Trademarks, licenses and similar rights

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

(iii) Research and development costs

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

a) the project can be clearly identified and the costs associated with it can be identified and measured reliably;

b) the technical feasibility of the project can be demonstrated;

c) the intention to complete the project and sell the intangible assets generated by the project can be demonstrated;

d) a potential market exists or, in the case of internal use, the utility of the intangible asset for the production of intangible assets generated by the project can be demonstrated;

e) the technical and financial resources for the completion of the project are available.

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

Impairment of property, plant and equipment and intangible assets

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

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

Financial instruments

Financial assets

Financial assets mainly relate to accounts receivable from customers, with fixed or determinable payments, that are non-derivative and are not listed on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified in non-current assets. Such assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Where there is objective evidence of an indication of impairment, the asset is reduced

so that it equals the present value of estimated future cash flows. The impairment loss is recognized in the income statement. Where an impairment loss on assets subsequently no longer exists or has decreased, the carrying amount of the asset is increased up to the carrying amount that would have been recorded under the amortized cost method had no impairment loss been recognized.

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

Financial liabilities

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

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

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

Inventories

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

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

Cash and cash equivalents

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

Provisions

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

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

Employee benefit obligations

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

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

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

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

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

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

Translation of foreign currency balances and transactions

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

Revenues and costs

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

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

Revenue recognition

Sales of products

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

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

Performance of services

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

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

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

Finance expenses

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

Income taxes

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

Deferred income taxes are calculated on temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and their tax bases (full liability method), except for goodwill. Deferred tax assets, including those relating to the carryforward of unused tax losses, are recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax liabilities are determined based on enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

In addition, the Company has adhered to the national tax consolidation procedure under articles 117-129 of T.U.I.R. of the parent Intercos S.p.A. (formerly Intercos Group S.r.l., “the consolidating company”) together with Marketing Projects S.r.l. in liquidation, Ager S.r.l. and Kit Productions S.r.l. as the “consolidated” companies. Therefore, considering that the settlement for the current year resulted in a taxable profit, this was transferred to the consolidating company and the Company recorded the relative amount payable to the latter, at 27.5% (IRES rate in force), net of the receivable for withholding taxes on current account interest, also transferred to the consolidating company.

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

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

3. DIRECTION AND COORDINATION ACTIVITIES

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

For a meaningful and complete understanding of the financial condition and cash flows of said company at December 31, 2012, as well as the results of operations for the year then ended, reference should be made to the financial statements which, accompanied by the independent auditors' report, are available in the form and manner established by law.

4. RISK MANAGEMENT

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

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

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

Types of risks

Market risk

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

Exchange rate risk

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

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

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

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

(thousands of euros)	**2013**	
	-7.5%	+7.5%
U.S. dollar	226	(194)
Pound sterling	171	(147)
Other currencies	(19)	16
Total	**378**	**(325)**

Interest rate risk

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

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

The following sensitivity analysis was performed which illustrates the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2013, with all other variables remaining constant.

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

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

(thousands of euros)	**2013**	
	-0.5%	+0.5%
Euros (Euro Libor)	(175)	175
Total	**(175)**	**175**

Credit risk

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

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

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

Trade accounts receivables, the provision for impairment of receivables and an ageing analysis of receivables from third party customers are presented at December 31, 2013.

12/31/2013	*Trade receivables*	*Current*	*Overdue 0 – 30 days*	*Overdue 30 – 60 days*	*Overdue +60 days*	*Provision for impairment of receivables*
Intercos Europe S.p.A.	33,936	30,975	2,694	329	633	(695)

Liquidity risk

Prudent management of liquidity risk arising from the normal operations of the Company implies maintaining sufficient cash and funds obtainable through the support of the parent Intercos S.p.A.

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

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

(thousands of euros)	**2012**	**2013**
Cash and cash equivalents	16,902	10,130
Total	**16,902**	**10,130**

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

	Within 1 year	1 to 5 years	Beyond 5 years	**TOTAL At December 31, 2013**
Borrowings from banks and other lenders - m-l/term	71	35,148	-	35,219
Finance leases payable	18	52	-	71
Medium/long-term debt	**89**	**35,200**	**-**	**35,290**
Borrowings from banks and other lenders - s/term	18,063			18,063
Trade payables	44,674			44,674
Other payables	4,583			4,583
Short-term debt	**67,320**		**-**	**67,320**
Total	**67,410**	**35,200**	-	**102,610**

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

(thousands of euros)

at December 31, 2013	Financial assets at fair value through profit or loss	Receivables and loans	Available-for-sale financial assets	Assets held to maturity	Financial liabilities at fair value through profit or loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	-	-
Trade receivables	-	36,542	-	-	-	-	-
Other assets	-	3,119	-	-	-	-	-
Loans payable	-	-	-	-	-	0	-
Borrowings from banks and other lenders	-	-	-	-	-	53,332	-
Trade payables	-	-	-	-	-	44,674	-
Other payables	-	-	-	-	-	4,583	-
Derivatives (liabilities)	-	-	-	-	-	-	-
Total	**-**	**39,661**	**0**	**0**	**0**	**102,589**	**-**
Cash and cash equivalents	-	10,131	-	-	-	-	-

