

**INTERCOS GROUP**  
**Global Cosmetic Manufacturer**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2014**

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

**Intercos S.p.A.**  
**Registered Office**  
**Milan - Piazza Eleonora Duse 2**

## Independent auditors' report

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

To the Shareholders of  
Intercos S.p.A.

1. We have audited the consolidated financial statements of Intercos S.p.A. and its subsidiaries, (the "Intercos Group") as of 31 December 2014 and for the year then ended, comprising the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 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 consolidated 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 consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 10 April 2014.

3. In our opinion, the consolidated financial statements of the Intercos Group at 31 December 2014 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 the Intercos Group for the year then ended.
4. The Directors of Intercos 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 consolidated financial statements of the Intercos Group at 31 December 2014.

Milan, 25 May 2015

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.*

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

## **Consolidated Financial Statements at December 31, 2014**

### **REPORT ON OPERATIONS**

#### *1. Profit and Financial Performance 2014*

In 2014 the Intercos Group continued to move forward with its strategy aimed at the preservation of its leadership position in the field of innovation, the acquisition of new customers across all distribution segments, the penetration of new emerging markets such as Brazil and China and the diversification by product.

The year was thus marked by a significant growth in terms of orders received and sales in all geographical areas and business lines.

The Group reported revenues of €349,965 thousand compared to €329,760 thousand in 2013, with an increase of €20,205 thousand, or 6%.

Adjusted EBITDA\* in the year 2014 was a positive €1,188 thousand.

Operating profit was €26,650 thousand, or a 7.6% operating margin.

Capital expenditures in property, plant and equipment and intangible assets were €18,038 thousand and €7,537 thousand, respectively.

The consolidated net financial position was €175,341 thousand versus €188,489 thousand at December 31, 2013, with a decrease of €13,149 thousand.

Equity is €96,854 thousand compared to €82,767 thousand at December 31, 2013, increasing €14,087 thousand.

\* Adjusted EBITDA is represented by operating profit (loss) before depreciation, amortization and impairment reversals (losses) adjusted by nonrecurring income (expenses).

## 2. *World Economic Overview*

The worldwide economic recovery during 2014 continued its moderate pace with a few partial accelerations, such as in the USA where excellent results were recorded in the second part of the year, and some latent difficulties, as seen in the main emerging economies that were held back by a slowdown in demand and a worsening of the financial situation. In the Eurozone, despite the European Central Bank's more accommodating monetary policy, with the exception of the German economy, there are no signs of acceleration; in fact the fourth quarter registered the lowest growth of all four quarters in 2014. The Italian economy continues to manifest structural difficulties and new data on the general economy clearly show a stagnant economic foundation. The main impediments to growth in Italy remain the limitations on lending to companies, a weak construction sector, the debt/GDP ratio and the risks related to the end of the extraordinary monetary policy measures by the Fed and the ECB.

In the current global economic climate, China, despite a slowdown in GDP growth, still constitutes one of the best opportunities for growth, since consumption in the second and third level cities continues to rise. The boom in domestic consumption will continue to offer significant opportunities and will change the dynamics of global competition in many sectors. The majority of foreign companies are achieving greater growth in China than in the rest of the world. The sectors of healthcare, food, clean technologies (water, solid waste, renewable energies, etc.) and transport infrastructures, as well as retail and distribution are the segments that are expected to attain the highest growth rates.

## 3. *Market scenario*

The **global market in the Color Cosmetics sector**, which today approximates a total retail value of \$57 billion, grew from a growth rate of 5.3% (2013 over 2012) to 5.8% year-over-year in 2014.

An analysis of the various geographical areas shows that Western Europe remains essentially in line with 2013, with current growth at 2.2%.

As regards North America, the market grew by 1.6%, slowing down from the 3.8% recorded in 2013, mainly in the mass-market segment which contracted by 1.6%.

Emerging markets show a positive trend of 9.5% and Brazil's results are particularly noteworthy, gaining 9.8% from 2013.

The Asian market (excluding Japan) is positively confirmed with 10.0% growth compared to 2013, with China leading by 9.4% growth over 2013 in a market totaling \$3.4 billion.

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#### 4. *Relevant factors significantly impacting operating performance*

##### *Technological innovation*

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

In 2014 the Intercos Group employed about 580 resources dedicated to innovation, conceiving, over the course of just one year, more than 625 color cosmetics formulae, 19 new raw materials and over 900 new skin care formulae.

##### *Market expansion thanks to new customer categories*

The entry of new clients on the market such as emerging regional brands and retailers have contributed to the expansion of the market in which the Group operates, now no longer limited to multinational brands. In particular, the development of these types of clients has made it possible to reach end consumers that were not previously served. Furthermore, the Group was able to extend its offering of services since these new categories of customers do not have their own manufacturing capabilities and require a “full” service, which thus comprises not only the creation of the product but also its packaging and, if necessary, the marketing concept. The Intercos Group has also met these demands, forming a group of people dedicated to innovation for the packaging of the product that translates into a speedy response in providing high value added to the customers.

##### *Seasonality*

The revenues of the Intercos Group are subject to seasonal changes; historically the majority of revenues are recorded in the third and fourth quarter of each year, whereas the lowest revenues are recorded in the first quarter.

As a result, EBITDA in the first half is generally lower than in the second half since sales volumes are not sufficient to generate a sizable margin compared to the operating costs incurred, which are more linear owing to the presence of a component of fixed costs (mainly personnel, fixed rent and general expenses), with a uniform distribution over the arc of a year.

## 5. Profit and Financial Review of the Intercos Group

With the intention of providing disclosure in line with the analysis and control parameters used by management of the Group, the statement of financial position at December 31, 2014 and the income statement for the year then ended, as well as the corresponding statements at December 31, 2013 have been reclassified and integrated with a series of operating performance measures.

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

The non-IFRS alternative performance measures presented in the Reclassified Consolidated Income Statement and the Reclassified Consolidated Statement of Financial Position are used by management to aid in providing useful information for a better assessment of the results of operations, financial position and cash flows. Such performance measures should not be considered as a substitute for the performance measures established by IFRS.

The alternative performance measures and the items reclassified or regrouped which cannot be traced back directly to the financial statements are described as follows:

- EBITDA is equal to profit (loss) for the year before depreciation, amortization and impairment reversals (losses), and nonrecurring income (expenses), finance income (expenses), dividends received and income taxes.
- Net invested capital is the sum of non-current assets, inventories, trade receivables, other current assets, provisions, deferred tax liabilities, trade payables and other payables.

<i>(in € thousands)</i>	<b>2014</b>	2013	Change
<b>Revenues</b>	349,965	329,760	20,259
<b>EBITDA</b>	46,890	42,744	4,476
<b>Adjusted EBITDA *</b>	51,188	48,328	3,189
<b>Operating profit (EBIT)</b>	26,650	21,880	5,100
<b>EBT</b>	17,747	13,571	4,506
<b>Profit</b>	9,551	7,566	2,114
<b>Net working capital</b>	78,114	86,179	(8,065)
<b>Net invested capital</b>	272,194	271,257	937
<b>Non-current assets</b>	217,493	207,501	9,992
<b>Net financial position</b>	(175,341)	(188,490)	13,149
<b>Workforce (number)</b>	2,508	2,381	127
<b>Earnings per share (basic)</b>	0.20	0.16	0.04

\* Adjusted EBITDA is represented by operating profit (loss) before depreciation, amortization and impairment reversals (losses) adjusted by nonrecurring income (expenses).

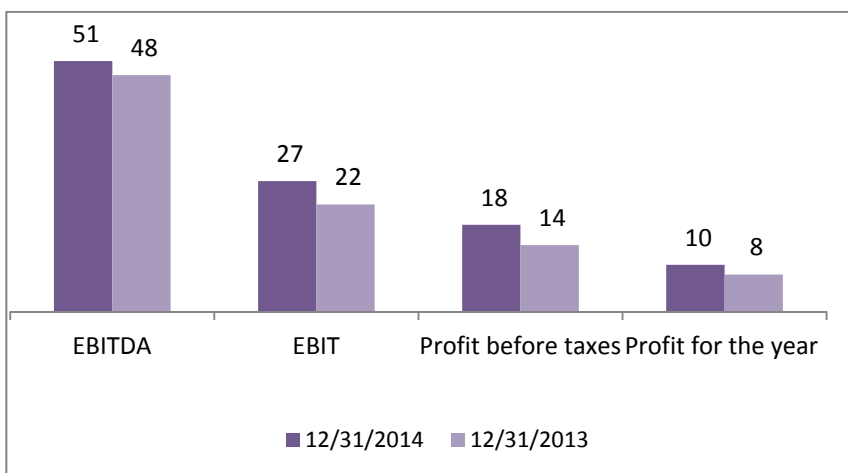
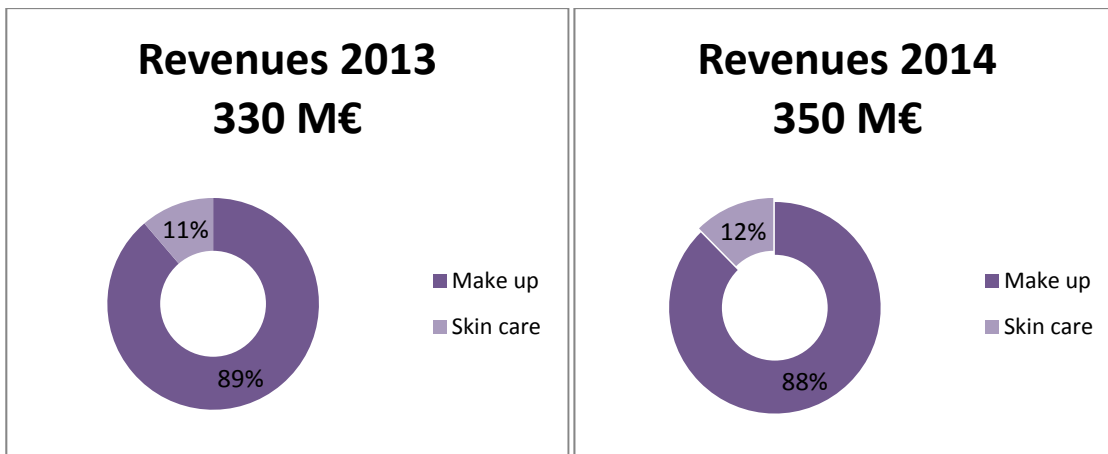
For the purpose of providing additional disclosure on the results of operations, financial position and cash flows of the Group, the following reclassified “consolidated income statement”, “consolidated statement of financial position” and “consolidated net indebtedness (cash)” are presented below.

### Reclassified Consolidated Income Statement

<i>(in € thousands)</i>	2014	2013
<b><i>Total revenues</i></b>	<b>349,965</b>	<b>329,760</b>
Change in inventories of raw materials, semifinished and finished products	(2,991)	145
Other revenues and income	4,649	4,708
<b><i>Production value and other income</i></b>	<b>351,622</b>	<b>334,613</b>
Purchases of raw materials, consumables and merchandise	(125,253)	(120,868)
Costs for services and leases and rents	(72,886)	(68,153)
Employee benefit expenses	(98,127)	(92,658)
Accruals	(378)	(180)
Other operating expenses	(3,791)	(4,426)
<b><i>Gross operating profit (EBITDA)</i></b>	<b>51,188</b>	<b>48,328</b>
Depreciation, amortization and impairment reversals (losses)	(20,240)	(20,864)
Nonrecurring income (expenses)	(4,298)	(5,584)
<b><i>Operating profit (EBIT)</i></b>	<b>26,650</b>	<b>21,880</b>
<b><i>Profit before taxes (EBT)</i></b>	<b>17,747</b>	<b>13,571</b>
<b><i>Discontinued Operations</i></b>	<b>-</b>	<b>319</b>
<b><i>Profit for the year</i></b>	<b>9,551</b>	<b>7,566</b>

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In 2014 consolidated **Revenues** amount to €349,965 thousand, an increase of 6.1% compared to 2013 and a higher rate of growth than the market.

#### *Breakdown of revenues by geographical area*

Details on the breakdown of revenues by geographical area in the two periods under comparison are presented below:

*(in € thousands)*

	2014	2013
<b>Revenues</b>		
Americas	128,025	136,906
EMEA	178,912	156,403
Asia	43,028	36,451
<b>Total</b>	<b>349,965</b>	<b>329,760</b>

- The Americas area records 6.4% lower revenues than in 2013.

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- The EMEA area was rewarded by the Group's development strategy of the Emerging Brands market and Specialty Shops, recording an increase in sales of 14.4% in a basically flat market.
- The Asia area grew its revenues by €6,577 thousand, or 18.0%, compared to 2013. This increase is the result of a strengthening of its control over the market through significant local investments.

Note should be taken of goodwill, within the Americas area, of the Brazilian operations during the course of 2014.

#### *Breakdown of sales by Business Unit*

Details of the composition of Revenues in 2014 by Business Unit are the following:

<i>(In € thousands)</i>	Year		Change	
	2014	2013	2014 over 2013	% 2014 over 2013
Make-up	306,695	292,660	14,035	4.8%
Skin care	43,270	37,100	6,170	16.6%
<b>Total</b>	<b>349,965</b>	<b>329,760</b>	<b>20,205</b>	<b>6.1%</b>

The Group companies that contributed to sales (revenues from sales and services) are summarized below:

Company	2014	2013
Kit Productions S.r.l.	871	745
Marketing Projects S.r.l.	-	-
Intercos Europe S.p.A.	191,608	177,615
Intercos S.p.A.	-	1,953
Drop Nail S.r.l.	500	737
Intercos Asia Pacific Sdn Bhd	-	6,402
Intercos Korea LTD	-	-
Intercos do Brasil	2,120	-
Intercos UK Ltd.	5,097	5,127
Intercos Paris S.à.r.l.	-	-
Intercos Marketing Ltd	-	-
Intercos America Inc.	81,523	89,632
Intercos Cosmetics Suzhou Co. Ltd	12,478	12,373
Intercos Technology Co. Ltd	29,955	24,886
Interfila Cosmetics (Shanghai) Co. Ltd	14,003	12,126
CRB Sa.	35,345	29,174
Ager S.r.l.	(1)	1,381
Vitalab S.r.l.	425	589
CRB Benelux Bv	-	358
<b>Aggregate Total</b>	<b>373,924</b>	<b>363,097</b>
Intercos Asia Pacific Sdn Bhd	0	(6,402)
Discontinued Operations		
Eliminations	(23,959)	(26,935)
<b>Consolidated Total</b>	<b>349,965</b>	<b>329,760</b>

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Adjusted **EBITDA** is a positive €1,188 thousand and increased compared to €48,328 in 2013 following an improvement in productivity and a positive product and geographical mix. Adjusted EBITDA as a percentage of sales is in line with the prior year at 15%.

The **Operating profit (EBIT)** is €26,650 thousand and shows a significant increase over 2013 owing to the considerable improvement in productivity and a positive geographical and product mix, in addition to benefitting from nonrecurring income of €1,804 thousand as a result of the conclusion of the dispute with Tata.

Nonrecurring expenses in 2014 total €6,286 thousand and mainly relate to €5,208 thousand for the costs incurred for the Italian stock market listing process during the year that were fully charged to the income statement after the listing process was interrupted, as set out in IAS 32, in addition to €275 thousand of costs recorded in respect of a legal case on American territory relating to a dispute over the use of a patent. Moreover, the Group recorded €1,804 thousand of “Nonrecurring income” following the reimbursement relating to a dispute with Tata Consultancy Services Italia S.r.l. in a case now closed. The year 2013 instead was penalized by nonrecurring expenses totaling €5,586 thousand as a result of the following transactions: a) €3,283 thousand for the cessation of activities at the Limbiate manufacturing site of which €2,983 thousand was recorded in provision for termination incentives after the agreement was reached for the definitive closure of the plant facilities; b) €1,098 thousand for a legal case on American territory relating to a dispute over the use of a patent; and c) €1,205 thousand for the recognition of a provision for risks for the estimated amount of higher customs duties payable by Intercos Cosmetics Souzhou.

**Profit** for the year is €9,551 thousand, or 2.7% of revenues, compared to a profit of €7,566 thousand, or 2.3% of revenues, reported in 2013.