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

5. USE OF ESTIMATES AND ASSUMPTIONS

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

- *Goodwill*

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

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

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

- *Depreciation of property, plant and equipment*

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

- *Deferred taxes*

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

- *Provisions*

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

7. Property, plant and equipment

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

	At January 1, 2013	Increases/ Depreciation	Decreases	Reclassifications	At December 31, 2013
Historical cost					
Land and buildings	3,616	12	(0)	-	3,628
Plant and machinery	58,900	2,351	(263)	605	61,593
Industrial equipment	28,258	1,335	(47)	(8)	29,539
Office furniture and equipment	1,094	109	(1)	-	1,202
Motor vehicles and internal transportation equipment	1,044	129	(63)	-	1,110
Cell phones	0	0	-	-	0
Assets under construction and payments on account	236	788	(369)	(580)	75
Total historical cost	**93,148**	**4,725**	**(743)**	**17**	**97,147**
Accumulated depreciation					
Land and buildings	2,226	149	(0)	(27)	2,348
Plant and machinery	46,460	3,374	(225)	46	49,656
Industrial equipment	25,788	1,642	(45)	(2)	27,383
Office furniture and equipment	829	88	(1)	-	916
Motor vehicles and internal transportation equipment	868	77	(51)	-	893
Cell phones	0	0	-	-	0
Assets under construction and payments on account	**0**	**0**	-	-	0
Total accumulated depreciation	**76,171**	**5,331**	**(322)**	**17**	**81,197**
Net carrying amount					
Land and buildings	1,390	(137)	-	27	1,280
Plant and machinery	12,440	(1,023)	(38)	559	11,938
Industrial equipment	2,470	(307)	(2)	(5)	2,155
Office furniture and equipment	265	20	-	-	285
Motor vehicles and internal transportation equipment	176	53	(12)	-	217
Cell phones	0	-	-	-	0
Assets under construction and payments on account	236	788	(369)	(580)	75

Total Net carrying amount	**16,977**	**(606)**	**(422)**	**0**	**15,950**

Increases during the year mainly refer to the purchase of machinery for the processing of products, generic and specific plant as well as sundry equipment needed to increase total production capacity as a whole. In particular, the productive capacity and efficiency of the Prisma Shine department was strengthened by capital expenditures of Euros 1.1 million, and the production of pencils was further automated.

In "Assets under construction and payments on account", the increases refer to payments on account for work that will be completed in 2014. Decreases are due to the completion of assets under construction that were reclassified to the proper fixed asset class.

7.1 Leases

Assets acquired under finance lease contracts arranged by Intercos Europe S.p.A. are included in the respective classes of property, plant and equipment. The following table gives the details of these assets, mainly referring to motor vehicles, and the comparison with December 31, 2012:

	Capitalized cost	At December 31, 2012 Accumulated depreciation	Net carrying amount	Capitalized cost	At December 31, 2013 Accumulated depreciation	Net carrying amount
Other assets	867	(781)	**86**	544	(420)	**124**
TOTAL	**867**	**(781)**	**86**	**544**	**(420)**	**124**

IAS 17, paragraph 31, requires disclosure about the depreciable amount of leased assets, which is Euros 124 thousand, and future lease installments due for leases at the end of the year, which total Euros 71 thousand. Potential lease installments recorded as expenses during the year total Euros 18 thousand.

8. Intangible assets

Movements in Intangible assets in 2013 are as follows:

	At January 1, 2013	Increases	Writedowns	Reclassifications	Amortization	At December 31, 2013
Research and development costs	**41**	-	-		(41)	**0**
Patent and software rights	**103**	13	-	-	(49)	**67**
Concessions and licenses	**2**		-	-	(1)	**1**
TOTAL	**146**	**13**	**0**	**0**	**(91)**	**68**

"Patent and software rights" include investments for the development and upgrade of the corporate information system.

The majority of the investments referring to intangible assets were incurred by the parent Intercos S.p.A. as the coordinator and owner of the trademarks and industrial patents, research & development and all the corporate functions including the development of software for Information Technology (IT).

The above corporate activities are covered by a service fee contract under which the fees are recharged systematically on an accrual basis.

9. Goodwill

Movements in Goodwill are as follows:

	At January 1, 2013	Changes during the year	At December 31, 2013
Goodwill	**20,300**	**--**	**20,300**

Goodwill is tested annually for impairment.

For purposes of impairment testing, the goodwill of Euros 20,300 thousand was allocated to the Make-up CGU.