The companies of the Group contributed to the profit for the year with the following results:

<b>Company</b>	<b>2014</b>	<b>2013</b>
Kit Productions S.r.l.	7	9
Marketing Projects S.r.l.	12	(64)
Intercos Europe S.p.A.	10,602	3,702
Intercos S.p.A.	2,216	9,613
Drop Nail S.r.l.	(235)	(185)
Intercos Asia Pacific Sdn Bhd	0	319
Intercos Korea LTD	(158)	0
Intercos do Brasil	(1,236)	(1,376)
Intercos UK Ltd.	95	215
Intercos Paris S.à.r.l.	549	211
Intercos Marketing Ltd	177	150
Intercos America Inc.	(1,420)	246
Intercos Cosmetics Suzhou Co. Ltd	(1,125)	(1,113)
Intercos Technology Co. Ltd	2,045	2,435
Interfila Cosmetics (Shanghai) Co. Ltd	2,314	2,010
CRB Sa.	5,123	3,484
Ager S.r.l.	(109)	24
Vitalab S.r.l.	22	27
CRB Benelux Bv	20	16
<b>Aggregate Total</b>	<b>18,900</b>	<b>19,725</b>
Intercompany eliminations	(9,549)	(12,159)
<b>Consolidated Total</b>	<b>9,351</b>	<b>7,566</b>

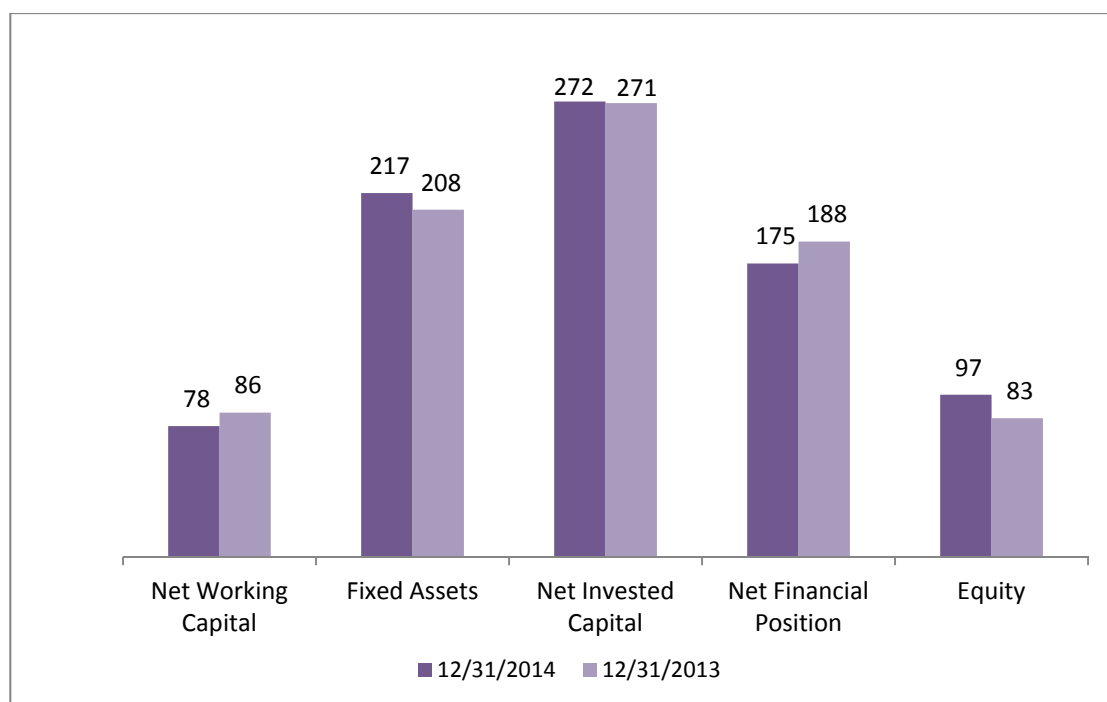
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## Reclassified Consolidated Statement of Financial Position

	12/31/2014	12/31/2013
<b>Fixed assets</b>	<b>190,464</b>	<b>178,506</b>
Inventories	64,104	64,010
Trade receivables	72,893	72,579
Trade payables	(59,856)	(47,070)
<b>Trade working capital</b>	<b>77,142</b>	<b>89,519</b>
Other current receivables and payables	973	(3,340)
<b>Net working capital</b>	<b>78,114</b>	<b>86,179</b>
Other non-current provisions and assets and liabilities	3. 615	6,572
<b>Invested capital</b>	<b>272,194</b>	<b>271,257</b>
<b>Equity</b>	<b>96,854</b>	<b>82,767</b>
Cash	(32,727)	(33,741)
Financial payables	208,068	222,231
<b>Net financial position</b>	<b>175,341</b>	<b>188,490</b>
<b>Total sources</b>	<b>272,194</b>	<b>271,257</b>

Fixed assets / Invested capital	69.97%	65.81%
Net financial position / Equity	1.81	2.28
Invested capital / Equity	2.81	3.28
Trade working capital / Revenues	22.04%	27.15%
Net working capital / Revenues	22.32%	26.13%

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**Property, plant and equipment and Intangible assets** at December 31, 2014 amount to €25,575 thousand.

The continuance in 2014 of the Group's strategy aimed at the improvement of working capital management through periodic meetings with the credit committees, optimization of the supply chain as well as a daily monitoring of cash flows and liquidity produced a notable reduction in the **Net Financial Position** which, at December 31, 2014 totaled €175,341 thousand compared to €188,490 thousand at December 31, 2013.

#### Consolidated net financial cash (indebtedness)

<i>(in € thousands)</i>	12/31/2014	12/31/2013
<b>Current items:</b>		
Cash and cash equivalents	32,727	33,741
Borrowings from banks and other lenders	(50,097)	(56,005)
Financial liabilities for derivative instruments	-	-
<b>Total current financial position</b>	<b>(17,370)</b>	<b>(22,263)</b>
<b>Non-current items:</b>		
Borrowings from banks and other lenders	(157,971)	(166,227)
<b>Non-current financial position</b>	<b>(157,971)</b>	<b>(166,227)</b>
<b>Total net financial position:</b>		
<b>Cash (indebtedness)</b>	<b>(175,341)</b>	<b>(188,490)</b>

**Equity** is €96,854 thousand at December 31, 2014 compared to €82,767 thousand at December 31, 2013, with an increase of €14,087 thousand.

## 6. Significant events in 2014

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

During 2014 the following transactions were entered into which changed Intercos S.p.A.'s shareholder base:

- In May 2014 DAFE 5000 S.r.l., a company held by Dario Ferrari, purchased the 19.91% stake held by Broletto 1 S.r.l. in Intercos S.p.A.
- In July 2014, the extraordinary shareholders' meeting resolved to cancel the par value of the 10,710,193 outstanding shares of the Company representing the entire share capital and eliminate the existing special share classes by converting the shares into ordinary shares. After these resolutions, the share capital of the Company totaled €10,710,193 and consisted of 9,131,987 ordinary shares. Again during the same extraordinary shareholders' meeting held on July 17, 2014, each share (now no par value shares) was divided into 10 no par value shares so that the share capital of the Company of €10,710,913 was consequently divided into 91,319,870 ordinary shares.
- Finally, after abandoning the project for the Company's listing during the year, on December 16, 2014 the company "CP7 Beauty Luxco S.à r.l.", part of the American Catterton group, purchased 43% of the share capital of Intercos S.p.A. Consequently at the balance sheet date the share capital of the Company is held as follows:

SHAREHOLDERS	NUMBER OF SHARES	% HELD
"DAFE 4000 S.P.A."	<u>37,591,900</u> Class "A"	41.165%
"DAFE 5000 S.R.L."	<u>14,032,456</u> Class "A"	15.366%
"CP7 BEAUTY LUXCO S. À R.L."	<u>39,267,544</u> Class "B"	43%
MANAGERS	<u>427,970</u> Special Class "C"	0.469%

Finally, in January and February 2015, several managers sold shares totaling 0.086% of capital to the company "Dafe 3000 S.r.l."

During the course of 2014 the Group took certain steps towards its restructuring that can be summarized by the following transactions:

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- On March 4, 2014 the dispute with Tata Consultancy Services Italia S.r.l. was definitively closed before the Milan Courts with a settlement agreement. This represents a full and final settlement for all intents and purposes and led to the recognition of nonrecurring income of €1,804 thousand.
- On March 12, 2014 the board of directors of Drop Nail S.r.l. passed a resolution to request financial support from its shareholders, Intercos S.p.A. and Paragon Cosmetics S.r.l, to be effected through a capital contribution payment of €100 thousand, in proportion to the shares held in the company by the shareholders.
- On June 26, 2014 the board of directors of Intercos S.p.A. passed a resolution to form a Korean registered company named “Intercos Korea” which manufactures and markets cosmetic products and conducts R&D activities as its business purpose. The company was in fact formed on August 11, 2104 and is 100%-owned; the investment amounts to KRW 100,000,000 (equivalent to approximately €75,000).
- On July 15, 2014 the legal action conducted on American territory relating to a dispute over the use of a patent was definitively closed.
- On July 18, 2014 Intercos S.p.A. filed the listing admissions application with Borsa Italiana S.p.A. to obtain the admission decision pursuant to art. 2.4.9 of the Rules of the Markets Organized and Managed by Borsa Italiana S.p.A. and the request for the authorization to publish a Prospectus prepared pursuant to Consob Regulation 11971 of May 14, 1999 and article 4 of Regulation (EU) 809/2004 of April 29, 2004 with Consob. On October 1, 2014 authorization was obtained from Consob for publication of the Prospectus but afterwards, on October 9, 2014, following the abrupt deterioration of the conditions of the international stock markets, the board of directors withdrew the offering for the sale and subscription of the company’s shares.
- On July 28, 2014 the parent Intercos S.p.A. reached an agreement with the lending banks to amend the pool loan contract. Such agreement did not amend the total amount of the loan but modified the economic terms of the loan in addition to several contract clauses relating to the change of control and financial covenants. The renegotiation of the terms also extended the main repayment dates of the loan to 2018 and 2019 from the original dates in 2015 and 2016. In March 2015 the Company concluded another agreement to restructure its financial structure which is described in greater detail under “Subsequent events”.
- On October 31, 2014 CRB S.a. finalized the purchase of the land and building directed towards increasing the productive capacity of the company. Specifically the signed contract sets a global sales price for the property of CHF 5.5 million which is composed of the value of the land for CHF 2 million and the value of the building for CHF 3.5 million.

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- By resolution of the board of directors' meeting of November 17, 2014 a decision was taken to increase the share capital of the subsidiary "Intercos Korea Limited" for a total of KRW 1,345,000,000 (€1,000,000) (including any share premium), bringing the investment to a total of €1,075,000.
- In the extraordinary shareholders' meeting held on December 12, 2014 a resolution was passed to adopt new bylaws, with conversion of the ordinary shares into three classes of stock. The denomination, the city of the registered office, the business purpose and the share capital have remained unchanged. The bylaws became effective on December 16, 2014, the closing date of the so-called Catterton Operation, in particular with CP7 Beauty Luxco S.a r.l., a company of the Catterton Group, as better described under "Significant events in 2014".

## 7. Related party transactions

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

The details of the effects of related party transactions on the income statement for 2014 and the statement of financial position at December 31, 2014 are described in the Notes.

## 8. Performance of the main companies of the Group

**Intercos Europe S.p.A.:** Intercos Europe is again confirmed in 2014 as the most important company in the Group in terms of volume, with revenues of €191,608 thousand, or 8% over 2013. In 2014 the company's sales increased in the Wet Powder and Foundation sectors and in the Emerging Brands and Retailers channel by 60%.

**Intercos America Inc.:** revenues in 2014 amount to €1,523 thousand, down 10% from 2013 following the contraction in the private label and direct sales market that was partially caused by adverse atmospheric conditions in the early months of 2014.

**CRB SA:** revenues show a significant increase of €1,171 thousand to €35,345 thousand in 2014 from €29,174 thousand in 2013 as a result of the combined effects of the continuous expansion of Asian markets and higher sales in the American and European markets.

**Intercos Cosmetics Suzhou Ltd.:** reported revenues are €2,478 thousand, basically in line with the €2,373 thousand recorded in 2013.

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**Intercos Technology Ltd:** the manufacturing facility managed by this company for the Intercos Group sells on Chinese territory. In 2014 a strong increase in revenues is confirmed of €5,069 thousand, or 20% compared to 2013, owing to the growth of the Asian market.

**Interfila Cosmetics (Shanghai) Ltd:** sales show an increase in 2014 compared to 2013, increasing from €1,126 thousand in 2013 to €1,403 thousand, or 15% in 2014.

## 9. Research & Development

In 2014 the Group has continued to invest in new products and technologies so as to affirm itself at a global level and foster future growth.

The capitalization of R&D costs amounts to €9,938 thousand of which €3,553 thousand relates to uncompleted projects classified under “Assets under development and payments in advance”. These projects are for most part conducted by Intercos S.p.A. and the subsidiary Intercos America.

“Assets under development” total €3,553 thousand and refer to:

- (i) projects under development for research and development of €3,250 thousand;
- (ii) projects under development relating to Engineering Technology of €302 thousand.

The increase during the year refers to the following: (i) for €1,833 thousand, the new project named “Bis Cotto Back Injection” begun in January 2014, which aims to develop a system able to ensure that the new products generated by the integration of various technologies have very high qualitative levels that are economically advantageous; (ii) the “Nail” project with a value of €476 thousand which, with the 2013 acquisition of the company Drop Nail, specialized in nail polishes, led during the year to the start of the development of new formulas and raw materials for the nail polish segment; (iii) the new project named “Slurry” begun in third quarter of 2014 with a value of €420 thousand with the aim of developing new cosmetic pressed powders with sensorial characteristics similar to those of cream products: with an extremely creamy touch, fluid smoothness on application and with a thin and comfortable coating; (iv) the project denominated “Marker” which also began in the third quarter of 2014 with a value of €350 thousand directed to characterizing and standardizing cosmetic inks adapted for use in colored and pearly cosmetic markers; and (v) the project entitled “Shielded Lakes, or “Innovative cosmetic pigments constituted by organic lake pigments and dyes with improved stability to heat, light and water” begun in the fourth quarter of 2014 with a value of €172 thousand.

Assets under development also include €302 thousand for the development of software needed to implement and improve the Group’s control model process.

The increases during the year of €2,688 thousand relating to development costs mainly refer to:

- investments made by Intercos S.p.A. for a total €1,029 thousand including those relating to “Exclusive materials and tailor made solutions for Cosmetics Applications”;
- research and development projects completed by other Group companies for raw materials and new cosmetics formulae at Intercos America (€687 thousand), Vitalab S.r.l. (€10 thousand), Drop Nail S.r.l. (€133 thousand) and CRB SA (€29 thousand).

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

- “Prisma Shine” project, year 2010, unamortized amount: €498 thousand; remaining period of amortization: 0.7 years.

- “Powder Gelling project”, year 2012, unamortized amount: €1,936 thousand, remaining period of amortization: 1.7 years.

- “Exclusive Materials” project, year 2014, unamortized amount: €3,822 thousand, remaining period of amortization: 4.3 years.

- “Back Injection” project, year 2014, unamortized amount: €1,607 thousand, remaining period of amortization: 4.7 years.

## 10. Headcount and organization

The Group **headcount** at December 31, 2014 is 2,508 compared to 2,381 at year-end 2013, with an increase of 127 people.

The breakdown by category is as follows:

Group headcount	December 31, 2014	December 31, 2013
Executive and mid-level managers	205	176
White-collars	801	773
Blue-collars	1,502	1,432
<b>Total</b>	<b>2,508</b>	<b>2,381</b>

The breakdown by permanent and temporary headcount is the following:

Group headcount	December 31, 2014	December 31, 2013
Permanent	2,115	1,942
Temporary	393	439
<b>Total</b>	<b>2,508</b>	<b>2,381</b>

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

**Employee benefit expenses** grew by €5,469 thousand from €2,658 thousand in 2013 to €8,127 thousand in 2014, or an increase of 5.9%, mainly due to an increase in the Group's workforce.

The Group uses temp work contracts for its manufacturing activities in order to render direct manufacturing costs more flexible. The growth in business during 2013 and 2014 led to an increase in these costs for an amount of €2,546 thousand compared to the prior year, from €1,874 thousand in 2013 to €1,420 thousand in 2014.

## 11. Risk management and uncertainties

The Group's business is exposed to various types of risk: market risk (including exchange rate and interest rate risks), credit risk and liquidity risk.

### *Exchange rate risk*

The Group 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 of the individual companies of the Group.

The Group's exposure is mainly concentrated on the following exchange rates:

- EUR/USD exchange rate: with reference to commercial and financial transactions entered into by Eurozone companies operating on the North American market and vice versa.
- EUR/GBP exchange rate: with reference to commercial and financial transactions entered into

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by Eurozone companies operating on the British market and vice versa.

- USD/RNB: with reference to commercial and financial transactions entered into by Chinese companies operating on the North American market and vice versa.
- EUR/RNB: with reference to commercial and financial transactions entered into by Eurozone companies operating on the Chinese market and vice-versa.
- CHF/EUR/USD: with reference to commercial and financial transactions entered into by the Group company operating in Switzerland.

It is the Group's policy to hedge, where possible, exposure denominated in currencies other than the functional currency of the individual companies, particularly the following:

- certain flows: invoiced commercial flows and exposures generated by loans receivable and payable;
- forecast flows: commercial flows originating from certain or highly probable contractual commitments.

The above are hedged by net currency positions managed by the Group or by using derivative contracts.

The following sensitivity analysis was performed which illustrates the effects on consolidated profit and consequently on equity produced by an increase/decrease of 7.5% in the exchange rates compared to the effective exchange rates at December 31, 2014 and at December 31, 2013.

<i>(in € thousands)</i>	2014		2013	
	-7.50%	+7.50%	-7.50%	+7.50%
US dollar	(1,190)	1,024	(1,064)	915
British pound	145	(125)	158	(136)
Other currencies	(13)	11	(13)	11
<b>Total</b>	<b>(1,059)</b>	<b>911</b>	<b>(919)</b>	<b>791</b>

### ***Interest rate risk***

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

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

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

The following sensitivity analysis was performed which illustrates the effects on consolidated profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2014 and at December 31, 2013, with all other variables remaining constant.

<i>(in € thousands)</i>	<b>2014</b>		<b>2013</b>	
	-0.50%	+0.50%	-0.50%	+0.50%
Euro (Euribor)	(720)	720	(705)	865
US dollar (Libor)	(93)	93	(22)	138
<b>Total</b>	<b>(814)</b>	<b>814</b>	<b>(727)</b>	<b>1,003</b>

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

The liabilities in this analysis include variable-rate financial payables and receivables, cash and cash equivalents and derivative financial instruments whose value is affected by changes in interest.

### ***Credit risk***

Credit risk is associated with trade receivables, cash and cash equivalents, financial instruments, deposits at banks and other financial institutions and is defined as the risk that a counterparty does not fulfill the obligations associated with a financial instrument or a commercial contract, thus resulting in a financial loss.

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

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

Trade accounts receivables, the provision for impairment of receivables and an ageing analysis of receivables are presented at December 31, 2013 and 2014.

<b>12/31/2013</b> <i>(in € thousands)</i>	<b>Trade receivables</b>	<b>Current</b>	<b>Overdue 0-60 days</b>	<b>Overdue 61-90 days</b>	<b>Overdue over 90 days</b>	<b>Provision for impairment</b>
Make-up	66,012	57,465	7,010	571	967	(976)
Skin Care	7,543	6,222	1,145	104	73	
<b>Total</b>	<b>73,555</b>	<b>63,686</b>	<b>8,154</b>	<b>674</b>	<b>1,040</b>	<b>(976)</b>

<b>12/31/2014</b> <i>(in € thousands)</i>	<b>Trade receivables</b>	<b>Current</b>	<b>Overdue 0-60 days</b>	<b>Overdue 61-90 days</b>	<b>Overdue over 90 days</b>	<b>Provision for impairment</b>
Make-up	63,281	49,586	12,908	741	1,100	(1,053)
Skin Care	9,612	6,842	2,498	115	251	(94)
<b>Total</b>	<b>72,893</b>	<b>56,428</b>	<b>15,406</b>	<b>857</b>	<b>1,350</b>	<b>(1,148)</b>

The above ageing highlights an increase in receivables overdue 0 – 60 days of €7,252 thousand. This is due to the shift in the receipt of payments to the first week in January 2015 as compared to the prior year and also to the impact of the concentration, during the reference period, of relevant sales to customers which are closed for certain periods in December.

As regards these positions in January 2015 collections of €4,800 thousand were received by Intercos Europe and €2,300 thousand by Intercos America.

### **Liquidity risk**

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

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

The amount of liquid assets at December 31, 2014 compared to the end of the prior year is as follows:

<i>(in € thousands)</i>	December 31, 2014	December 31, 2013
Cash and cash equivalents	32,727	33,741
Unused committed credit lines	20,000	4,000
<b>Total</b>	<b>52,727</b>	<b>37,741</b>

The following tables present 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:

<i>(in € thousands)</i>	Within 1 year	From 1 to 5 years	Beyond 5 years	At December 31, 2013
Borrowings from banks and other lenders - m-l/term	5,278	158,186	7,822	171,286
Finance leases payable	114	218	0	332
<b>Medium/long-term debt</b>	<b>5,392</b>	<b>158,404</b>	<b>7,822</b>	<b>171,618</b>
Borrowings from banks and other lenders - s/term	50,082			50,082
Factoring companies payable	531			531
Trade payables	47,070			47,070
<b>Short-term debt</b>	<b>97,683</b>	<b>0</b>	<b>0</b>	<b>97,683</b>
<b>Total</b>	<b>103,075</b>	<b>158,404</b>	<b>7,822</b>	<b>269,301</b>

<i>(in € thousands)</i>	Within 1 year	From 1 to 5 years	Beyond 5 years	At December 31, 2014
Borrowings from banks and other lenders - m-l/term	16,023	153,383	2,668	172,073
Finance leases payable	209	644	0	853
<b>Medium/long-term debt</b>	<b>16,232</b>	<b>154,027</b>	<b>2,668</b>	<b>172,926</b>
Borrowings from banks and other lenders - s/term	36,434	0	0	36,434
Factoring companies payable	581	0	0	581
Trade payables	59,856			59,856
<b>Short-term debt</b>	<b>96,871</b>	<b>0</b>	<b>0</b>	<b>96,871</b>
<b>Total</b>	<b>113,103</b>	<b>154,027</b>	<b>2,668</b>	<b>269,797</b>

In order to complete the disclosure on financial risks, a reconciliation is presented below between the categories of financial assets and liabilities as identified in the statement of financial position format of the Group and the categories of assets and liabilities identified in accordance with the requirements of IFRS7.



(in € thousands)

12/31/2013	Financial assets at fair value through profit or loss	Receivables and loans	Available-for-sale financial assets	Held-to-maturity assets	Financial liabilities at fair value through profit or loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Securities held for trading	-	-	-	-	-	-	-
Trade receivables	-	72,579	-	-	-	-	-
Other receivables (*)	-	6,981	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	222,231	-
Trade payables	-	-	-	-	-	47,070	-
Other payables (*)	-	-	-	-	-	15,571	-
Derivatives (liabilities)	-	-	-	-	-	-	-
<b>Total</b>	-	<b>79,560</b>	-	-	-	<b>284,872</b>	-

(in € thousands)

12/31/2014	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)	-	-	-	-	-	-	-
Securities held for trading	-	-	-	-	-	-	-
Trade receivables	-	72,893	-	-	-	-	-
Other receivables (*)	-	6,372	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	208,068	-
Trade payables	-	-	-	-	-	59,856	-
Other payables (*)	-	-	-	-	-	17,778	-
Derivatives (liabilities)	-	-	-	-	-	-	-
<b>Total</b>	-	<b>79,266</b>	-	-	-	<b>285,702</b>	-

(\*) "Other receivables" and "Other payables" exclude items of a tax nature which do not meet the definition of financial assets or liabilities.

## 12. Environmental analysis

The environmental impact on the territory by the Group'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.

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 Group in these areas ensured that, during the year, there were no cases of accidents at work causing serious injury to Group employees, or charges that the Group was harming the environment.

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### 13. Tax consolidation

Intercos S.p.A. has adhered to the national tax consolidation procedure under articles 117-129 of T.U.I.R. as the “consolidating” company since 2008, valid for a three-year period, with Intercos Europe S.p.A. and Marketing Projects S.r.l. as the “consolidated” companies. The option was also renewed for the period 2011-2013 and the period 2014-2016. The companies participating in the national tax consolidation procedure are, besides the parent, Intercos Europe S.p.A., Marketing Projects S.r.l. in liquidation, Ager S.r.l., Vitalab S.r.l., Drop Nail S.r.l. and Kit Productions S.r.l.

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

Only as regards the effects of the deductibility of interest expenses, pursuant to art. 96, paragraph 7 of DPR 917/86, the following foreign companies are participating virtually in the national tax consolidation: Intercos America Inc., Intercos Cosmetics Suzhou and CRB S.a., since they meet the requisites and conditions set out in art. 117, paragraphs 1, 120 and 132, paragraph 2, letters b) and c).

Intercos S.p.A., as the consolidating company, is responsible not only for any additional taxes assessed and the relative fines and interest referring to its own individual total income, but also for the sums which could become due, with reference to the consolidated tax return, from “formal control” activities pursuant to ex art. 36-ter DPR 600/73. It is also liable, jointly and severally, for the sums due in relation to fines levied on companies in the consolidated tax return which have committed violations in determining the individual position. Similarly, the consolidated companies are jointly and severally liable with Intercos S.p.A., as the consolidating company, for higher taxes assessed relating to the consolidated tax return referring to adjustments to the income in its tax return, also as a result of “formal control” activities, pursuant to ex art. 36-ter DPR 600/73. All of this is governed by the Tax consolidation agreement originally signed on June 5, 2008 and subsequent updates, the last of which is dated October 1, 2014.

### 14. Share capital

Share capital at December 31, 2014, unchanged compared to December 31, 2013, is €10,710,193 and is represented by 91,319,870 no par value ordinary shares divided as follows:

51,624,356 Class A shares

39,267,544 Class B shares

427,970 Class C shares

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

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

The following table presents the situation at December 31, 2014:

	At December 31, 2014	At December 31, 2013	At December 31, 2012
<b>Class A shares - number</b>	51,624,356	5,330,000	5,330,000
<b>Class B shares - number</b>	39,267,544	50,193	50,193
<b>Class C shares - number</b>	427,970	-	-
<b>Class D shares - number</b>	-	5,330,000	5,330,000
<b>Total share capital in euros</b>	10,710,193	10,710,193	10,710,193

In accordance with the provisions of art. 2428 of the Italian Civil Code, note should be taken that the Group 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.

## 15. Subsequent events

- At the meeting of the board of directors' held on January 27, 2015, considering the favorable financial market situation, the board illustrated its intention to refinance its principal debt in order to obtain more favorable conditions as compared to the debt renegotiation process in July 2014. Specifically, the current senior loan contract of €181 million that was last amended on July 28, 2014 was replaced with: (1) a €20 million bond maturing seven years from issue at a fixed rate of 3.875%; and (2) a new loan agreement of €80 million due at the end of 2020 at a lower variable rate than under the old loan agreement (variable rate linked to the 1M, 3M and 6M Euribor/Libor plus a spread of between 1.50% and 2.65% depending on the extent of indebtedness). The debt restructuring was finalized on March 27, 2015. The bond is listed on the Irish stock exchange and was subscribed to initially by institutional investors and the new loan contract is with "Banca IMI S.p.A." and "Unicredit".
- As a result of the above described operation, a pledge and a lien on Intercos S.p.A. and Intercos Europe S.p.A. shares for €9,064 thousand have been provided to the pool of banks as collateral for the loan which is due on December 31, 2020.

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- On March 6, 2015, the Company signed a non-binding term sheet with the shareholders of the company “Hana Co. Ltd.”, with registered office in Hwasung, Korea at 22-15 Juseok-ro 184beon-gil (Bukyang-dong), in which the basic terms and conditions were outlined under which the Company would be prepared to undertake a negotiation for the purchase of 20% of the share capital of Hana (through the subscription of a new issue of shares) and the creation of a joint venture with the shareholders of Hana. Subsequently, on April 17, 2015, after approval by the board of directors on April 10, 2015, the Company signed the following binding contracts with Hana shareholders: (i) “Share Subscription and Share Purchase Agreement”, which governs the manner in which the Company would become shareholders of Hana, and the “Shareholders Agreement”, which regulates, *inter alia*, the future corporate governance of Hana.

**17. Information regarding policies or factors of a governmental, economic, fiscal, monetary or political nature that have had or could have, directly or indirectly, significant repercussions on the activities of the Group**

During the year to which the previously reported financial information and results refer, the activities of the Group have not been affected in a substantive manner by policies or factors of a governmental, economic, fiscal, monetary or political nature.

**18. Business outlook**

For the year 2015, also considering the results for the first quarter, the outlook is for a basically positive trend, confirming in effect the Group’s expectations, as illustrated in the industrial plan.

Milan, May 22, 2015

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

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# Company Information

## BOARD OF DIRECTORS

<b>Name</b>	<b>Position</b>
Dario Gianandrea Ferrari	Chairman and CEO
Ludovica Arabella Ferrari	CEO
Gianandrea Ferrari	Director
Thukral Nikhil Kumar	Director
Chu James Michael	Director

## BOARD OF STATUTORY AUDITORS

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

## INDEPENDENT AUDITORS

Reconta Ernst & Young S.p.A.

**Consolidated Statements of Financial Position at December 31, 2014 and 2013**

<i>(in € thousands)</i>	Note	December 31, 2014	December 31, 2013
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	95,490	87,489
Intangible assets	8	20,043	16,545
Goodwill	9	74,931	74,472
Deferred tax assets	10	20,623	21,517
Other non-current receivables	11	6,406	7,478
<b>Non-current assets</b>		<b>217,493</b>	<b>207,501</b>
<b>CURRENT ASSETS</b>			
Inventories	12	64,104	64,010
Trade receivables	13	72,893	72,579
Other current receivables	14	20,848	14,987
Cash and cash equivalents	15	32,727	33,741
<b>Current assets</b>		<b>190,573</b>	<b>185,317</b>
<b>Assets held for sale</b>		<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>408,066</b>	<b>392,818</b>
<b>EQUITY</b>			
Share capital		10,710	10,710
Other reserves		66,005	66,266
Retained earnings (Accumulated losses)		18,074	4,074
Equity attributable to owners of the parent		94,789	81,050
Equity attributable to non-controlling interests		2,065	1,717
<b>TOTAL EQUITY</b>	16	<b>96,854</b>	<b>82,767</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Borrowings from banks and other lenders	17	157,971	166,226
Provisions	18	4,313	4,554
Deferred tax liabilities	19	9,706	9,759
Other non-current liabilities		150	-
Employee benefit obligations	20	9,245	8,110
<b>Non-current liabilities</b>		<b>181,385</b>	<b>188,649</b>
<b>CURRENT LIABILITIES</b>			
Borrowings from banks and other lenders	17	48,532	56,005
Other financial payables		1,566	-
Trade payables	21	59,856	47,070
Other payables	22	19,876	18,327
<b>Current liabilities</b>		<b>129,828</b>	<b>121,402</b>
<b>Liabilities held for sale</b>		<b>-</b>	<b>-</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>408,066</b>	<b>392,818</b>

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**Consolidated Statements of Comprehensive Income for the years ended December 31, 2014 and 2013**

<i>(in € thousands)</i>	Note	2014	2013
Revenues	23	349,965	329,760
Other income	24	4,649	4,708
Purchases of raw materials, semifinished products and consumables	25	(125,253)	(120,868)
Change in inventories of raw materials, semifinished and finished products		(2,991)	145
Costs for services and leases and rents	26	(72,886)	(68,153)
Employee benefit expenses	27	(98,127)	(92,658)
Accruals		(378)	(180)
Other operating expenses	28	(3,791)	(4,426)
<b>Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses)</b>		<b>51,188</b>	<b>48,328</b>
Depreciation, amortization and impairment reversals (losses)	29	(20,240)	(20,864)
Nonrecurring income (expenses)	30	(4,298)	(5,584)
<b>Operating profit</b>		<b>26,650</b>	<b>21,880</b>
Finance income	31	39	248
Finance expenses	31	(8,942)	(8,557)
Income taxes	32	(8,196)	(6,324)
<b>Profit for the year from continuing operations</b>		<b>9,551</b>	<b>7,247</b>
Profit for the year from Discontinued Operations		0	319
<b>Profit for the year</b>		<b>9,551</b>	<b>7,566</b>
<b>Other components of comprehensive income</b>			
<i>Other comprehensive income that will be reclassified subsequently to the income statement</i>			
<b>Exchange gains (losses) on translating foreign operations</b>		<b>5,277</b>	<b>(1,139)</b>
<b>Other components of comprehensive income</b>			
<i>Other comprehensive income that will not be reclassified subsequently to the income statement</i>			
<b>Remeasurement of defined benefit plan</b>		<b>(1,024)</b>	<b>(90)</b>
<b>Total Comprehensive income for the year</b>		<b>13,804</b>	<b>6,337</b>
<b>Attributable to:</b>			
Owners of the parent		13,882	6,095
Non-controlling interests		(78)	242

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**Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013**

<i>(in € thousands)</i>		2014	2013
Profit from continuing operations		9,551	7,247
Profit from Discontinued Operations		-	319
Profit for the year attributable to owners of the parent		<b>9,551</b>	<b>7,566</b>
Depreciation, amortization and impairment reversals (losses)	29	19,808	20,864
Nonrecurring income (expenses)	30	2,639	5,584
Change in provisions	10/18/19/20	(4,519)	(3,406)
Finance income (expenses)	31	8,903	8,309
Decrease / (Increase) in inventories	12	(239)	4,041
Decrease / (Increase) in trade receivables, net	13	(314)	(6,769)
Increase / (Decrease) in trade payables	21	12,786	1,131
Decrease / (Increase) in other assets	14/11/19	(3,582)	(558)
Increase / (Decrease) in other payables	22	1,645	(7,042)
<b>Cash flows provided by operating activities ( a )</b>		<b>46,678</b>	<b>29,720</b>
Acquisition of property, plant and equipment, net	7	(18,038)	(6,807)
Acquisition of intangible assets, net	8	(7,997)	(5,762)
Changes in assets/liabilities held for sale		0	0
<b>Cash flows (used in) investing activities ( b )</b>		<b>(26,034)</b>	<b>(12,569)</b>
Share capital increase	16	0	0
Increase / (Decrease) in borrowings from banks and other lenders	17	(16,710)	(10,920)
Interest paid during the year	31	(5,228)	(6,012)
<b>Cash flows (used in) financing activities ( c )</b>		<b>(21,939)</b>	<b>(16,932)</b>
<b>Change in equity ( d )</b>	16	282	(1,467)
<b>Net (decrease) in cash and cash equivalents (a)+(b)+(c)+(d)</b>		<b>(1,014)</b>	<b>(1,248)</b>
Cash and cash equivalents at beginning of the year	15	33,741	34,989
Cash and cash equivalents at end of the year	15	32,727	33,741
<b>Net change in cash and cash equivalents during the year</b>		<b>(1,014)</b>	<b>(1,248)</b>

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**Consolidated Statements of Changes in Equity at December 31, 2014**

Description	RETAINED EARNINGS (ACCUMULATED LOSSES)				ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		Total
	Share capital	Other reserves (Share premium reserve)	Reserves and retained earnings (accumulated losses)	Profit (Loss) for the year	Share capital	Profit (loss) for the year	
<b>Balances at December 31, 2013</b>	10,710	66,005	(1,761)	6,095	1,476	242	82,767
Appropriation 2013 profit			6,095	(6,095)	242	(242)	-
Comprehensive income for the year				13,882		(78)	13,804
Other changes			(143)		425		282
<b>Balances at December 31, 2014</b>	10,710	66,005	4,191	13,818	2,143	(78)	96,853

**Consolidated Statements of Changes in Equity at December 31, 2013**

Description	RETAINED EARNINGS (ACCUMULATED LOSSES)				ATTRIBUTABLE TO NON-Controlling INTERESTS		Total
	Share capital	Other reserves (Share premium reserve)	Reserves and retained earnings (accumulated losses)	Profit (Loss) for the year	Share capital	Profit (loss) for the year	
<b>Balances at December 31, 2012</b>	10,710	66,005	(9,620)	6,826	3,941	35	77,897
Appropriation 2012 profit			6,826	(6,826)	35	(35)	-
Comprehensive income for the year				6,095		242	6,337
Other changes			1,034		(2,500)		(1,466)
<b>Balances at December 31, 2013</b>	10,710	66,005	(1,760)	6,095	1,476	242	82,767