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

The impairment test was conducted by comparing the total carrying amount of goodwill and the aggregate net assets able to independently produce cash flows (CGU), to which goodwill can reasonably be allocated, with the higher of the value in use of the CGU and the recoverable amount through sale. In particular, the value in use was determined using the discounted cash flow method by discounting to present value the operating flows from the economic and financial projections relative to a maximum period of three years based on assumptions included in the plan officially approved by management. The valuation model determines the value in use as the sum of operating cash flows (defined as the gross operating margin net of implicit income tax on operating profit, in addition to changes in net working capital, changes in employee severance indemnities and acquisitions and sales of fixed assets) for each year of the plan. The cash flows were discounted at a WACC rate of 8.88% for the Make-up CGU. The terminal value was determined by applying a perpetual growth factor that is representative of the expected inflation rate of 2% to the operating cash flows for the last year of the normalized plan.

As at December 31, 2013, there were no impairment losses arising on recorded goodwill resulting from the impairment tests conducted since the value in use determined for each CGU identified was higher than the relative carrying amount.

10. Deferred tax assets

Deferred tax assets amount to Euros a 5,486 thousand at December 31, 2013, with an increase of Euros 2,086 thousand compared to the prior year; the rates used were 27.5% for IRES and 3.90% for IRAP.

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

Description	12/31/2013			12/31/2012		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Provision for inventory obsolescence	12,049	3,314	-	6,659	1,831	-
Provision for nonrecurring inventory writedowns	300	82	12	-	-	-
Provision for sundry risks	3,063	842	-	203	56	-
Exchange losses	241	66	-	998	274	-
Provision for impairment of receivables - taxed	695	191	-	777	214	-
Sales adjustment	-	-	-	128	35	5
Building accumulated depreciation (revaluation)	3,000	825	117	3,000	825	117
Building accumulated depreciation (land portion)	84	23	3	80	22	3
Maintenance expenses	-	-	-	15	4	-
Other	35	10	1	45	13	1
Total	**19,467**	**5,353**	**133**	**11,905**	**3,274**	**126**

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

11. Other non-current receivables

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

	At December 31,	
	2013	**2012**
Interest on VAT receivables	76	15
Security deposits	22	22
VAT receivable on refund request year 2012	3,000	3,000
IRAP refund request	58	58
Total	**3,156**	**3,095**

“Interest on VAT receivables” increased during the year as a result of recording additional interest due in 2013 on the VAT receivable of Euro 3,000 thousand referring to the 2011 refund request. This receivable is shown as non-current since the refund is linked to the settlement of a proceeding pending with the Revenue Agency which is expected to be concluded after 2014.

12. Inventories

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

	At December 31,	
	2013	**2012**
Raw materials and consumables	13,523	14,642
Semifinished products	16,240	15,773
Finished products	4,849	6,207
Total	**34,612**	**36,622**

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

Inventories are presented net of the provision for inventory writedowns, which shows the following movements during 2013:

	At December 31, 2012	Accrual	Utilization	At December 31, 2013
Provision for raw materials writedowns	1,868	1,568	(683)	2,753
Provision for semifinished products writedowns	3,051	5,273	(1,775)	6,549
Provision for finished products writedowns	1,739	1,998	(690)	3,047
Total	6,658	8,839	(3,148)	12,349

The increase in the balance of provisions in 2013 totals Euros 5,691 thousand and is principally due to less inventory activity compared to the prior year.

13. Trade receivables

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

	At December 31,	
	2013	**2012**
Receivables from third party customers	34,631	27,514
Receivables from Group companies	2,606	4,605
Provision for impairment of receivables	(695)	(801)
Total	**36,542**	**31,318**

In order to provide an indication of estimated realizable value, the nominal amount of receivables is adjusted by the recognition of a provision for impairment, based on an analysis of the balances, whose movement during the year is analyzed in the following table:

	At December 31, 2013
Beginning balance	(801)
Accrual	0
Utilization	106
Total	**(695)**

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

A non-recourse factoring transaction was entered into for Euros 4,074 thousand as a result of which all the risks and rewards of the receivables were transferred to the factor and the receivables were derecognized from the financial statements at December 31, 2013.

14. Taxes receivable

	At December 31,	
	2013	**2012**
VAT receivable	1,884	1,054
IRAP receivable	0	0
Total	**1,884**	**1,054**

15. Other current assets

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

	At December 31,	
	2013	**2012**
Advances to suppliers	253	224
Sundry receivables	29	22
Accrued income and prepaid expenses	51	78
Receivables from parent under the consolidated tax procedure	902	1,418
Total	**1,235**	**1,742**

"Sundry receivables" include a receivable from the insurance company for the payment of a claim made at the Dovera production site.

"Accrued income and prepaid expenses" at December 31, 2013 include prepaid rent, insurance, utilities and hires for a total of Euros 51 thousand.