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## 1. General information

### Group structure

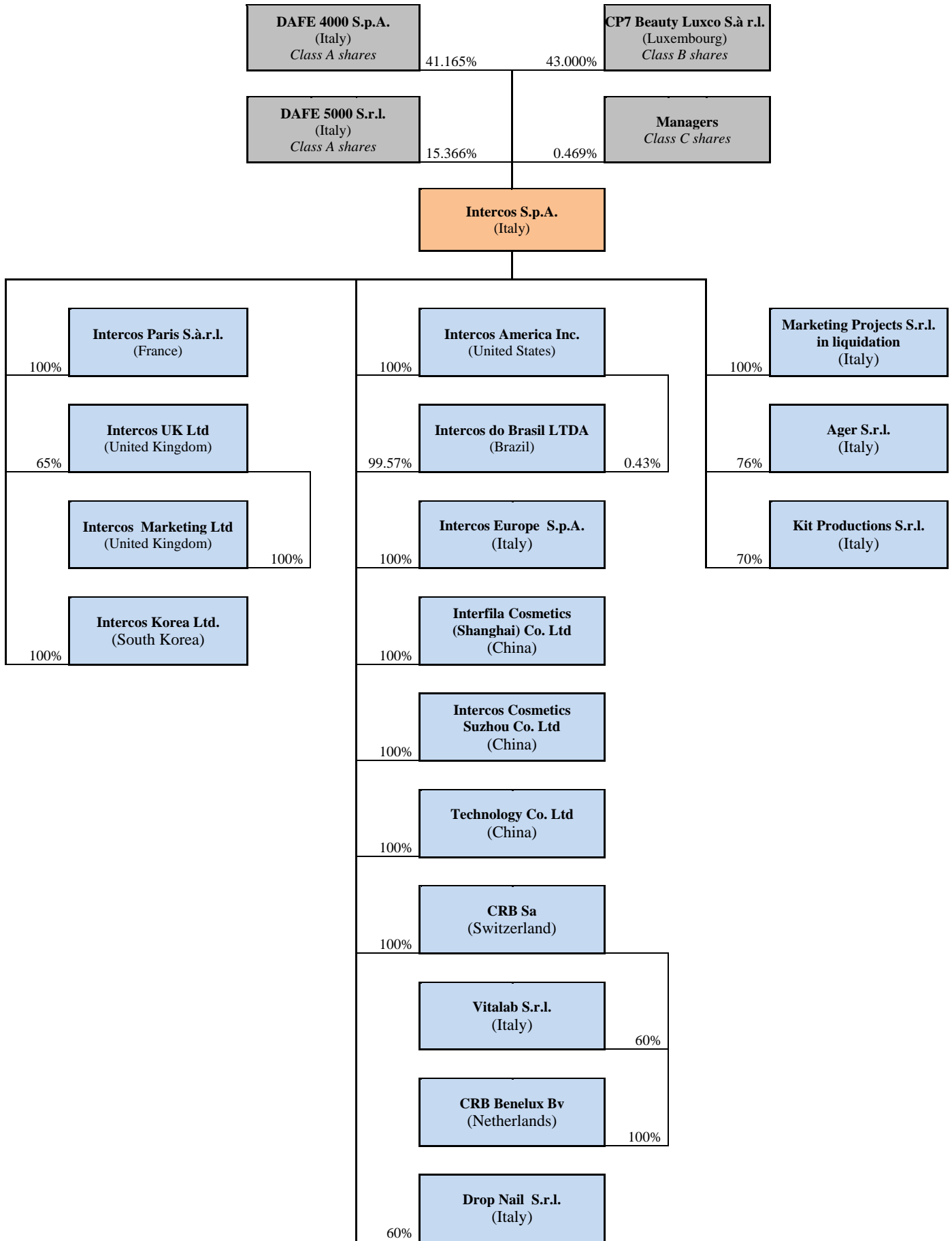
Intercos S.p.A. is a corporation organized under the laws of the Republic of Italy, with registered office in Milan, Piazza Eleonora Duse 2.

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

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

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

The following organization chart of the Group shows the operating companies and those in liquidation, updated to the closing date of the consolidated financial statements at December 31, 2014.



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## 2. General criteria for the preparation of the consolidated financial statements

### **Basis of presentation**

The consolidated financial statements for the year ended December 31, 2014 of the Intercos Group are expressed in thousands of euros. The consolidated financial statements consist of the statement of financial position, the income statement, 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 consolidated financial statements at December 31, 2014 have been prepared in accordance with IFRS adopted by the European Union. By IFRS is meant all “International Financial Reporting Standards”, all International Accounting Standards (“IAS”), all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”), adopted by the European Union and contained in the relative European Union Regulations published up to May 22, 2015, the date on which the board of directors of Intercos S.p.A. approved the 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 consolidated financial statements were approved for publication by the board of directors on May 22, 2015.

### **New accounting standards, interpretations and amendments adopted by the Group**

The accounting principles adopted in the preparation of the consolidated financial statements at December 31, 2014 are consistent with those used in the preparation of the consolidated financial statements at December 31, 2013, except for the adoption by the Group of recently issued standards, interpretations and amendments in effect from January 1, 2014, as reported below.

Regulation 1254/2012, issued by the European Commission on December 11, 2012, endorsed IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities” and the updated versions of IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”.

IFRS 10 “Consolidated Financial Statements” (“IFRS 10”) and the updated version of IAS 27 “Separate Financial Statements” (“IAS 27”) establish, respectively, the standards to be followed for the presentation and preparation of consolidated financial statements and separate financial statements. IFRS 10 introduces a

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new definition of control by establishing a single control model that applies to all entities (including special purpose entities). Under such definition, an enterprise exercises control if it is exposed, or has rights, to variable returns (both positive and negative) from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides a number of indicators to be considered for purposes of assessing whether or not control exists which include, *inter alia*, potential rights, merely protective rights and the existence of agency or franchising relationships. The new provisions, moreover, acknowledge the possibility of exercising control over a company in which a stake is held even in the absence of a majority of voting rights as a result of dispersed/broadly held equity stakes.

Standard IFRS 11 “Joint Arrangements” (“IFRS 11”) identifies, on the basis of the rights and obligations of the participants, two types of joint arrangements: joint operations and joint ventures, setting the criteria for identifying joint control and governing the consequent accounting treatment to be used for their recognition in the financial statements. With reference to the accounting of joint ventures for purposes of the consolidated financial statements, the new provisions indicate that the only method permitted is the equity method of accounting, eliminating the possibility of using the proportional consolidation method.

The updated version of IAS 28 “Investments in Associates and Joint Ventures” (“IAS 28”) defines, *inter alia*, the accounting treatment to be used in the event of total or partial disposal of an investment in a joint venture of associate.

Standard IFRS 12 “Disclosure of Interests in Other Entities” (“IFRS 12”) specifies the disclosure requirements for the consolidated financial statements with regard to subsidiaries and associates, joint ventures and joint operations, as well as non-consolidated structured entities, requiring, in particular, the indication of material assumptions (and any changes to the same) formulated for purposes of assessing whether control or joint control exists, as well as the assessments and material assumptions used to determine whether the joint control can qualify as a joint venture or joint operation.

Regulation 1256/2012 issued by the European Commission on December 13, 2012 endorsed the provisions contained in the document “Amendments to IAS 32. Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities”, which clarifies the application of a number of criteria already existing in IAS 32 for the offsetting of financial assets and liabilities. In particular, the amendment clarifies the conditions for offsetting: (i) the right to offsetting must be currently exercisable and therefore may not be contingent upon a future event; (ii) the right to offsetting must be legally exercisable by all of the

counterparties both in the ordinary course of business and in the event of insolvency of one of the counterparties.

Regulation 313/2013 issued by the European Commission on April 4, 2013 endorsed the amendments set forth in the document “Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) which provides a number of clarifications and simplifications with reference to the transition requirements of the standards IFRS 10, IFRS 11 and IFRS 12. In particular, the document clarified that the date of first application of the three above-mentioned standards is the first day of the administrative period in which IFRS 10 was adopted for the first time. The entities that adopt IFRS 10 must assess control on the date of first application and the treatment of comparative data will depend upon such assessment.

Regulation 1174/2013 issued by the European Commission on November 20, 2013 endorsed the amendments contained in the document “Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)” which provides clarifications on the definition of the area of consolidation of companies that qualify as investment entities, defined as entities that obtain funds from one or more investors in order to provide to them investment management services and that undertake toward their investors to pursue the business objective of investing the funds exclusively to obtain returns through capital appreciation, investment income or both. The amendment introduces an exception, for the investment entity, to the obligation to consolidate subsidiaries unless the subsidiaries in question provide services related to the investment business.

Regulation 1374/2013 issued by the European Commission on December 19, 2013 endorsed the amendments contained in the document “Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets”. The amendment concerns the disclosure to be provided on the recoverable value of impaired assets, in situations in which the recoverable value is based upon the fair value net of the costs of disposal.

Regulation 1375/2013 issued by the European Commission on December 19, 2013 endorsed the amendments contained in the document “Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting”. The amendment introduced an exception to the requisites for the cessation of hedge accounting in the event of novation of OTC derivatives with a central counterparty. In particular, the amendment establishes that it is not necessary to interrupt the hedge accounting of a “novated or modified” derivative that had been designed as a hedging instrument if the following conditions are met: (i) if, as a result of laws and regulations, the parties to a hedging instrument agree that the central counterparty is the new counterparty of the OTC; (ii) if, as a result of laws and regulations, one (or more) counterparties replace the original counterparty in order to become the new counterparty; (iii) if any other changes to the hedging

instrument are limited to those necessary to carry out such replacement of the counterparty. The changes introduced by the amendment therefore clarify that it is possible to continue the hedge accounting of “novated” derivatives where the replacement or rollover of the derivative with another hedging instrument is not the expiration or termination of the previous instrument.

Regulation 634/2014 issued by the European Commission on June 13, 2014 endorsed interpretation “IFRIC 21 - Levies” which defines the accounting treatment of levies imposed by public authorities, other than income taxes, fines and penalties deriving from violations of law. IFRIC 21 indicates the criteria for recognizing liabilities, establishing that the obligating event that gives rise to the obligation and, therefore, to pay the liability, is the activity described in the applicable laws and regulations that triggers the payment of the levy. For entities belonging to EU countries, the interpretation must be applied “at the latest” starting from annual periods beginning June 17, 2014 (therefore, for annual periods years coinciding with the calendar year, starting on January 1, 2015). Early application is in any case permitted.

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

The standards endorsed by the European Commission in 2014 are listed and described below.

Regulation 2015/28 issued by the European Commission on December 17, 2014 endorsed the “Annual Improvements to 2010-2012 Cycle”. These amendments include the following: (i) to IFRS 2, clarifying the definition of “vesting conditions” and introducing separate definitions of service conditions and performance conditions; (ii) to IFRS 3, clarifying that obligations to pay contingent consideration, other than those falling within the definition of equity instruments, are assessed at fair value at every balance sheet date, with changes recognized in the income statement; (iii) to IFRS 8, requiring disclosure about the judgments made by management in applying aggregation criteria, describing the operating segments that were aggregated and the economic indicators that were assessed in order to determine that the aggregated segments share similar economic characteristics; (iv) to IAS 16 and IAS 38, clarifying the manner of determining the gross carrying amount of assets, in the event of revaluation as a result of application of the revaluation model; (v) IAS 24, establishing the information to be disclosed when a related-party management entity provides key management personnel services to a reporting entity. The amendments are effective for annual periods beginning on or after February 1, 2015.

Regulation 1361/2014 issued by the European Commission on December 18, 2014 endorsed the “Annual Improvements to IFRS 2011-2013 Cycle”. These amendments refer: (i) to IFRS 3, clarifying that IFRS 3 is not applicable for the recognition of the accounting effects related to the formation of a joint venture or joint operation (as defined by IFRS 11) in the financial statements of joint ventures or joint operations; (ii) to

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IFRS 13, clarifying that provisions set forth in IFRS 13 on the basis of which it is possible to measure the fair value of a group of financial assets and liabilities on a net basis, applies to all agreements (including non-financial agreements) falling within the scope of IAS 39 or IFRS 9; (iii) to IAS 40, clarifying that in order to establish when the acquisition of a real estate investment constitutes a business combination, it is necessary to refer to the provisions of IFRS 3. The amendments are effective for annual periods beginning on or after January 1, 2015.

Regulation 2015/29 issued by the European Commission on December 17, 2014 endorsed the amendments to IAS 19 by the provisions set forth in the document “Defined Benefit Plans: Employee Contributions”. The amendments allow contributions by employees or third parties, which are unrelated to the number of years of service, to be recorded as a reduction of the current service cost of the period, in lieu of the allocation of such contributions over the timeline in which the service is rendered. The new amendments are effective from annual periods beginning on or after February 1, 2015.

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

The following newly issued amendments, standards and interpretations are in the process of being endorsed by the European Commission and address matters pertaining to the Group’s financial statements.

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

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

On January 30, 2014 the IASB issued “IFRS 14 Regulatory Deferral Accounts”, the interim standard related to the Rate-regulated activities project. First-time Adopters fall under the scope of application of the document, and such entities are allowed to continue to account for regulatory deferral account balances in their first IFRS financial statements in accordance with their previous GAAP when they adopt IFRS. In order to improve the comparability with the entities that have already applied IFRS, the standard requires that such accounting treatment must be presented separately from other items.

On May 6, 2014 the IASB issued the document “Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)” with the aim of clarifying the accounting treatment for acquisitions of interests in a joint operation that represents a business.

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On May 12, 2014 the IASB issued the document “Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)”, with the aim of clarifying that a method of amortization based upon revenues generated by the asset (known as the revenue-based method) is not considered appropriate as it exclusively reflects the flow of revenues generated by such asset and not the method of consuming the economic benefits incorporated within the asset itself.

In accordance with the dictates of the IASB, the provisions set forth in the above documents are effective for annual periods beginning on or after January 1, 2016, subject to possible subsequent postponements at the time of endorsement by the European Commission.

On May 28, 2014 the IASB issued the “IFRS 15 Revenue from Contracts with Customers”, which provides a single model for the recognition of revenues based upon the transfer of control over an asset or service to a client. The new standard marks a significant change with respect to current requisites provided under international accounting standards. It provides a more structured approach to the measurement and recognition of revenues, with a detailed application guide. As dictated by the IASB, the standard is effective for annual periods beginning on or after January 1, 2017, except for any subsequent postponements at the time of endorsement by the European Commission.

On July 24, 2014 the IASB issued “IFRS 9 Financial Instruments” together with the related “Basis for Conclusions and the related Application Guide”, replacing all previously issued versions of the standard. The new provisions: (i) provide for the simplification of categories for the classification of financial instruments and that such classification be based upon the characteristics of the instrument and the business model of the enterprise; in addition, embedded derivatives are no longer required to be separated; (ii) identify a new impairment model that uses “forward-looking” information to obtain early recognition of losses on receivables with respect to the “incurred loss” model that postpones the recognition of losses on receivables until the manifestation of a loss event; (iii) introduce a substantial modification in the recognition of hedging transactions with the aim of ensuring that hedging transactions are aligned to the risk management strategies of enterprises and based upon a more principle-based approach. The provisions set forth in the above-mentioned documents, which replace those in standard IAS 39 “Financial Instruments: Recognition and Measurement”, are effective for annual periods beginning on or after January 1, 2018, except for any subsequent postponements at the time of endorsement by the European Commission.

On August 12, 2014, the IASB issued the document “Equity Method in Separate Financial Statements - Amendments to IAS 27”. The amendments allow the equity method as an accounting option for investments

in subsidiaries, joint ventures and affiliates, in the separate financial statements, in addition, as in the past, to their measurement at cost or in accordance with IAS 39. The accounting option chosen must be applied consistently for every category of equity investment.

On September 11, 2014 the IASB issued the document “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28”. The amendments introduced aim to define in greater detail the accounting treatment for gains or losses deriving from transactions with joint ventures or associates accounted for using the net equity method and in particular with reference to: (i) the loss of control of a subsidiary (governed by IFRS 10) and (ii) downstream transactions (governed by IAS 28). The different accounting treatment to be used in the investor’s financial statements depends upon whether or not the subject matter of the transaction is a business, as defined in IFRS 3. The amendments introduced specify that: (i) the gains (or losses) deriving from the remeasurement at fair value of the investment held in a company that was previously a subsidiary that does not represent a business, that qualifies as a joint venture or associate (accounted for using the equity method), are recognized in the investor’s financial statements to the extent of the third party investors’ interests in such joint venture or associate; (ii) the gains (or losses) deriving from downstream transactions related to assets that do not constitute a business between one entity and its joint ventures or associates, must be recognized in full in the entity’s financial statements (IAS 28).

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

On December 18, 2014 the IASB issued the document “Disclosure Initiative – Amendments to IAS 1”. The amendments include a series of clarifications on matters related to materiality, aggregation of line items, structure of notes, disclosure of accounting principles adopted and the presentation of other components of comprehensive income arising from the use of the equity method to account for investments.

On the same date the IASB issued the document “Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28”, which clarifies the matters that arose in connection with the application of the exception to consolidation for investment entities.

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In accordance with the dictates of the IASB, the provisions set forth in the above documents are effective for annual periods beginning on or after January 1, 2016, subject to possible subsequent postponements at the time of endorsement by the European Commission.

### *Principles of consolidation*

The consolidated financial statements of the Intercos Group include the financial statements at December 31, 2014 of Intercos S.p.A., the parent, and its subsidiaries.

The financial statements, prepared for purposes of consolidation, whose closing date coincides with that of the parent, have been drawn up in accordance with the international financial accounting standards adopted by the Group.

The financial statements of the subsidiaries are adjusted, if necessary, to conform to the accounting policies of the Group.

Control of an entity exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, an investor controls an investee if and only if the investor has all the following:

- power over the investee (when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

When the Group holds less than the majority of voting rights (or similar rights, it shall consider all facts and circumstances when assessing whether it controls an investee, including:

- contractual arrangements with other holders of voting rights;
- rights from contractual agreements;
- voting rights or potential voting rights of the Group.

The Group shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements defining control above. The consolidation of a subsidiary starts from the date that control commences until the date that control ceases. The assets, liabilities, income and expenses of the subsidiary acquired or sold during the year are included in the statement of comprehensive income from the date the Group commences control until the date that control ceases.

The profit or loss for the year and each of the components of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All assets and liabilities, equity, income, costs and cash flows relating to transactions between entities of the group entities are eliminated in full on consolidation.

When the proportion of the equity held by the parent changes, without a loss of control, such change shall be recorded in equity. If the Group loses control of the subsidiary, it shall:

- derecognize the assets (including any goodwill) and liabilities of the subsidiary;
- derecognize the carrying amount of any non-controlling interests;
- eliminate the cumulative translation differences recognized in equity;
- recognize the fair value of the consideration received;
- recognize any investment retained in the former subsidiary at its fair value;
- recognize the profit or loss in the income statement;
- reclassify to profit or loss, or transfer directly to retained earnings if required by other IFRSs, the amounts recognized in other comprehensive income in relation to the subsidiary, as if the Group had directly disposed of the related assets or liabilities.