"Receivables from parent under the consolidated tax procedure" total Euros 902 thousand. They refer to the remuneration on the claims filed (also on behalf of the merged company Interfila S.r.l.) for the refund of IRES tax as a consequence of the non-deductibility of payroll costs relating to IRAP for the years 2007-2008-2009-2010-2011 (Euros 870 thousand) and the remuneration for the refund of IRES following the deductibility of 10% of IRAP ex Legislative Decree 185/08 (Euros 68 thousand).

16. Cash and cash equivalents

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

	At December 31,	
	2013	**2012**
Bank and postal deposits	9,520	16,243
Cash on hand	610	658
Total	**10,131**	**16,903**

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

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

17. Equity

Equity amounts to Euros 18,186 thousand (Euros 17,535 thousand at December 31, 2012).

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

Share capital

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

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

Nature/Description	Balance at	
(thousands of euros)	December 31, 2013	Possibility of utilization
Share capital	3,000	
Additional paid-in capital (*)	756	A, B, C
Revaluation reserve	2,910	A,B
Reserve ex art 55 DPR 917/86	47	A,B
Other reserves (*) (**)	1,635	A,B,C
Legal reserve	600	B
Extraordinary reserve	5,536	A,B,C
Profit for the year (*)	3,702	-
Equity at 12/31/2013	**18,186**	

A: Available for capital increase
B: Available to cover losses
C: Distributable to shareholders

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

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

18. Borrowings from banks and other lenders

Following the reorganization transactions involving the Group in 2011, Intercos Europe S.p.A. assumed a portion of the loan held by Intercos S.p.A. conferred to it for Euros 35,000,000, entirely in reference to Tranche "D" of the loan contract. The debt was taken over and guaranteed by a special lien on Intercos Europe S.p.A.'s assets. The parent, Intercos S.p.A. also pledged the shares representing the capital of Intercos Europe.

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

	Bank	Amount	Internal rate of return	Due date	
Intercos Europe S.p.A.	Banking syndicate	35,000	3.08%	Tranche D (EUR)	2016
Total (*)		**35,000**			
Intercos Europe S.p.A.	Other lenders	53	3.75%	Law 46 /82 grant 11051 /May	
Total		**53**			

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

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

December 31, 2012

	Within 1 year	1 to 5 years	Beyond 5 years	TOTAL
Bank overdrafts and advance accounts	18	0	0	0
Payable to Banca Intesa	0	35,000	0	0
Finance leases payables and factoring	73	0	0	0
Debt under Law 46/Mediocredito	71	56	0	0
Total	**162**	**35,056**	**0**	**0**

December 31, 2013

	Within 1 year	1 to 5 years	Beyond 5 years	TOTAL
Bank overdrafts and advance accounts	17,603	0	0	18,060
Payable to Banca Intesa	0	35,000	0	35,000
Finance leases payables and factoring	549	52	0	71
Debt under Law 46/Mediocredito	74	53	0	127
Total	**18,226**	**35,105**	**0**	**53,258**

19. Provisions

Movements in Provisions in 2013 are as follows:

	At December 31, 2013	At December 31, 2012
Beginning balance	203	100
Accrual	3,050	130
Utilization	(190)	(27)
Total	**3,063**	**203**

As a result of the agreement signed in 2013 for the definitive closing of the factory at Limbiate, the Company set up a provision for termination incentives of Euros 2,983 thousand.

20. Deferred tax liabilities

Deferred tax liabilities amount to Euros 404 thousand, with a decrease of Euros 187 thousand compared to the prior year. For a better understanding, details are provided in the following table of the temporary differences which gave rise to the calculation of deferred income taxes at the rate of 27.5% for IRES tax and 3.90% for IRAP tax.

Description	12/31/2013			12/31/2012		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Differences on depreciation	963	265	37	1,103	303	43
Exchange gains	225	62	-	501	138	-
Elimination of tax effect on PPE	9	3	-	95	7	3
Difference on employee severance indemnities	25	7	-	179	49	-
Machinery leases (IAS 17)	30	8	1	87	24	3
IAS 39 effective interest	18	5	-	15	4	-
Other	59	16		59	17	-
Total	**1,329**	**366**	**38**	**2,039**	**542**	**49**

21. Employee benefit obligations

Movements in "Employee benefit obligations" in 2013 are as follows:

	At December 31, 2013	At December 31, 2012
Beginning balance	5,106	4,607
Interest cost	160	215
Utilization	(180)	(166)
Actuarial gains/losses	51	450
Ending balance	**5,137**	**5,106**

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

	At December 31, 2013	At December 31, 2012
Discount rate	2.77%	3.20%
Annual inflation rate	2.00%	2.00%
Annual employee severance indemnities increase rate	3.00%	3.00%
Annual compensation growth rate	1.5%	1.50%

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

	At December 31, 2013
Inflation rate + 0.25%	5,194
Inflation rate -0.25%	5,080
Discount rate +0.25%	5,054
Discount rate -0.25%	5,222
Turnover rate +1%	5,139

Concerning employees, the headcount at the end of 2013 is 722 compared to 744 at the end of the prior year.

The following table illustrates the headcount at December 31, 2013 by category, gender and type of contract as follows:

	Managers	Supervisors	White collars	Blue collars	Total
Permanent	8	31	254	414	707
Temporary	0	0	15	0	15
Total	8	31	269	414	722
Male	7	16	85	152	260
Female	1	15	184	262	462
Total	**8**	**31**	**269**	**414**	**722**

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

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

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

18. Borrowings from banks and other lenders – current

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

	At December 31, 2013	At December 31, 2012
Bank overdrafts and advance accounts	17,603	18
Finance lease payables and factoring	549	73
Debt under Law 46/Mediocredito	74	71
Total	**18,226**	**162**

The increase in "Bank overdrafts and advance accounts" is due to a greater use of the bilateral lines as compared with the prior year.

The increase in "Finance lease payables and factoring" largely comes from Euros 531 thousand for the recognition of payables to the factoring company for the sale of receivables at the end of 2013.

22. Loans payable to Group companies – short-term

Short-term loans payable to Group companies – short-term are due to the parent, Intercos S.p.A., as:

	At December 31, 2013	At December 31, 2012
Intercos S.p.A.	0	14,133
Total	**0**	**14,133**

In 2013 the Company extinguished the loan payable to the parent, Intercos S.p.A.

23. Trade payables

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

	At December 31,	
	2013	**2012**
Trade payables to third party suppliers	26,556	26,798
Trade payables to Group companies	14,041	26,630
Total	**40,597**	**53,428**

24. Other payables

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

	At December 31,	
	2013	**2012**
Taxes payable	336	560
Payables to employees	2,503	2,346
Social security agencies payable	1,165	1,349
Payables to tax authorities for withholdings	389	373
Accrued liabilities	124	106
Advances from customers	35	504
Payables to parent under the consolidated tax procedure	4,075	0
Sundry payables	19	35
Total	**8,646**	**5,272**

"Taxes payable" mainly include the balance of IRAP payable for the year 2013, net of advance payments.

"Payables to employees" principally comprise the employee incentive plan of Euros 1,034 thousand, including related social security contributions, vacation pay accrued and not taken and related social security contributions of Euros 1,828 thousand, the thirteenth month salary and related social security contributions of Euros 295 thousand and other minor payables to employees of Euros 5 thousand.

"Social security agencies payable" refer to social security costs on December compensation to employees, paid in January of Euros 507 thousand.

"Payables to tax authorities for withholdings" refer for IRPEF withholding taxes on employee compensation of Euros 379 thousand and withholding taxes on self-employed compensation for the remaining Euros 11 thousand.

"Payables to parent under the consolidated tax procedure" include the IRES payable deriving from the relative settlement regarding 2013 transferred to Intercos S.p.A. by virtue of the existing tax consolidation agreement.

"Accrued liabilities" include interest of Euros 104 thousand, insurance premiums of Euros 8 thousand and other costs of Euros 13 thousand.

24 *bis*. Guarantees and other commitments

Guarantees refer to sureties and guarantees in favor of third parties (Customs Office) provided by the Company on its behalf for Euros 85 thousand at December 31, 2013.

25. Revenues

Details of Revenues in 2013 and 2012 are the following:

	2013	2012
Revenues from sales to third-party customers	169,957	154,741
Revenues from sales to Group companies	7,596	10,278
Other revenues	60	-
Total	**177,614**	**165,019**

As regards the analysis of sales to Group companies, reference should be made to "Related party transactions", whereas details of revenues divided by product line and commercial geographical area are provided below as follows:

	2013	2012
Make-up line	175,105	163,667
Skin Care line	2,509	1,352
Total	**177,614**	**165,019**

The classification of sales by geographical area was changed in 2013 to reflect the country of residence of the customer on the sales invoice. The figures for 2012 have been reclassified for purposes of comparison.

	2013	2012 reclassified	2012
Italy	42,105	25,384	20,795
France	40,275	39,078	42,227
U.S.A.	31,509	40,341	61,312
EMEA	59,643	55,748	36,402
Asia	4,082	4,468	4,283
Total	**177,614**	**165,019**	**165,019**

26. Other income

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

	2013	2012
Expense recoveries	1,237	1,623
Other revenue from expenses recharged	2,993	2,034
Insurance compensation	4	47
Rent income	50	50
Prior period income, sundry allowances	331	336
Gain on disposal of property, plant and equipment	92	12
Total	**4,707**	**4,102**

"Expense recoveries" and "Other revenue from expenses recharged" include intercompany income for a total of Euros 2,051 thousand.