### *Scope of consolidation*

Details of the companies included in the scope of consolidation of Intercos S.p.A. at December 31, 2014 and the method of consolidation of the various companies are presented in the following table:

<b>SUBSIDIARIES</b>					
<i>(consolidated line-by-line)</i>					
Name	Head Office	Currency	Capital in thousands of currency	Percentage of control	
				Direct	Indirect
Intercos Europe S.p.A.	Milan	Euro	3,0.00	100.00%	
Kit Productions S.r.l.	Pessano con Bornago (Milan)	Euro	10	70.00%	
Marketing Projects S.r.l. in liquidation	Milan	Euro	40	100.00%	
Ager S.r.l.	Monza	Euro	31	76.00%	
Drop Nail S.r.l.	Milan	Euro	50	60.00%	
Intercos America Inc.	Wilmington (USA)	US dollar	10	100.00%	
Intercos do Brasil	Atibaia (Brazil)	Brazilian real	22,377	99.57%	0.43%
Intercos Paris S.a.r.l.	Neuilly-sur-Seine (France)	Euro	14	100.00%	
Intercos UK Ltd	Barnstaple (UK)	British pound	1	65.00%	
Intercos Marketing Ltd	South Molton (UK)	British pound	1		100.00%
CRB S.a.	Puidoux (Switzerland)	Swiss franc	100	100.00%	
Vitalab S.r.l.	Milan	Euro	100		60.00%
CRB Benelux BV	Maastricht (Netherlands)	Euro	18		100.00%
Intercos Technology Co.Ltd.	Suzhou (P.R.C.)	US dollar	3,400	100.00%	
Interfila Shanghai	Shanghai (P.R.C.)	US dollar	2,700	100.00%	
Intercos Cosmetics Suzhou Co. Ltd.	Suzhou (P.R.C.)	US dollar	12,800	100.00%	
Intercos Korea Ltd	South Korea	Euro	1,075	100.00%	

Compared to December 31, 2013 the change in the scope of consolidation refers to the formation of the company Intercos Korea Ltd. 100% directly owned by the Parent with share capital of €1,075 thousand at December 31, 2014.

All subsidiaries are consolidated using the line-by-line consolidation method.

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This method provides that the assets and liabilities, income and expenses of subsidiaries consolidated line-by-line are assumed in full in the consolidated financial statements; the carrying amount of the investments is eliminated against the share of equity of the investee companies, attributing to the identifiable assets and liabilities the fair value at the acquisition date of control.

Any remaining difference, if positive, is recorded as goodwill; if negative it is recorded in the income statement.

The share of equity and the result for the year attributable to non-controlling interests are recorded separately in consolidated equity and in the consolidated income statement; the equity attributable to non-controlling interests is determined on the basis of the fair values attributable to the identifiable assets and liabilities at the acquisition date of control, excluding the non-controlling interest's portion of goodwill, if any. Changes in the interests held in subsidiaries which do not result in acquisition/loss of control are recognized as changes in equity.

#### *Investments in associates*

An associate is a company in which the Group exercises a significant influence, meaning that it has the power to participate in the financial and operating policy decisions of the investee (but not control or joint control).

The considerations made to determine significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments by the Group in associates are accounted for using the equity method.

The equity method is a method of accounting whereby the investment is initially recognized at cost. The carrying amount is adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. Goodwill relating to an associate is included in the carrying amount of the investment. Amortization of goodwill is not permitted and goodwill is not tested for impairment separately.

#### *Current / non-current classification*

Assets and liabilities in the financial statements of the Group are classified according to current/non-current criteria.

The Group classifies an asset as current when:

- it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- it holds the asset primarily for the purpose of trading;
- it expects to realize the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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The Group classifies all other assets as non-current.

The Group classifies a liability as current when:

- it expects to settle the liability in its normal operating cycle;
- it holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

#### *Translation of financial statements expressed in currencies other than the functional currency*

The rules for translating the financial statements of subsidiaries expressed in currencies other than the Euro are the following:

- assets and liabilities are translated at the exchange rates prevailing at the date of the consolidated financial statements;
- revenues and costs are translated at the average exchange rate for the year;
- the “reserve for exchange differences on translating foreign operations” includes both exchange differences generated by the translation of the income statement at a rate different from the year-end rate and those generated by the translation of opening equity at a rate different from the year-end rate;
- goodwill and fair value adjustments arising from the purchase of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end exchange rate.

The exchange rates used for the translation of the statement of financial position in currencies other than the Euro at December 31, 2014 and December 31, 2013 and the average exchange rates during the period January 1 - December 31, 2014 and January 1 - December 31, 2013 are as follows:

	Income statement 2014	Statement of financial position 12/31/2014	Income statement 2013	Statement of financial position 12/31/2013
US dollar	1.328835	1.2124	1.32814	1.3791
British pound	0.806439	0.7789	0.84925	0.8337
Swiss franc	1.214628	1.2024	1.23092	1.2276
Chinese renminbi (yuan)	8.189184	7.5358	8.16549	8.3491
Malaysian ringgit*	-	-	4.18551	4.4103
Brazilian real	3.122776	3.2207	2.86694	3.2576
South Korean won	1.399,03	1.324,80	-	-

\* The investment in Intercos Asia Pacific Sdn Bhd was sold on September 18, 2013. The exchange rate at the end of 2013 refers to the Malaysian ringgit at September 30, 2013.

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### ***Summary of significant accounting policies***

The aggregate financial information as stated has been prepared in accordance with IFRS adopted by the European Union. The consolidated 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 as management has not identified uncertainties with regard to the continuation of the Group's business operations as a going concern and therefore such assumption has been adopted for the preparation of these financial statements.

The most significant accounting policies adopted are described below. The accounting policies described have been applied on a basis consistent with prior years.

### ***Discontinued Operations***

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, and is part of a single coordinated disposal plan.

In the consolidated income statement, the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group constituting the discontinued operation, is disclosed as a single amount separately from the post-tax profit or loss from continuing operations.

The net cash flows attributable to the activities of discontinued operations are presented separately in the statement of cash flows.

Disclosure of the above is also provided for the comparative period.

### ***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

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assets or part of an asset under the component approach. Likewise, the replacement costs of identifiable components of complex assets are charged to assets and depreciated over their estimated useful lives; the remaining carrying amount of the component being replaced is charged to the income statement.

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

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

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

	Depreciation rate	
	December 31, 2014	December 31, 2013
Buildings	4%- 5.5%	4%- 5.5%
Plant	10% - 15%	10% - 15%
Machinery	10% - 12%	10% - 12%
Equipment	10% - 40%	10% - 40%
Furniture	12% - 20%	12% - 20%
Motor vehicles	20% - 25%	20% - 25%

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.

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

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.



### ***Leased assets***

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

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

### ***Intangible assets***

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

#### **(i) Goodwill**

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

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

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

(ii) Trademarks, licenses and similar rights

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

(iii) Research and development costs

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

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

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

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

At each balance sheet date, property, plant and equipment and intangible assets with a finite life are reviewed to identify the existence of any indicators of an impairment in their value. When the presence of these

indicators is identified, the recoverable amount of such assets is estimated and any impairment is recognized in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use where the value in use is the present value of the estimated future cash flows for such asset. The value in use is determined by discounting the estimated future cash flows from the use of the asset to present value at a pretax rate which reflects current market assessments of the time value of money, in relation to the period of the investment and the risks specific to the asset. For an asset that does not generate independent financial flows, the recoverable amount is determined by reference to the cash-generating unit to which such asset belongs.

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

## ***Financial instruments***

### **Financial assets**

Financial assets mainly relate to accounts receivable from customers, with fixed or determinable payments, that are non-derivative and are not listed on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified in non-current assets. Such assets are recognized initially at fair value (to which directly attributable transaction costs are added, except in the case of financial assets measured at fair value through profit or loss) and subsequently measured at amortized cost using the effective interest rate method. Where there is objective evidence of an indication of impairment (that may include indications that a debtor or group of debtors are in situations of financial difficulty, inability to meet obligations or inability or delays in interest payments or important payments), 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 Group 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 Group commits to purchase or sell the financial instrument.

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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 Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

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

#### Derivative instruments

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

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

#### Determination of the fair value of derivative financial instruments

The Group measures financial instruments, such as derivatives, and non-financial assets, such as property investments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- (a) in the principal market for the asset or liability; or
- (b) in the absence of a principal market, the most advantageous market for the asset or liability.

The Group must have access to the principal (or most advantageous) market at the measurement date.

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The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy described as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – valuation techniques for which the inputs are unobservable for the asset or liability.

The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input used for measurement.

For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the Group determines if there have been any transfers between hierarchy levels, reviewing the categorization (based on the lowest level input that is significant to the entire measurement).

### ***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 in Euro at nominal value, which corresponds to fair value, and if in a currency other than the euro, at the exchange rate at the end of the year.

### ***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

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can be reliably estimated. The accrual is measured using the best possible estimate of the amount that the Group 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***

The Group companies operate various types of defined benefit pension plans, in accordance with the conditions and practices commonly applied in the countries in which the Group companies conduct their business.

Defined benefit pension plans, which also include 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 Group’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 Group companies’ 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 December 31, 2007.

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

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

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

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

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

#### ***Share-based compensation***

The Group resolved and subsequently cancelled the issue of equity-settled stock option plans (plans in which the beneficiary is granted the right to purchase shares of the company at a pre-fixed price whenever specific conditions are met).

In accordance with IFRS 2 – *Share-based payment*, the fair value of the stock options is determined at the grant date using the Black & Scholes method and is recognized in the income statement under employee benefit expenses over the period from the grant date to the vesting date, with a corresponding entry directly in equity in a specific reserve. This entry also takes into account the estimated number of options that will effectively vest in favor of the recipients.

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

### ***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.

### ***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***

Current tax income or tax expense for the year is measured based on the amount that is expected to be recovered or paid to the tax authorities. The tax rates and the tax laws used in calculating the amount are those enacted, or substantially in effect, at the reporting date of the financial statements in the countries where the Group operates and generates its taxable income.

Current taxes relative to elements recognized directly in equity are also recognized in equity and not in the income statement for the year. Management periodically evaluates the position taken in the tax return in the case in which the tax rules are subject to interpretation and, where appropriate, makes suitable accruals.

#### ***Deferred income taxes***

Deferred income taxes are calculated by applying the “liability method” to the temporary differences between the tax bases of the assets and liabilities and their corresponding carrying amounts.

Deferred tax liabilities are recognized on all taxable temporary differences, with the following exceptions:

- deferred tax liabilities arising from the initial recognition of goodwill or an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss):
- reversal of taxable temporary differences, associated with investments in subsidiaries or associates, can be controlled, and it is probable that it will not occur in the foreseeable future.

Deferred tax assets are recognized on all deductible temporary differences, the carryforward of unused tax credits and the carryforward of unused tax losses, to the extent that it is probable that taxable profit will be

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available against which the deductible temporary differences, the carryforward of unused tax credits and the carryforward of unused tax losses can be utilized, except in the case of:

- deferred tax assets associated with deductible temporary difference arising from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit (tax loss);
- deductible temporary differences arising from investments in subsidiaries or associates, in which case the deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to taxable income in the period when such assets are realized or such liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities relating to elements recognized outside the income statement are recognized either directly in equity or in other comprehensive income, consistently with the items to which they refer.

Deferred tax assets and liabilities are offset if and only if there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities refer to the same taxpayer and are levied by the same taxation authority.

Tax benefits acquired in a business combination which do not meet the criteria for separate recognition at the acquisition date, may be recognized after the acquisition date, when new information is obtained about changes in events or circumstances. The adjustment is recognized as a deduction from goodwill (up to the amount of goodwill), if it is recognized during the measurement period, or in the income statement if recognized subsequently.

Intercos S.p.A. has adhered to the national tax consolidation procedure under articles 117-129 of T.U.I.R. as the “consolidating” company since 2008, valid for a three-year period, with Intercos Europe S.p.A. and Marketing Projects S.r.l. as the “consolidated” companies. The option was also renewed for the period 2011-2013 and the period 2014-2016. The companies participating in the national tax consolidation procedure are, besides the parent, Intercos Europe S.p.A., Marketing Projects S.r.l. in liquidation, Ager S.r.l., Vitalab S.r.l., Drop Nail S.r.l. and Kit Productions S.r.l.

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

Only as regards the effects of the deductibility of interest expenses, pursuant to art. 96, paragraph 7 of DPR

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917/86, the following foreign companies are participating virtually in the national tax consolidation: Intercos America Inc., Intercos Cosmetics Suzhou and CRB S.a., since they meet the requisites and conditions set out in art. 117, paragraphs 1, 120 and 132, paragraph 2, letters b) and c).

Intercos S.p.A., as the consolidating company, is responsible not only for any additional taxes assessed and the relative fines and interest referring to its own individual total income, but also for the sums which could become due, with reference to the consolidated tax return, from “formal control” activities pursuant to ex art. 36-ter DPR 600/1973. It is also liable, jointly and severally, for the sums due in relation to fines levied on companies in the consolidated tax return which have committed violations in determining the individual position. Similarly, the consolidated companies are jointly and severally liable with Intercos S.p.A., as the consolidating company, for higher taxes assessed relating to the consolidated tax return referring to adjustments to the income in its tax return, also as a result of “formal control” activities, pursuant to ex art. 36-ter DPR 600/1973. All of this is governed by the Tax consolidation agreement originally signed on June 5, 2008 and subsequently updated on September 10, 2009 between Intercos S.p.A. and the other “consolidated” companies.

## **EXPLANATORY NOTES**

### **3. Risk management**

Financial risk management is an integral part of the management of the activities of the Group. The board of directors of the company establishes the policies for the management of risks such as market risk, credit risk and liquidity risk.

#### **Types of risks**

##### ***Financial risk management***

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

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

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### ***Exchange rate risk***

The Group 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 of the individual companies of the Group.

The Group's exposure is mainly concentrated on the following exchange rates:

- EUR/USD exchange rate: with reference to commercial and financial transactions entered into by Eurozone companies operating on the North American market and vice versa.
- EUR/GBP exchange rate: with reference to commercial and financial transactions entered into by Eurozone companies operating on the British market and vice versa.
- USD/RNB: with reference to commercial and financial transactions entered into by Chinese companies operating on the North American market and vice versa.
- EUR/RNB: with reference to commercial and financial transactions entered into by Eurozone companies operating on the Chinese market and vice-versa.
- CHF/EUR/USD: with reference to commercial and financial transactions entered into by the Group company operating in Switzerland.

It is the Group's policy to hedge, where possible, exposure denominated in currencies other than the functional currency of the individual companies, particularly the following:

- certain flows: invoiced commercial flows and exposures generated by loans receivable and payable;
- forecast flows: commercial flows originating from certain or highly probable contractual commitments.

The above are hedged by net currency positions managed by the Group or by using derivative contracts.

The following sensitivity analysis was performed which illustrates the effects on consolidated profit and consequently on equity produced by an increase/decrease of 7.5% in the exchange rates compared to the effective exchange rates at December 31, 2014 and at December 31, 2013.

<i>(in € thousands)</i>	2014		2013	
	-7.50%	+7.50%	-7.50%	+7.50%
US dollar	(1,190)	1,024	(1,064)	915
British pound	145	(125)	158	(136)
Other currencies	(13)	11	(13)	11
<b>Total</b>	<b>(1,059)</b>	<b>911</b>	<b>(919)</b>	<b>791</b>

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### ***Interest rate risk***

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

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

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

The following sensitivity analysis was performed which illustrates the effects on consolidated profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2014 and at December 31, 2013, with all other variables remaining constant.

<i>(in € thousands)</i>	2014		2013	
	-0.50%	+0.50%	-0.50%	+0.50%
Euro (Euribor)	(720)	720	(705)	8655
US dollar (Libor)	(93)	93	(22)	138
<b>Total</b>	<b>(814)</b>	<b>814</b>	<b>(727)</b>	<b>1,003</b>

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

The liabilities in this analysis include variable-rate financial payables and receivables, cash and cash equivalents and derivative financial instruments whose value is affected by changes in interest.

### ***Credit risk***

Credit risk is associated with trade receivables, cash and cash equivalents, financial instruments, deposits at banks and other financial institutions and is defined as the risk that a counterparty does not fulfill the obligations associated with a financial instrument or a commercial contract, thus resulting in a financial loss.

The credit risk related to trading counterparties is managed by the individual subsidiaries and monitored

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centrally by the Group's Administration Function. The Group does not have significant concentrations of credit risk. However, there are policies in place to ensure that sales of products and services are made to customers with a high degree of reliability, 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 in the individual countries. The use of credit limits is monitored periodically at a local level. When considered appropriate, the Group 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 Group's Administration Function which has policies in place to ensure that the companies of the Group enter into transactions with independent high-credit-quality counterparties.

Trade receivables, the provision for impairment of receivables and an aging analysis of receivables are presented at December 31, 2013 and 2014.

12/31/2013 (in € thousands)	Trade receivables	Current	Overdue 0-60 days	Overdue 61-90 days	Overdue Over 90 days	Provision for impairment
Make-up	66,012	57,465	7,010	571	967	(976)
Skin Care	7,543	6,222	1,145	104	73	
<b>Total</b>	<b>73,555</b>	<b>63,686</b>	<b>8,154</b>	<b>674</b>	<b>1,040</b>	<b>(976)</b>

12/31/2014 (in € thousands)	Trade receivables	Current	Overdue 0-60 days	Overdue 61-90 days	Overdue over 90 days	Provision for impairment
Make-up	63,281	49,586	12,908	741	1,100	(1,053)
Skin Care	9,612	6,842	2,498	115	251	(94)
<b>Total</b>	<b>72,893</b>	<b>56,428</b>	<b>15,406</b>	<b>857</b>	<b>1,350</b>	<b>(1,148)</b>

The above aging highlights an increase in receivables overdue 0 – 60 days of €7,252 thousand.

This is due to the shift in the receipt of payments to the first week in January 2015 as compared to the prior year and also to the impact of the concentration, during the reference period, of sales to important customers which are closed for certain periods in December.

As regards these positions, in January 2015 collections of €4,800 thousand were received by Intercos Europe and €2,300 thousand by Intercos America.

### **Liquidity risk**

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

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

The amount of liquid assets at December 31, 2014 compared to the end of the prior year is as follows:

<i>(in € thousands)</i>	December 31, 2014	December 31, 2013
Cash and cash equivalents	32,727	33,741
Unused committed credit lines	20,000	4,000
<b>Total</b>	<b>52,727</b>	<b>37,741</b>

The following tables present 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:

<i>(in € thousands)</i>	Within 1 year	From 1 to 5 years	Beyond 5 years	At December 31, 2013
Borrowings from banks and other lenders - m-l/term	5,278	158,186	7,822	171,286
Finance leases payable	114	218	0	332
<b>Medium/long-term debt</b>	<b>5,392</b>	<b>158,404</b>	<b>7,822</b>	<b>171,618</b>
Borrowings from banks and other lenders - s/term	50,082			50,082
Factoring companies payable	531			531
Trade payables	47,070			47,070
<b>Short-term debt</b>	<b>97,683</b>	<b>0</b>	<b>0</b>	<b>97,683</b>
<b>Total</b>	<b>103,075</b>	<b>158,404</b>	<b>7,822</b>	<b>269,301</b>

<i>(in € thousands)</i>	Within 1 year	From 1 to 5 years	Beyond 5 years	At December 31, 2014
Borrowings from banks and other lenders - m-l/term	16,023	153,383	2,668	172,073
Finance leases payable	209	644	0	853
<b>Medium/long-term debt</b>	<b>16,232</b>	<b>154,027</b>	<b>2,668</b>	<b>172,926</b>
Borrowings from banks and other lenders - s/term	36,434	0	0	36,434
Factoring companies payable	581	0	0	581
Trade payables	59,856			59,856
<b>Short-term debt</b>	<b>96,871</b>	<b>0</b>	<b>0</b>	<b>96,871</b>
<b>Total</b>	<b>113,103</b>	<b>154,027</b>	<b>2,668</b>	<b>269,797</b>

In order to complete the disclosure on financial risks, a reconciliation is presented below between the categories of financial assets and liabilities as identified in the statement of financial position format of the

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Group and the categories of assets and liabilities identified in accordance with the requirements of IFRS7.

(in € thousands)

12/31/2013	Financial assets at fair value through profit or loss	Receivables and loans	Available-for-sale financial assets	Held-to-maturity assets	Financial liabilities at fair value through profit or loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Securities held for trading	-	-	-	-	-	-	-
Trade receivables	-	72,579	-	-	-	-	-
Other receivables (*)	-	6,981	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	222,231	-
Trade payables	-	-	-	-	-	47,070	-
Other payables (*)	-	-	-	-	-	15,571	-
Derivatives (liabilities)	-	-	-	-	-	-	-
<b>Total</b>	-	<b>79,560</b>	-	-	-	<b>284,872</b>	-

(in € thousands)

12/31/2014	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)	-	-	-	-	-	-	-
Securities held for trading	-	-	-	-	-	-	-
Trade receivables	-	72,893	-	-	-	-	-
Other receivables (*)	-	6,372	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	208,068	-
Trade payables	-	-	-	-	-	59,856	-
Other payables (*)	-	-	-	-	-	17,778	-
Derivatives (liabilities)	-	-	-	-	-	-	-
<b>Total</b>	-	<b>79,266</b>	-	-	-	<b>285,702</b>	-

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(\*) "Other receivables" and "Other payables" exclude items of a tax nature which do not meet the definition of financial assets or liabilities.

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

#### 4. Use of estimates and assumptions

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

- *Goodwill*

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

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

Property, plant and equipment and intangible assets are tested for any impairment that requires recognition of an impairment loss, whenever there are indications that the carrying amount through use may not be recoverable. Verification of the existence of such indications requires management to exercise subjective judgment based on information available internally and from the market and from historical experience.

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Moreover, whenever an impairment may exist, the Group 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 Group. 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 Group 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 Group 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. The determination of such accruals requires the assumption of estimates which depend on the current knowledge of factors which could change over time and which could produce effects that differ from the final outcomes estimated by management in preparing the financial statements.

## 5. Segment reporting

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At December 31, 2014 the Group's business is now aggregated into two reporting segments identified on the basis of the following product lines:

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

Financial information reported according to these business units is periodically reviewed by the board of directors and used for planning and budgeting.

Detailed information on each identified segment for the years ended December 31, 2013 and 2014 is presented in the following tables.

2013 (in € thousands)	Make-up	Skin-Care	Total
Revenues	292,660	37,100	329,760
Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses)	42,228	6,100	48,328
Depreciation, amortization and impairment reversals (losses)	(18,958)	(1,906)	(20,864)
Nonrecurring income (expenses)			(5,586)
Finance income (expenses)			(8,309)
Income taxes			(6,324)
Profit for the year from discontinued operations			319
Profit for the year			7,566
Net invested capital	239,981	31,276	271,257

2014 (in € thousands)	Make-up	Skin Care	Total
Revenues	306,694	43,270	349,965
Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring expenses	42,177	9,011	51,188
Depreciation, amortization and impairment reversals (losses)	(18,079)	(2,162)	(20,240)
Nonrecurring income (expenses)			(4,298)
Finance income (expenses)			(8,903)
Income taxes			(8,196)
Profit from discontinued operations			-
Profit for the year			9,551

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Net invested capital	234,110	38,084	272,194
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Comments on the segment information in the above tables are as follows:

The **Make-Up Business Unit** reports revenues of €306,694 thousand, increasing €4,034 thousand, or 4.8%, compared to the prior year.

EBITDA<sup>1</sup>, represented by Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses), decreased by €51 thousand from €42,228 thousand to €42,177 thousand.

The change in EBITDA is basically due to the significant contraction recorded in the mass-market in North America, with a consequent effect of lower fixed cost absorption by the American production facility, as well as a different regional and product mix, partially offset by the improvement in the margins of the Europe area.

**Skin care Business Unit:** sales, now at €43,270 thousand, record an increase of €6,170 thousand, or 16.6% compared to December 31, 2013.

EBITDA grew by €2,911 thousand from €6,100 thousand to €9,011 thousand, showing an improvement that is more than proportional to the increase in sales.

The upturn in EBITDA in 2014 is linked to the significant increase in volumes with a consequent greater capacity to absorb fixed costs and also the improvement in general productivity generated by a favorable product mix, lower obsolescence costs and operating cost restraints.

Detailed information relating to the geographical area of revenues is reported according to the location in which the recipient of the invoice has its headquarters.

<i>(in € thousands)</i>	2014	2013
<b>Revenues</b>		
Americas	128,025	136,906
EMEA	178,912	156,403
Asia	43,028	36,451
<b>Total</b>	<b>349,965</b>	<b>329,760</b>

The geographical breakdown of revenues shows differing trends in different areas. In particular:

<sup>1</sup> EBITDA thus defined represents a performance measure used by management to monitor and evaluate its operating performance. EBITDA is not an IFRS performance measure and should not be considered as an alternative to the assessment of the Group's trend in operating profit. Since the composition of EBITDA is not regulated by IFRS, the criteria used in its determination by the Group may not be the same as those adopted by other companies and therefore is not a comparable performance measure.

- The Americas area displays a decrease in sales of €8,881 thousand, or 6.5%, compared to the prior year. The trend can mainly be ascribed to the contraction of the mass market which for the Americas represents approximately 57% of revenues in 2014. This contraction is partially offset by the positive change recorded in Prestige sales of 10%.
- The EMEA area reported sales of €178,912 thousand compared to €156,403 thousand in 2013, with an increase of €22,509 thousand, or 14.4%. The increase is largely due to Prestige sales which grew 31%.
- Sales in the Asia area went from €6,451 thousand in 2013 to €43,028 thousand in 2014, increasing €6,577 thousand, or 18%, and now accounts for 12.3% of the Group's sales in 2014 compared to 11% in 2013.

Assets of the Group by geographical area are as follows:

<i>(in € thousands)</i>	2014	2013
<b>Assets</b>		
Americas	74.259	68,924
EMEA	276,841	281,861
Asia	56,966	42,034
<b>Total</b>	<b>408,066</b>	<b>392,818</b>

Capital expenditures of the Group by geographical area are as follows:

<i>(in € thousands)</i>	2014	2013
<b>Capital expenditures</b>		
Americas	2,937	2,218
EMEA	10,233	6,011
Asia	4,867	1,217
<b>Total</b>	<b>18,037</b>	<b>9,446</b>

Capital expenditures in the Americas area in 2014 include €2,221 thousand for the purchase of machinery and equipment by Intercos America to increase productivity and the productive capacity of the filling and pencil departments and €716 thousand for the activities necessary for the completion of the Intercos do Brasil production site, of which €660 thousand is for office furniture and equipment.

The EMEA area shows capital expenditures of €10,233 thousand of which €3,116 thousand is in Intercos Europe S.p.A. and €5,902 thousand in CRB S.a. In both of these companies the capital expenditures were for new machinery totaling €2,660 thousand and new industrial equipment amounting to €712 thousand. CRB S.a. in particular spent €4,856 thousand to purchase new land and the relative building in order to increase its productive capacity. Additional details are provided in Note 6 "Significant events in 2014".

As for the Asia area the Group, through the subsidiary Intercos Technology Ltd, spent a total of €4.2 million in capital expenditures, of which €3.3 million refers to the construction of the new production site in China.

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## 6. Significant events in 2014

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

During 2014 the following transactions were entered into which changed Intercos S.p.A.'s shareholder base:

- In May 2014 DAFE 5000 S.r.l., a company held by Dario Ferrari, purchased the 19.91% stake held by Broletto 1 S.r.l. in Intercos S.p.A.
- In July 2014, the extraordinary shareholders' meeting resolved to cancel the par value of the 10,710,193 outstanding shares of the Company representing the entire share capital and eliminate the existing special share classes by converting the shares into ordinary shares. After these resolutions, the share capital of the Company totaled €10,710,193 and consisted of 9,131,987 ordinary shares. Again during the same shareholders' meeting held on July 17, 2014, each share (now no par value shares) was divided into 10 no par value shares so that the share capital of the Company of €10,710,913 was consequently divided into 91,319,870 ordinary shares.
- Finally, after abandoning the project for the Company's listing during the year, on December 16, 2014 the company "CP7 Beauty Luxco S.à r.l.", part of the American Catterton group, purchased 43% of the share capital of Intercos S.p.A.

Consequently at the balance sheet date the share capital of the Company is held as follows:

SHAREHOLDERS	NUMBER OF SHARES	% HELD
DAFE 4000 S.P.A.	<u>37,591,900</u> Class "A"	41.165%
DAFE 5000 S.R.L.	<u>14,032,456</u> Class "A"	15.366%
CP7 BEAUTY LUXCO S. À R.L.	<u>39,267,544</u> Class "B"	43%
MANAGERS	<u>427,970</u> Special Class "C"	0.469%

Finally, in January and February 2015, several managers sold shares totaling 0.086% of capital to the company “Dafe 3000 S.r.l.”.

During the course of 2014 the Group took certain steps towards its restructuring that can be summarized by the following transactions:

- On March 4, 2014 the dispute with Tata Consultancy Services Italia S.r.l. was definitively closed before the Milan Courts with a settlement agreement. This represents a full and final settlement for all intents and purposes and led to the recognition of nonrecurring income of €1,804 thousand.
- On March 12, 2014 the board of directors of Drop Nail S.r.l. passed a resolution to request financial support from its shareholders, Intercos S.p.A. and Paragon Cosmetics S.r.l, to be effected through a capital contribution payment of €100 thousand, in proportion to the shares held in the company by the shareholders.
- On June 26, 2014, the board of directors of Intercos S.p.A. passed a resolution to form a Korean-registered company named “Intercos Korea”, which manufactures and markets cosmetic products and performs R&D activities as its business purpose. The company was in fact formed on August 11, 2014 and is 100%-owned; the investment amounts to KRW 100,000,000 (equivalent to approximately €75,000).
- On July 15, 2014 the legal action brought on American territory relating to a dispute over the use of a patent was definitively closed.
- On July 18, 2014 Intercos S.p.A. filed the listing admissions application with Borsa Italiana S.p.A. to obtain the admission decision pursuant to art. 2.4.9 of the Rules of the Markets Organized and Managed by Borsa Italiana S.p.A. and the request for the authorization to publish a Prospectus prepared pursuant to Consob Regulation 11971 of May 14, 1999 and article 4 of Regulation (EU) 809/2004 of April 29, 2004 with Consob. On October 1, 2014 authorization was obtained from Consob for publication of the Prospectus but afterwards, on October 9, 2014, following the abrupt deterioration of the conditions of the international stock markets, the board of directors withdrew the offering for the sale and subscription of the company’s shares.
- On July 28, 2014 the parent Intercos S.p.A. reached an agreement with the lending banks to amend the pool loan contract. Such agreement did not amend the total amount of the loan but modified the economic terms of the loan in addition to several contract clauses relating to the change of control and financial covenants. The renegotiation of the terms also extended the main repayment dates of the loan to 2018 and 2019 from the original dates in 2015 and 2016. In March 2015 the Company concluded another agreement to restructure its financial structure which is described in greater detail in Note 36 “Subsequent events”.

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- On October 31, 2014 CRB S.a. finalized the purchase of the land and building directed towards increasing the productive capacity of the company. Specifically the signed contract sets a global sales price for the property of CHF 5.5 million which is composed of the value of the land for CHF 2 million and the value of the building for CHF 3.5 million.
- By resolution passed by the board of directors on November 17, 2014 a decision was taken to increase the share capital of the subsidiary “Intercos Korea Limited” for a total of KRW 1,345,000,000 (€1,000,000) (including any share premium), bringing the investment to a total of €1,075,000.
- In the extraordinary shareholders’ meeting held on December 12, 2014 a resolution was passed to adopt the new bylaws, with conversion of the ordinary shares into three classes of stock. The denomination, the city of the registered office, the business purpose and the share capital have remained unchanged. The bylaws became effective on December 16, 2014, the closing date of the so-called Catterton Operation, in particular with CP7 Beauty Luxco S.a r.l., a company of the Catterton Group, as better described under “Significant events in 2014”.

## NOTES ON THE MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. Property, plant and equipment

Movements in Property, plant and equipment in 2014 are as follows:

<i>(in € thousands)</i>	<i>December 31, 2013</i>	<i>Increases / Depreciation</i>	<i>Translation differences / Reclassifications</i>	<i>Decreases / Utilization</i>	<i>December 31, 2014</i>
<b>Historical cost</b>					
Land and buildings	<b>104.545</b>	8.989	11.412	0	<b>124.946</b>
Plant and machinery	<b>106.815</b>	4.792	(516)	(252)	<b>110.840</b>
Industrial equipment	<b>32.153</b>	1.086	(417)	(17)	<b>32.805</b>
Office furniture and equipment	<b>9.882</b>	1.852	1.337	8	<b>13.079</b>
Motor vehicles and internal transportation equipment	<b>2.364</b>	133	13	(150)	<b>2.360</b>

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Cell phones	13	1	7	0	21
Assets under construction and payments on account	735	1.184	(825)	(15)	1.080
<b>Total</b>	<b>256.507</b>	<b>18.038</b>	<b>11.012</b>	<b>(426)</b>	<b>285.130</b>
<b>Accumulated depreciation</b>					
Land and buildings	47.289	5.307	6.940	0	59.535
Plant and machinery	82.935	6.506	(287)	(147)	89.007
Industrial equipment	29.022	1.693	(512)	(18)	30.186
Office furniture and equipment	7.944	739	310	(40)	8.953
Motor vehicles and internal transportation equipment	1.816	262	12	(150)	1.940
Cell phones	12	0	8	0	20
Assets under construction and payments on account	0	0	0	0	0
<b>Total</b>	<b>169.018</b>	<b>14.508</b>	<b>6.469</b>	<b>(355)</b>	<b>189.640</b>
<b>Net carrying amount</b>	<b>87.489</b>	<b>3.530</b>	<b>4.543</b>	<b>(71)</b>	<b>95.490</b>

Capital expenditures in the Americas area in 2014 include €2,221 thousand for the purchase of machinery and equipment by Intercos America to increase productivity and the productive capacity of the filling and pencil departments and €716 thousand for the activities necessary for the completion of the Intercos do Brasil production site, of which €660 thousand is for office furniture and equipment.

The EMEA area shows capital expenditures for €10,233 thousand of which €3,116 thousand is in Intercos Europe S.p.A. and €5,902 thousand in CRB S.a. In both of these companies the capital expenditures were for new machinery totaling €2,660 thousand and new industrial equipment amounting to €712 thousand. CRB S.a. in particular spent €4,856 thousand to purchase new land and the relative building in order to increase its productive capacity (additional details are provided in Note 6 “Significant events in 2014”).

As for the Asia area the Group, through the subsidiary Intercos Technology, spent a total of €4.2 million in capital expenditures, of which €3.3 million refers to the construction of the new production site in China.