27. Purchases of raw materials, semifinished products and consumables

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

	2013	2012
Purchase of raw materials	20,584	18,220
Purchase of packaging materials	32,072	30,720
Purchase of semifinished products and consumables	3,797	3,963
Purchase of sundry materials	288	406
Purchase of finished products	164	456
Heating oil	685	608
Stationery and forms	48	111
Purchase of samples and sample lines	49	29
Pilot molds	144	70
Work clothing	142	149
Total	**57,974**	**54,732**

28. Change in inventories of raw materials, semifinished and finished products

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

	2013	2012
Raw materials	474	(826)
Packaging materials	(23)	(820)
Consumables	403	(185)
Maintenance materials	(36)	0
Semifinished products	(467)	4,278
Finished products	1,359	1,771
Total	**1,710**	**4,588**

29. Purchases of services and leases and rents

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

	2013	2012
Shipping on sales	1,655	1,317
Shipping on purchases	2,458	2,088
Other shipping	1,342	1,321
Processing and packaging	24,750	24,275
Commissions and royalties	12,913	12,000
Sundry services from parent	9,518	8,542
Services, logistics and warehousing	494	930
Maintenance	3,145	2,373
Sundry utilities	3,121	2,758
Legal and notary fees	141	85
Board of statutory auditors' compensation	33	36
Consulting fees	695	994
Insurance	247	248
Cleaning	847	728
Security	497	469
Rent expense	1,862	1,848
Waste disposal	553	662
Laboratory analyses	702	834
Hires	678	463
Bank/factoring commissions and fees	126	142
Other costs	1,494	1,085
Total	**67,270**	**63,198**

"Commissions and royalties" and "Sundry services from parent" include charges made by Intercos S.p.A. in its function of providing direction and coordination as the parent, under the service agreements regulating the method used to reallocate corporate expenses (charged for Euros 9,462 thousand) and under the license agreement covering the method used to reallocate license costs for the utilization of manufacturing formulae made available to the Company (charged for Euros 8,375 thousand).

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

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

"Other costs" comprise the following expenses:

- employee-related for Euros 985 thousand;

- travel for Euros 360 thousand;

- security and surveillance for Euros 62 thousand;

- EDP for Euros 16 thousand.

- Sundry services for Euros 74 thousand.

30. Employee benefit expenses

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

	2013	2012
Salaries and wages	21,309	21,066
Social security	7,087	6,951
Defined contribution plan costs	1,488	1,343
Temp work	6,586	5,724
Board of directors' compensation	256	237
Coordinated and continual and occasional collaboration work	229	218
Total	**36,954**	**35,539**

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

31. Accruals

Accruals amount to Euros 67 thousand and were set aside in respect of "Provisions" in the liabilities to cover the potential risk of pending labor disputes.

32. Other operating expenses

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

	2013	2012
Promotional expenses	168	162
Prior period expenses, sundry allowances, fines and penalties	566	660
Losses on disposals of fixed assets	4	28
Indirect taxes and duties	197	69
Association membership dues	95	81
Motor vehicle expenses	89	44
Other costs	111	52
Total	**1,230**	**1,096**

"Promotional expenses" mainly refer to costs for giveaways and entertainment for Euros 165 thousand and advertising expenses of Euros 3 thousand.

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

"Indirect taxes and duties" consist of the IMU property tax of Euros 63 thousand and the garbage tax, government concession tax, Chamber of Commerce (CCIAA) taxes and registration tax for a total of Euros 134 thousand.

"Other costs" comprise expenses for certifications and revenue stamps for Euros 26 thousand, purchase of books and magazines for Euros 9 thousand, contributions and donations for Euros 3 thousand, fines and penalties for Euros 23 thousand, losses from theft for Euros 27 thousand and other general expenses (Euros 23 thousand), for a total of Euros 111 thousand.

33. Depreciation, amortization and impairment reversals/losses

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

	2013	2012
Amortization of intangible assets	92	196
Depreciation of property, plant and equipment	5,331	5,216
Impairment loss on property, plant and equipment	159	0
Impairment loss on intangible assets	0	23
Total	**5,582**	**5,435**

Further details are provided in Notes 7 and 8 relating to "Property, plant and equipment" and "Intangible assets".

34. Restructuring costs

Restructuring costs accrued and of a nonrecurring nature total Euros 3,283 thousand and refer to the cessation of activities at the Limbiate production site. Further details are provided under "Significant events in 2013".

35. Finance income

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

	2013	2012
Interest income on bank current accounts	32	23
Sundry interest	0	4
Interest from the tax authorities	61	15
Total finance income	**93**	**42**

36. Finance expenses

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

	2013	2012
Interest on medium/long-term borrowings	951	1,176
Interest on bank overdrafts	6	49
Interest on export advances	205	627
Interest on loan from parent	192	366
Interest on factoring transactions	68	70
Other interest cost	301	321
Total interest and finance expenses	**1,723**	**2,609**
Foreign exchange losses	226	1,628
Foreign exchange gains	(522)	(1,088)
Net foreign exchange losses	**(296)**	**540**
Total interest and finance expenses, net	**1,427**	**3,149**

"Other interest cost" includes the financial component of the actuarial measurement of employee severance indemnities for Euros 160 thousand.

"Interest on loan from parent" only includes interest expense accrued during the year on the loan granted to Intercos Europe S.p.A. by the parent Intercos S.p.A.

The change in net foreign exchange differences over the prior year is a net exchange gain of Euros 296 thousand.

37. Income taxes

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

	2013	2012
Current income taxes	5,441	512
Deferred income taxes	(2,273)	3,319
Prior years' taxes	46	(864)
Total	3,214	2,967

"Current income taxes" include the IRAP tax charge for 2013 of Euros 1,359 thousand and the IRES remuneration due to the parent under the existing tax consolidation procedure for Euros 4,082 thousand.

The increase compared to the prior year is due primarily to temporary differences added back and deductible in future years, largely formed by accruals to provisions for risks which generated the recognition of deferred tax assets, and is the reason for the overall increase of the latter as can be seen in the above table.

As for deferred taxes, reference should be made to Notes 11 and 21.

"Prior years' taxes" include Euros 9 thousand of higher IRAP taxes referring to the previous year and Euros 37 thousand of registration taxes relating to a dispute that arose on the sale of the business segment in 2010.

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

(*in thousands of euros*)

IRES

Pre-tax profit	**6,916**
Theoretical IRES (27.5%)	**1,902**
Temporary differences deductible in future years	*12,754*
Non-deductible costs	*1,327*
Temporary differences taxable in future years	*(1,222)*
Reversal of temporary differences of prior years	*(3,588)*
Other deductions and recoveries	*(1,320)*
Taxable income	**14,867**
IRES	**4,088**
Remuneration on excess ROL transferred to the tax consolidation	(6)
IRES Remuneration due to the parent	**4,082**

IRAP

Difference between production value and costs	**11,533**
Theoretical IRAP (3.9%)	**450**
Costs not considered for IRAP purposes	*23,319*
Taxable for IRAP purposes	**34,852**
IRAP	**1,359**

38. Remeasurement of employee defined benefit plan

The remeasurement of employee defined benefit plans includes the actuarial gains and losses in the year-end measurement of employee severance indemnities in accordance with IAS 19 for Euros 51 thousand.

39. Related party transactions

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

The effects of related party transactions on the income statement in 2013 and the statement of financial

position at December 31, 2013 are as follows (amounts in thousands of euros).

Transactions with Group companies

Revenues			
analyzed as follows:			
- Intercos America Inc.	3,522		Revenues mainly include revenues from sales
- CRB S.A.	187		
- Intercos UK	1,095		
- Intercos Technology	962		
- Interfila Shanghai	542		
- Intercos Asia Pacific	1,120		
- Intercos Cosmetics Suzhou	232	7,660	

Other revenues and income			
analyzed as follows:			
- Intercos S.p.A.	1,231		Other revenues and income mainly include revenues from expenses recharged and sundry income from sales
- Intercos America Inc.	69		
- CRB S.A.	3		
- Intercos UK	18		
- Intercos Technology	116		
- Interfila Shanghai	27		
- Intercos Cosmetics Suzhou	45		
- Intercos do Brasil	81	1,590	

Finance expenses entirely in reference to			
- Intercos S.p.A.	191	191	Finance expenses refer to interest expenses on loan secured from the parent

Purchases of raw materials, semifinished products and consumables			
analyzed as follows:			
- Intercos America Inc.	775		These mainly refer to purchases of raw materials, packaging, consumables and finished products
- CRB S.A.	175		
- Intercos Technology	22		
- Interfila Shanghai	1,205		
- Intercos Cosmetics Suzhou	65		
- Kit Productions S.r.l.	704	2,946	

Costs for services and leases and rents			
analyzed as follows:			
- Intercos America Inc.	1,945		These refer to service and license fees, laboratory analyses, processing costs, commissions, rent expenses and other sundry costs
- CRB S.A.	117		
- Intercos S.p.A.	19,736		
- Intercos Marketing	496		
- Ager S.r.l.	525		
- Intercos Cosmetics Suzhou	1580		
- Intercos Paris S.a.r.l.	1,363		
- Interfila Shanghai	3,533		
- Kit Productions S.r.l.	130	29,425	

Other operating expenses			Other operating expenses mainly regard expenses recharged and prior period items
analyzed as follows: - Intercos S.p.A.	5	5	
Trade receivables			
analyzed as follows:			
- Intercos S.p.A.	419		
- Intercos America Inc.	1,297		Trade receivables mainly regard receivables in connection with the company's main business
- Interfila Shanghai	132		
- CRB S.A.	15		
- Intercos Technology	253		
- Intercos Cosmetics Suzhou	75		
- Intercos do Brasil	189		
- Intercos UK	167	2,547	