## 8. Intangible assets

Movements in Intangible assets in 2013 and 2014 are as follows:

<i>(in € thousands)</i>	<i>December 31, 2012</i>	<i>Increases</i>	<i>Decreases/ Adjustments/ Translation differences</i>	<i>Reclassifications</i>	<i>Amortization</i>	<i>December 31, 2013</i>
Development costs	10,435	872	(89)	83	(4,257)	7,044
Patent rights	2,202	185	21	844	(1,432)	1,820
Concessions and licenses	233	22	-	-	(61)	194
Assets under development	3,166	4,480	-	(969)	-	6,677
Other intangible assets	549	292	-	(18)	(13)	810
<b>TOTAL</b>	<b>16,585</b>	<b>5,851</b>	<b>(68)</b>	<b>(61)</b>	<b>(5,764)</b>	<b>16,545</b>

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<i>(in € thousands)</i>	<i>December 31, 2013</i>	<i>Increases</i>	<i>Decreases/ Adjustments/ Translation differences</i>	<i>Reclassifications</i>	<i>Amortization</i>	<i>December 31, 2014</i>
Development costs	7,044	2,688	185	5,143	(4,006)	11,054
Patent rights	1,820	1,110	65	1,850	(1,110)	3,736
Concessions and licenses	194	185	60	707	(100)	1,045
Assets under development	6,677	3,553	0	(6,650)	0	3,580
Other intangible assets	810	0	21	(167)	(36)	628
<b>TOTAL</b>	<b>16,545</b>	<b>7,537</b>	<b>330</b>	<b>883</b>	<b>(5,252)</b>	<b>20,043</b>

Increases in intangible assets total €7,537 thousand and refer mainly to the following changes:

- “Development costs” capitalized for €9,938 thousand, of which €3,250 thousand refers to uncompleted projects classified in “Assets under development”. These projects are mainly conducted by Intercos S.p.A.
- Patent rights expenses capitalized for €1,110 thousand, of which €303 thousand is classified in “Assets under development” and incurred for the completion of the implementation of the Hyperion system in Intercos S.p.A. and €814 thousand for the installation of the SAP system at the Chinese subsidiaries.

The increase in “Assets under development” refers to the costs of R&D projects still under development in Intercos S.p.A. for €3,553 thousand. Such projects are mainly being developed by Intercos S.p.A. and the subsidiary Intercos America.

“Assets under development” increased by €3,553 thousand and include:

- R&D projects of €3,250 thousand;
- Engineering Technology projects of €303 thousand.

The increases in 2014 refer to: (i) €1,833 thousand for the new “Bis Cotto Back Injection” project begun in January 2014, which aims to develop a system able to ensure that the new products generated by the integration of various technologies have very high qualitative levels that are economically advantageous; (ii) the “Nail” project with a value of €476 thousand which, with the acquisition in 2013 of the company Drop Nail, specialized in nail polishes, led during the year to the start of the development of new formulas and raw materials for the nail polish segment; (iii) the new projected named “Slurry” begun in the third quarter of 2014 with a value of €420 thousand with the aim of developing new cosmetic pressed powders with sensorial characteristics similar to those of cream products: with an extremely creamy touch, fluid smoothness on

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application and with a thin and comfortable coating; (iv) the project denominated “Marker” which also began in the third quarter of 2014 with a value of €50 thousand directed to characterizing and standardizing cosmetic inks adapted for use in colored and pearly cosmetic markers; and (v) the project entitled “Shielded Lakes, or “Innovative cosmetic pigments constituted by organic lake pigments and dyes with improved stability to heat, light and water” begun in the fourth quarter of 2014 with a value of €172 thousand.

Assets under development also include €302 thousand for the development of software needed to implement and improve the Group’s control model process.

The increases in 2014 of “Development costs” of €2,688 thousand principally refer to:

- investments made by Intercos S.p.A. for a total €1,029 thousand including those relating to “Exclusive materials and tailor made solutions for Cosmetics Applications”;
- research and development projects completed by other Group companies for raw materials and new cosmetics formulae at Intercos America (€87 thousand), Vitalab S.r.l. (€10 thousand), Drop Nail S.r.l. (€133 thousand) and CRB SA (€29 thousand).

As for the principal projects capitalized under “Development costs” also in prior years, the remaining periods of amortization are the following

- “Prisma Shine” project, year 2010, unamortized amount: €498 thousand; remaining period of amortization: 0.7 years.
- “Powder Gelling project”, year 2012, unamortized amount: €1,936 thousand, remaining period of amortization: 1.7 years.
- “Exclusive Materials” project, year 2014, unamortized amount: €3,822 thousand, remaining period of amortization: 4.3 years.
- “Back Injection” project, year 2014, unamortized amount: €1,607 thousand, remaining period of amortization: 4.7 years.

The above projects have made a significant contribution to the growth of sales in the last three years, as described in greater detail in the Report on Operations.

There are no intangible assets with an indefinite useful life.

## 9. Goodwill

Movements in Goodwill are as follows:

<i>(in € thousands)</i>	<i>December 31, 2013</i>	<i>Increases</i>	<i>Translation differences</i>	<i>December 31, 2014</i>
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Goodwill

74,472

-

459

74,931

During 2014 the Intercos Group continued to work to achieve an optimum overall structure by defining a new functional organizational structure, reorganizing the product lines and revising the relative system of control.

For purposes of the impairment test, the CGUs identified at December 31, 2013 have remaining unchanged and are represented by:

**“Make-up”** CGU: specialized in the creation, development, manufacture, distribution and marketing of powders, emulsions, lipsticks and types of cosmetics using delivery systems in the form of pens/pencils for the face, eyes and lips. This CGU is represented by almost all the companies of the Group except CRB S.A. and partially by Intercos America Inc.

**“Skin care”** CGU: introduced in 2006 following the decision to diversify the Intercos Group’s business through the acquisition of the Swiss company CRB S.a., specialized in the manufacture and marketing of cosmetic and skin care creams. This CGU is represented by the company CRB S.A. and partially by Intercos Europe S.p.A., Intercos America Inc and Intercos Technology Co Ltd.

Goodwill at December 31, 2014 is allocated as follows: €60.1 million to the Make-Up CGU and €4.8 million to the Skin Care CGU.

Goodwill increased by €459 thousand as a result of the translation to Euro.

The recoverable amount of the CGUs to which goodwill is allocated is defined using the value in use.

In particular, the value in use was determined using the discounted cash flow method by discounting to present value the operating flows resulting from the plan drawn up by company management. Specifically, the 2014-2018 profit, financial position and cash flows plan approved by the board of directors of the parent on July 17, 2014.

The valuation model determines the value in use as the sum of operating cash flows (defined as gross operating margin net of implicit income tax on operating profit, and also changes in net working capital, changes in employee severance indemnities and acquisitions and disposals of fixed assets) for each year of the plan.

The cash flows were discounted at a WACC rate (weighted average cost of capital) of 8.1% for the Make-up CGU (8.88% at December 31, 2013) and 7.5% for the Skin care CGU (8.24% at December 31, 2013), consistently with the geographic locations of such businesses. The terminal value was determined by applying a perpetual growth factor that is basically representative of the expected inflation rate of 2%

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(unchanged compared to December 31, 2013) to the operating cash flows for the last year of the normalized plan.

The value in use of the individual CGUs determined as described above is the following:

<i>(in € millions)</i>	Enterprise value	Net invested capital	Cover
Skin care CGU	181.6	38.1	143.5
Make-Up CGU	378.4	234.4	144.1
<b>Total</b>	<b>560.0</b>	<b>272.5</b>	<b>287.5</b>

No impairment losses on the carrying amount of goodwill resulted from the impairment tests conducted at December 31, 2014 as the value in use determined for each of the CGUs identified was higher than the relative carrying amount (net invested capital, inclusive of the portion of goodwill specifically allocated).

The sensitivity analyses conducted when the impairment test was performed indicated that:

- with reference to the Make-Up CGU, with the growth factor remaining the same, there would be an impairment if WACC is 11.8%;
- with reference to the Make-Up CGU, with the WACC remaining the same, there would be an impairment if the growth factor is negative;
- with reference to the Skin care CGU, there would be an impairment if WACC is 24.7%;
- with reference to the Skin care CGU, with the WACC remaining the same, there would be an impairment if the growth factor is negative.

## 10. Deferred tax assets

Deferred tax assets amount to €20,537 thousand at December 31, 2014 and are composed of the following:

<i>(in € thousands)</i>	December 31, 2014	December 31, 2013
Provision for inventory obsolescence	6,415	6,026
Differences from exchange adjustments	1,228	543
Fees and interest, royalties deductible on a cash basis and not paid	2,620	2,286
Provision for impairment of receivables	304	259
Provisions	769	873
Loss carryforwards	6,462	8,964
Derivatives	1,257	1,016
Temporary differences on PPE revaluations	1,020	1,104
Temporary differences regarding foreign tax laws	547	446

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<b>Total</b>	<b>20,623</b>	<b>21,517</b>
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The decrease compared to December 31, 2013 is attributable mainly to the utilization of tax loss carryforwards by Intercos S.p.A. in calculating its current income taxes at the reporting date.

## 11. Other non-current receivables

Other non-current receivables are detailed in the following table:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
VAT receivables	5,303	6,700
Interest on VAT receivables	508	509
Security deposits	595	269
<b>Total</b>	<b>6,406</b>	<b>7,478</b>

The decrease of €1,072 thousand is mainly due to the reclassification to current receivables of the VAT receivable relating to 2010 for an amount of €1,400 thousand for which a guarantee was provided in February. Other VAT receivables for which refund requests were filed are shown as non-current since it is believed that their settlement will not take place in 2015. They refer to refund requests filed for €2,300 thousand in 2009 and for €3,000 thousand in 2011.

## 12. Inventories

Details of Inventories are as follows:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Raw materials, packaging and consumables	28,975	31,473
Semifinished products	23,976	25,286
Finished products and merchandise	11,153	7,251
<b>Total</b>	<b>64,104</b>	<b>64,010</b>

In 2014 inventories increased by €4 thousand, + 0.1%.

The above balance is net of the provision for inventory writedowns which shows the following movements

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during 2014:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Beginning balance	20,595	14,567
Accrual	10,337	11,569
Utilization	(10,047)	(5,541)
<b>Ending balance</b>	<b>20,885</b>	<b>20,595</b>

The Intercos Group adopts a uniform method for the measurement of its obsolete inventories. Under this approach all materials that have had no movement for more than 12 months are written down 100%, given that after this period the semifinished and finished product have only a limited possibility of being reused for either marketing and/or production.

Movements show that the utilization during the year was significant on account of the destruction of products principally by Intercos Europe and Intercos America.

### 13. Trade receivables

Details of Trade receivables are as follows:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Receivables from third parties	74,041	73,555
Provision for impairment of receivables	(1,148)	(976)
<b>Total</b>	<b>72,893</b>	<b>72,579</b>

Trade receivables increased by €14 thousand, or 0.4% compared to December 31, 2013 due to the Europe area.

Movements in the provision for impairment of receivables in 2014 are as follows:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
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Beginning balance	977	1,686
Accrual	709	549
Utilization	(537)	(1,258)
<b>Ending balance</b>	<b>1,148</b>	<b>977</b>

The balance of trade receivables is shown net of the provision for the impairment of receivables. This provision is calculated in an analytical manner, dividing the receivables by class according to the level of risk and applying a percentage of loss to each class on the basis of historical experience.

The fair value measurement of trade receivables and other receivables did not produce significant effects as compared with the carrying amounts.

#### 14. Other current receivables

Details of Other current receivables are as follows:

<i>(in € thousands)</i>	December 31, 2014	December 31, 2013
Receivables from the tax authorities	15,579	8,784
Sundry receivables	2,489	3,886
Advances to suppliers	1,513	1,243
Accrued income and prepaid expenses	1,266	1,074
<b>Total</b>	<b>20,847</b>	<b>14,987</b>

Other current receivables increased by €5,860 thousand, or 39.1%, mainly owing to the increase in current VAT receivables of €3,128 thousand and due to the reclassification of VAT receivable relating to 2010 from non-current receivables for an amount of €1,400 thousand.

“Accrued income and prepaid expenses” mainly include costs recorded according to contract terms and on the basis of the matching of costs and revenues.

#### 15. Cash and cash equivalents

Cash and cash equivalents decreased by €1,014 thousand from €33,741 thousand at year-end 2013 to €32,727 thousand at December 31, 2014.

The change in cash and cash equivalents is presented in the statement of cash flows.

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Bank and postal deposits	32,408	33,103
Cash on hand	319	638
<b>Total</b>	<b>32,727</b>	<b>33,741</b>

## 16. Equity

### *Share capital*

Share capital at December 31, 2014 is unchanged compared to December 31, 2013 and amounts to €10,710,193; it is represented by 91,319,870 no par value ordinary shares divided as follows:

51,624,356 Class A shares

39,267,544 Class B shares

427,970 Class C shares

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

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

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

The following table presents the situation at December 31, 2014:

	<i>Number of shares</i>	<i>Amount</i>
December 31, 2014 (S.p.A. shares)		
Number of Class A shares	51,624,356	5,330,000
Number of Class B shares	39,267,544	50,193
Number of Class C shares	427,970	5,330,000
December 31, 2013 (S.p.A. shares)		
Ordinary shares	5,330,000	5,330,000
Class B special ordinary shares	50,193	50,193

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Class D special ordinary shares	5,330,000	5,330,000
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#### *Other reserves*

Other reserves consist of the additional share premium reserve of €66,005 thousand.

#### *Retained earnings (Accumulated losses)*

Retained earnings (Accumulated losses) include the profit for the year attributable to the owners of the parent of €9,565 thousand including attributable actuarial losses (€1,008 thousand), retained earnings (accumulated losses) attributable to the owners of the parent from prior years of €4,191 thousand the reserve on translating foreign operations of €5,326 thousand.

#### *Non-controlling interests*

Non-controlling interests include the retained earnings (accumulated losses) attributable to non-controlling interests from prior years of €1,718 thousand, the loss for the year attributable to non-controlling interests of €78 thousand and the capital increase attributable to non-controlling interests of (€282 thousand).

## 17. Borrowings from banks and other lenders

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

### **December 31, 2013**

<i>(in € thousands)</i>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Medium/long-term bank borrowings (pool)	4,395	155,127	0	159,522
Medium/long-term bank borrowings (America)	368	1,653	5,533	7,554
Medium/long-term bank borrowings (CRB S.A.)	179	798	2,289	3,266
Law 46 /Mediocredito	336	608	0	944
Finance leases payable	114	218	0	332
Fair value of derivatives	0	0	0	0
<b>Medium/long-term debt</b>	<b>5,392</b>	<b>158,404</b>	<b>7,822</b>	<b>171,618</b>
Revolving credit facility	16,000	0	0	16,000
Bank overdrafts	2,630	0	0	2,630

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Advances on invoices	29,278	0	0	29,278
Borrowings from other lenders	2,174	0	0	2,174
<b>Short-term debt</b>	<b>50,082</b>	<b>0</b>	<b>0</b>	<b>50,082</b>
Factoring companies payable	531	0	0	531
<b>Total</b>	<b>56,005</b>	<b>158,404</b>	<b>7,822</b>	<b>222,231</b>

### **December 31, 2014**

<i>(in € thousands)</i>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Medium/long-term bank borrowings (pool)	9,915	147,525	-	157,439
Medium/long-term bank borrowings (America)	4,758	2,162	-	6,920
Medium/long-term bank borrowings (CRB S.A.)	183	732	2,237	3,152
Medium/long-term bank borrowings (Technology)	498	995	430	1,923
Drop Nail loan	-	156	-	156
Law 46 /Mediocredito	609	-	-	609
Finance leases payable	209	644	-	853
Fair value of derivatives	-	-	-	-
<b>Medium/long-term debt</b>	<b>16,172</b>	<b>152,214</b>	<b>2,668</b>	<b>171,053</b>
Revolving credit facility	16,707	-	-	16,707
Bank overdrafts	1,060	-	-	1,060
Advances on invoices	18,500	-	-	18,500
Borrowings from other lenders	166	-	-	166
<b>Short-term debt</b>	<b>36,434</b>	<b>-</b>	<b>-</b>	<b>36,434</b>
Factoring companies payable	581	-	-	581
<b>Total</b>	<b>53,187</b>	<b>152,214</b>	<b>2,668</b>	<b>208,068</b>

At December 31, 2013 “Borrowings from other lenders” included €2,174 thousand relating to the collection received in 2013 and associated with the dispute with the supplier Tata. As described in Note 6, on March 4, 2014 the dispute with Tata Consultancy Services Italia S.r.l. was definitively closed before the Milan Courts with a settlement agreement and the cancellation of this payable.

The significant decrease in borrowings from banks and other lenders compared to December 31, 2013 is largely due to the following: repayment of Tranche A of the long-term loans for €4.8 million, repayment of the revolving lines for €6 million in January 2014 and €10 million in November 2014, increase in the amount of the bilateral lines drawn for €4.7 million and opening of a new loan by Intecos Technology for €1.9 million and also taking into account the exchange effect for €1.8 million.

Details of medium/long-term debt outstanding at December 31, 2014:

<i>Company</i>	<i>Bank</i>	<i>Amount</i>	<i>Internal rate of return</i>	<i>Description</i>
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Intercos S.p.A.	Bank pool	54,829	5.63%	Tranche A 2007-2018 (in EUR)
Intercos S.p.A.	Bank pool	15,215	4.58%	Tranche B 2007-2019 (in USD)
Intercos S.p.A.	Bank pool	52,395	4.52%	Tranche B 2007-2019 (in EUR)
Intercos Europe S.p.A.	Bank pool	35,000	4.52%	Tranche B 2007-2019 (in EUR)
<b>Total</b>		<b>157,439</b>		

			<i>Nominal rate</i>	
Intercos S.p.A.	Other lenders	109	3.51%	Low-rate loan Law 46 grant 10957 (EUR)
Intercos S.p.A.	Other lenders	37	3.93%	Low-rate loan Law 46 grant 11155 (EUR)
Intercos S.p.A.	Other lenders	354	3.36%	Low-rate loan Law 46 grant 11337 (EUR)
Intercos Europe S.p.A.	Other lenders	74	3.75%	Low-rate loan Law 46 2000-2015 (EUR)
<b>Total</b>		<b>609</b>		

			<i>Nominal rate</i>	
Intercos America Inc	HSBC Bank	3,523	0.2%	IDA Bond (in USD)
Intercos America Inc	HSBC Bank	3,398	2.26%	L/T HSBC loan (in USD)
CRB Sa	UBS Bank	1,697	1.08%	Filling plant loan (in CHF)
CRB Sa	BCV Bank	1,372	1.95%	Mortgage (in CHF)
Intercos Technology	HSBC Bank	1,426	6.60%	L/T HSBC loan (in RMB)

*The Internal rate of return is the rate used for LAS 39 measurements on the loans shown in the table.*

Following the events reported in Note 36 “Subsequent events”, particularly in reference to the restructuring of debt, it was necessary to define new financial covenants, therefore once the old covenants expired it was not necessary to determine the relative covenants at the end of the year.

It should be noted that since the above financial covenants were not complied with by Intercos America at the end of this year, the due date of the IDA bond of €3,523 thousand was reclassified to “current”.

### **Derivative instruments**

At December 31, 2014 there is a foreign exchange swap contract for CHF 1.5 million expiring January 15, 2015, subsequently extended to January 30, 2015, the date on which the contract was definitively extinguished. The amount of the swap contract at the balance sheet date is for an insignificant amount.

The previous derivative of \$1.5 million outstanding at June 30, 2014 was extinguished on October 27, 2014.

## **18. Provisions**

During the year an accrual of €78 thousand was made to a provision for risks in reference to a dispute with the Revenues Agency over the sale of a business to Intercos America Inc. and a dispute with personnel.

At December 31, 2014 the provisions principally refer to the following:

- €2,349 thousand for the provision for termination incentives relating to the cessation of activities at the Limbiate manufacturing site recognized after the agreement was reached for the definitive closure of the plant facilities;

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- €1,205 thousand for the provision for the estimated amount of higher customs duties still due for the years 2010, 2011 and 2012 by Intercos Cosmetics Suzhou.

The movements in Provisions in 2014 are as follows:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Beginning balance	4,554	1,959
Accrual	378	4,188
Utilization	(619)	(1,593)
<b>Ending balance</b>	<b>4,313</b>	<b>4,554</b>

## 19. Deferred tax liabilities

Deferred tax liabilities amount to €9,706 thousand at December 31, 2014.

For a better understanding, a description of the temporary differences on which deferred taxes have been calculated are presented in the following table:

<i>(in € thousands)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Land and buildings revaluation IAS 16	5,838	5,828
Exchange gains	999	142
Tax differences on PPE (elimination of tax effect/revaluations by law)	1,429	2,454
Consolidation adjustments on inventories	488	387
Consolidation adjustments on PPE (revaluations)	122	122
IAS differences on PPE (IAS 17 and others)	0	45
Differences on employee severance indemnities measurement IAS 19	153	162
Difference on fin. instruments measurement IAS 39 (effective interest)	24	238

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Other minor differences	653	381
<b>Total</b>	<b>9,706</b>	<b>9,759</b>

## 20. Employee benefit obligations

Movements in Employee benefit obligations are as follows:

<i>(in € thousands)</i>	December 31, 2014	December 31, 2013
Beginning balance	8,109	8,436
Utilizations	(410)	(296)
Interest cost	192	(121)
Actuarial gains (losses)	1,359	91
<b>Total</b>	<b>9,245</b>	<b>8,110</b>

The following table presents the assumptions used in determining the actuarial value of Employee benefit obligations at December 31, 2013 and 2014.

Intecos S.p.A.	December 31, 2014	December 31, 2013
Discount rate	1.25%	2.77%
Annual inflation rate	2.00%	2.00%
Annual rate of increase in salaries	3.00%	3.00%
Annual rate of increase in employee severance indemnities	1.50%	1.50%

CRB S.A.	December 31, 2014	December 31, 2013
Discount rate	1.50%	2.00%
Annual inflation rate	1.00%	1.00%
Annual rate of increase in salaries	1.00%	1.00%
Annual rate of increase in employee severance indemnities	1.00%	1.00%

Group headcount	December 31, 2014	December 31, 2013
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Executive and mid-level managers	205	176
White-collars	801	773
Blue-collars	1,502	1,432
<b>Total</b>	<b>2,508</b>	<b>2,381</b>

The breakdown by permanent and temporary headcount is the following:

Group headcount	December 31, 2014	December 31, 2013
Permanent	2,115	1,942
Temporary	393	439
<b>Total</b>	<b>2,508</b>	<b>2,381</b>

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

## 21. Trade payables

“Trade payables” at December 31, 2014 and at December 31, 2013 total respectively €9,856 thousand and €7,070 thousand, with an increase of €2,786 thousand.

All such payables refer to trading transactions with suppliers in the ordinary course of manufacturing and investment activities. All trade payables are due within 12 months.

The fair value measurement of trade payables and other payables did not produce significant effects as compared with the carrying amounts in view of the short period of time between the date the liability arises and its due date.

## 22. Other payables

Details of Other payables are as follows:

<i>(in € thousands)</i>	December 31, 2014	December 31, 2013
Payables to employees	11,070	8,952
Social security agencies payable	836	1,126

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Tax authorities payable	2,098	2,756
Advances from customers	3,064	2,664
Accrued liabilities	171	145
Sundry payables	2,636	2,684
<b>Total</b>	<b>19,876</b>	<b>18,327</b>

“Tax authorities” payable refers to payables for IRPEF withholding taxes on employee compensation and withholding taxes on self-employed compensation and VAT payable.

“Social security agencies” payable refers to social security costs on December compensation to employees, paid in January.

“Payables to employees” refer to vacation pay accrued and not taken, bonuses and payrolls for December paid in January.

### Guarantees and other commitments

Guarantees provided by the Group refer to guarantees in favor of third parties provided by Intercos S.p.A. of €5,407 thousand. To guarantee the September 18, 2007 loan from the banking pool, Intercos S.p.A. provided the following collateral: pledge on 100% of Intercos Europe S.p.A. shares (€3,000 thousand) and Intercos S.p.A. shares (€10,660 thousand) and special lien on company assets (plant and machinery, inventories and receivables of Intercos S.p.A. and Intercos Europe S.p.A.).

In 2008, a mortgage on the buildings at Agrate and Dovera was taken out with Banca Intesa in order to guarantee the payable equal to two times the agreed credit line (€500,000 thousand).

In 2014 a guarantee was provided to HSBC China for the credit facility granted to Intercos Technology of €2,059 thousand, in addition to a guarantee provided by HSBC Brazil in favor of the owner of the building in which Intercos do Brasil has its manufacturing activities of €248 thousand.

Reference should be made to Note 36 “Subsequent events” for updates on the new guarantees provided following the recent debt renegotiation.

## 23. Revenues

<i>(in € thousands)</i>	<b>2014</b>	<b>2013</b>
Revenues from sales and services	349,965	329,760

The increase in revenues is €20,205 thousand.

The geographical breakdown of revenues shows differing trends in different areas. In particular:

- The Americas area displays a decrease in sales of €8,881 thousand, or 6.5%, compared to the prior year. The trend can mainly be ascribed to the contraction of the mass market which for the Americas

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represents approximately 57% of revenues in 2014. This contraction is partially offset by the positive change recorded in Prestige sales of 10%.

- The EMEA area reported sales of €178,912 thousand compared to €156,404 thousand in 2013, with an increase of €22,508 thousand, or 14.4%. The increase is largely due to Prestige sales which grew 31%.
- Sales in the Asia area went from €36,450 thousand in 2013 to €43,028 thousand in 2014, increasing €6,578 thousand, or 18%, and now accounts for 12.3% of the Group's sales in 2014 compared to 11% in 2013.

Additional details are provided in Note 5 on Segment reporting.

## 24. Other income

Other income in 2014 amounts to €1,649 thousand.

<i>(in € thousands)</i>		
	2014	2013
Other revenues and costs recharged	4,589	3,995
Insurance compensation	60	60
Prior period income	-	604
Rent income	-	50
<b>Total</b>	<b>4,649</b>	<b>4,708</b>

“Other revenues and costs recharged” refer mainly to costs recharged to customers for molds, customs duties and other costs incurred on their behalf and costs recharged to suppliers, which rose in relation to the increase in volumes.

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

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

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<i>(in € thousands)</i>		
	<b>2014</b>	<b>2013</b>
Raw materials	40,362	54,468
Packaging	70,094	54,385
Semifinished products	2,731	346
Other	12,066	11,669
<b>Total</b>	<b>125,253</b>	<b>120,868</b>

Purchases of raw materials, semifinished products and consumables increased by €4,385 thousand, or 4%, from €120,868 thousand in 2013 to €125,253 thousand in 2014.

The increase in these costs is attributable to packaging and semifinished products; consumables are basically in line with the increase in revenues.

“Other” includes mainly purchases of consumables of €5,839 thousand, molds and accessories for manufacturing of €3,100 thousand and also purchases of finished products of €782 thousand.

## 26. Costs for services and leases and rents

Details are as follows:

<i>(in € thousands)</i>		
	<b>2014</b>	<b>2013</b>
Sundry services	4,218	5,566
Processing and packaging	23,052	20,796
Consulting fees	3,292	3,253
Sundry utilities	6,585	5,863
Maintenance	7,326	6,726
Leases and rents	4,785	4,904
Shipping on purchases	7,601	6,094
Shipping on sales	1,938	1,787
Internal transportation	742	925
Other transportation	763	1,083
Commissions	761	907
Sterilization of materials	80	92
Legal and notary fees	737	632
Board of statutory auditors' compensation	96	99
Insurance	1,089	931
Local cleaning	1,208	897

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Travel and trips	2,548	2,184
Security and cleaning	936	785
Computer costs	1,892	1,703
Other costs	3,237	2,926
<b>Total</b>	<b>72,886</b>	<b>68,153</b>

Costs for services and leases and rents on the whole increased in 2014 by €4,733 thousand, or 6.9%, from €68,153 thousand in 2013 to €72,886 thousand in 2014.

“Consulting fees” include expenses for the performance of administrative, technical and commercial consulting of €1,349 thousand.

“Processing and packaging” include costs relating to the use of external parties commissioned for certain processing stages which, during the year, increased €2,256 thousand compared to 2013.

“Sundry services” total €4,218 thousand, decreasing €1,348 thousand compared to the prior year. Such services include costs for warehousing, laboratory analyses and other sundry service costs.

“Other costs” total €3,237 thousand, with an increase of €11 thousand over 2013.

## 27. Employee benefit expenses

Details of Employee benefit expenses are as follows:

<i>(in € thousands)</i>		
	2014	2013
Salaries and wages	57,950	56,522
Temp work	21,420	18,874
Coordinated and continual collaboration work	679	614
Social security	12,703	11,142
Defined contribution plan costs	2,162	2,063
Board of directors' compensation	3,212	3,443
<b>Total</b>	<b>98,127</b>	<b>92,658</b>

Employee benefit expenses increased by €5,469 thousand from €92,658 thousand in 2013 to €98,127 thousand in 2014.

The Group uses temp work contracts for its manufacturing activities in order to render direct labor costs more flexible. The recovery of business in 2014 led to an increase in these costs of €2,546 thousand compared to the prior year, from €18,874 thousand in 2013 to €21,420 thousand in 2014.

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## 28. Other operating expenses

Details of Other operating expenses are as follows:

<i>(in € thousands)</i>		
	2014	2013
Accrual for impairment of receivables	709	464
Promotional expenses	594	1,074
Prior period expenses	496	1,051
Sundry taxes and duties	1,086	1,226
Association membership duties	138	131
Fuel for motor vehicles	207	158
Other costs	562	322
<b>Total</b>	<b>3,791</b>	<b>4,426</b>

Other operating costs show a decrease of €635 thousand from €4,426 thousand in 2013 to €3,791 thousand in 2014.

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

Details of Depreciation, amortization and impairment reversals (losses) are below. Further details are provided in Notes 7 and 8:

<i>(in € thousands)</i>		
	2014	2013
Depreciation of property, plant and equipment	14,316	15,100
Amortization of intangible assets	5,492	5,764
Impairment of taxes receivable	432	-
<b>Total</b>	<b>20,240</b>	<b>20,864</b>

“Impairment of taxes receivable” refers to the writedown of withholding taxes receivable on dividends collected in previous years from Intercos America Inc., which became available when the tax return was filed but only to the extent of the Italian tax relating to this type of foreign income. Since dividends are taxed at 5%, the dividend withholding taxes, equal to €455 thousand, were only recognized for 5% of that amount, or €23 thousand, and difference was recorded as an impairment loss.

## 30. Nonrecurring income (expenses)

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Details are as follows:

<i>(in € thousands)</i>		
	2014	2013
Nonrecurring expenses	(6,286)	(5,584)
Nonrecurring income	1,989	0
<b>Total</b>	<b>(4,298)</b>	<b>(5,584)</b>

Nonrecurring expenses in 2014 amount to €6,286 thousand and mainly refer to the costs for the share listing process begun and then abandoned in 2014 owing to the abrupt deterioration of the financial markets, for €5,208 thousand, and the costs for the continuance of legal action on American territory relating to a dispute over the use of a patent, for €275 thousand.

Nonrecurring income totaling €1,989 thousand relates for the most part to the conclusion of the dispute with Tata Consultancy Services Italia S.r.l., as better described in Note 6.

### 31. Finance income (expenses)

Financial income (expenses) show a net finance expense balance of €8,903 thousand in 2014. Details are as follows:

<i>(in € thousands)</i>		
	2014	2013
Interest from the tax authorities	-	(184)
Sundry interest	(39)	(64)
<b>Finance income</b>	<b>(39)</b>	<b>(248)</b>
Interest on short-term borrowings and other	1,718	609
Interest on medium/long-term borrowings	4,138	5,577
Interest differential on interest rate swaps	-	2,080
Effective interest under IAS 39	2,707	1,642
Interest on leases under IAS 17 application	(3)	7
IRS fair value adjustment	-	(2,095)
Bank charges	550	336
<b>Interest and bank charges</b>	<b>9,110</b>	<b>8,156</b>
Foreign exchange gains	(7,641)	2,517
Foreign exchange losses	7,473	(2,116)
<b>Net foreign exchange</b>	<b>(168)</b>	<b>401</b>
<b>Total</b>	<b>8,903</b>	<b>8,309</b>

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### 32. Income taxes

Details of Income taxes are as follows:

<i>(in € thousands)</i>		
	2014	2013
Current income taxes	6,181	10,011
Deferred income taxes	2,168	(4,009)
Prior years' taxes	(154)	322
<b>Total</b>	<b>8,196</b>	<b>6,324</b>

The tax charge in 2014 is €8,196 thousand and is composed of €6,181 thousand of current income taxes and deferred income taxes of €2,168 thousand.

The Group utilized tax loss carryforwards in 2014 for a total of €8,063 thousand.

For current income taxes, the tax charge is based on the taxable income arising from the profit for the year and taking into account the use of any tax loss carryforwards and applying the nominal tax rate in effect in each country.

The reconciliation between the tax charge recognized in 2014 in the consolidated financial statements and the theoretical tax charge based on the theoretical tax rate in Italy is as follows:

<i>(in € thousands)</i>	2014	
	Amount	Rate
<b>Pre-tax profit</b>	<b>17,747</b>	
Theoretical tax charge	4,880	27.50%
IRAP	2,017	11.37%
Effect of increases in permanent difference Italy	1,606	9.05%
Effect of decreases in permanent differences in Italy	(514)	-2.89%
Effect of tax changes at foreign companies	711	4.00%
Effect of different tax rate at foreign companies	(505)	-2.84%
<b>Tax charge in income statement</b>	<b>8,196</b>	<b>46.18%</b>

### 33. 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.

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The effects of related party transactions on the consolidated income statement in 2014 and the consolidated statement of financial position at December 31, 2014 are as follows:

<b>Related party</b> <i>(in € thousands)</i>	<b>Cost for services and leases and rent</b>	<b>Directors' compensation</b>	<b>Employee benefit expenses</b>	<b>Other current receivables</b>	<b>Trade payables</b>
DAFE International	129				-
SCI Maragia	46			106	16
Morri Cornelli e Associati	241				165
Family and relatives of Dario Ferrari			107		
My Style	14				
Interior	19				24
Arterra	966	50			189
<b>Total</b>	<b>1,415</b>	<b>50</b>	<b>107</b>	<b>106</b>	<b>394</b>

The persons identified as key executives are mainly the directors of the various companies of the Group. Their compensation is disclosed in the following Note 34.

#### 34. Compensation to the board of directors and board of statutory auditors

The costs relating to the compensation of the boards of the companies for 2014 are as follows

<i>(in € thousands)</i>	<b>Compensation</b>
Board of directors	3,212
Board of Statutory Auditors	96
<b>Total</b>	<b>3,309</b>

#### 35. Contingent liabilities

At December 31, 2014 the Company has not recorded any contingent liabilities.

#### 36. Subsequent events

- At the meeting of the board of directors' held on January 27, 2015, considering the favorable financial market situation, the board illustrated its intention to refinance its principal debt in order to
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obtain more favorable conditions as compared to the debt renegotiation process in July 2014. Specifically, the current senior loan contract of €181 million that was last amended on July 28, 2014 was replaced with: (1) a €20 million bond maturing seven years from issue at a fixed rate of 3.875%; and (2) a new loan agreement of €80 million due at the end of 2020 at a lower variable rate than under the old loan agreement (variable rate linked to the 1M, 3M and 6M Euribor/Libor plus a spread of between 1.50% and 2.65% depending on the extent of indebtedness). The debt restructuring was finalized on March 27, 2015. The bond is listed on the Irish stock exchange and was subscribed to initially by institutional investors and the new loan contract is with “Banca IMI S.p.A.” and “Unicredit”.

- As a result of the above described operation, a pledge and a lien on Intercos S.p.A. and Intercos Europe S.p.A. shares for €9,064 thousand have been provided to the pool of banks as collateral on the loan which is due on December 31, 2020.
- On March 6, 2015, the Company signed a non-binding term sheet with the shareholders of the company “Hana Co. Ltd.”, with registered office in Hwasung, Korea at 22-15 Juseok-ro 184beon-gil (Bukyang-dong), in which the basic terms and conditions were outlined under which the Company would be prepared to undertake a negotiation for the purchase of 20% of the share capital of Hana (through the subscription of a new issue of shares) and the creation of a joint venture with the shareholders of Hana. Subsequently, on April 17, 2015, after approval by the board of directors on April 10, 2015, the Company signed the following binding contracts with Hana shareholders: (i) “Share Subscription and Share Purchase Agreement”, which governs the manner in which the Company would become shareholders of Hana, and the “Shareholders Agreement”, which regulates, *inter alia*, the future corporate governance of Hana.

Milan, May 22, 2015

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

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