Trade payables analyzed as follows:			
- Intercos S.p.A.	9,455		Trade payables mainly include payables in connection with the supply of goods and services
- Intercos America Inc.	1,141		
- CRB S.A.	152		
- Interfila Shanghai	933		
- Intercos Cosmetics Suzhou	375		
- Intercos Technology	12		
- Intercos Marketing	142		
- Intercos Paris S.a.r.l.	1,198		
- Kit Productions S.r.l.	441		
- Ager S.r.l.	136	13,985	

Other receivables entirely from:			For tax consolidation
- Intercos S.p.A.	902	902	

Financial payables	-	-	For loan from Intercos S.p.A.

Other payables analyzed as follows:			For tax consolidation
- Intercos S.p.A.	4,075	4,075	

There are no other transactions with other related parties.

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

	Number of members	Compensation (€/000)
Board of Directors	5	256
Board of Statutory Auditors	3	33
Total	**8**	**289**

The persons identified as "key executives" are mainly the directors of the Company.

41. Summary of fees to the audit firm

	Fee (€/000)
Fee for the audit of the financial statements	86
Total	**86**

42. Subsequent events

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

Milan, 2014

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

INTERCOS EUROPE S.p.A.

On behalf of the Board of Directors

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Appendix 1

INTERCOS S.p.A. - IFRS FINANCIAL STATEMENTS
AT DECEMBER 31, 2012
Statement of Financial Position

	(in euros)	**At December 31, 2012**
	ASSETS	
	NON-CURRENT ASSETS	
5	Property, plant and equipment	*37,178,002*
6	Intangible assets	*12,293,177*
7	Goodwill	*33,653,547*
8	Investments in subsidiaries	*77,882,994*
9	Deferred tax assets	*13,369,942*
10	Other non-current receivables	4,668,431
	Non-current assets	***179,046,092***
	CURRENT ASSETS	
11	Trade receivables	*32,333,167*
12	Taxes receivable	*6,754,013*
13	Other current assets	*712,029*
14	Loans receivable from Group companies – short-term	*33,900,034*
15	Cash and cash equivalents	*1,518,262*
	Current assets	***75,217,505***
	TOTAL ASSETS	***254,263,597***

INTERCOS S.p.A. - IFRS FINANCIAL STATEMENTS AT DECEMBER 31, 2012
Statement of Financial Position

	(in euros)	At December 31, 2012
	EQUITY	
	Share capital	*10,710,193*
	Legal reserve	*48,273*
	Other reserves	*62,395,860*
	Retained earnings (Accumulated losses)	*-12,860,249*
16	**TOTAL EQUITY**	***60,294,077***
	LIABILITIES	
	NON-CURRENT LIABILITIES	
17	Borrowings from banks and other lenders	*130,318,485*
18	Other financial payables	
19	Loans payable to Group companies - medium/long-term	*625,000*
20	Provisions	*300,000*
21	Deferred tax liabilities	*8,139,610*
22	Employee benefit obligations	*1,436,590*
	Non-current liabilities	***140,819,685***
	CURRENT LIABILITIES	
17	Borrowings from banks and other lenders	*39,230,089*
23	Loans payable to Group companies - short-term	*125,000*
	Other financial payables	*2,094,498*
24	Trade payables	*4,186,429*
25	Other payables	*7,513,819*
	Current liabilities	***53,149,835***
	TOTAL EQUITY AND LIABILITIES	***254,263,597***

INTERCOS S.p.A. - IFRS FINANCIAL STATEMENTS
AT DECEMBER 31, 2012
Statement of Comprehensive income

		Year ended December 31,
	(in euros)	**2012**
26	Revenues	*27,003,314*
27	Other income	*13,112,000*
28	Purchases of raw materials, semifinished products and consumables	*-546,264*
29	Purchases of services and leases and rents	*-6,980,211*
30	Employee benefit expenses	*-12,588,704*
31	Accruals	*-106,176*
32	Other operating expenses	*-1,224,473*
	Operating profit (loss) before depreciation, amortization, impairment reversals (losses) and nonrecurring expenses	***18,669,486***
33	Depreciation, amortization and impairment reversals (losses)	*-8,470,813*
	Nonrecurring expenses	*-130,000*
	Operating profit (loss)	***10,068,673***
34	Finance income	*1,402,410*
35	Finance expenses	*-7,077,508*
36	Income taxes	*1,156,780*
	Profit for the year from continuing operations	***5,550,356***
	Discontinued Operations	***0***
	Profit (loss) for the year	***5,550,356***
37	Remeasurement of employee defined benefit plan	*-83,004*
	Total Other components of comprehensive income	***-83,004***
	Total comprehensive income (loss) for the year	***5,467,352***