INTERCOS GROUP
Global Cosmetic Manufacturer

CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2015

PREPARED IN CONFORMITY WITH IFRS
ADOPTED BY THE EUROPEAN UNION

Intercos S.p.A.
Registered Office
Milan - Piazza Generale Armando Diaz 1

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel: +39 02 722121
Fax: +39 02 72212037
ey.com

Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of Intercos S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Intercos Group, which comprise the statement of financial position as at December 31, 2015, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Reconta Ernst & Young S.p.A.
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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Intercos Group as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

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

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by the law, on the consistency of the Report on Operations with the consolidated financial statements. The Directors of Intercos S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. In our opinion the Report on Operations is consistent with the consolidated financial statements of the Intercos Group as at December 31, 2015.

Milan, April 8, 2016

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

Consolidated Financial Statements at December 31, 2015

REPORT ON OPERATIONS

1. *Profit and financial performance*

In 2015 the Intercos Group affirmed the success of its strategy and its leadership position in the field of innovation, in the Color Cosmetic and Skin Care markets through product diversification.
The Group continues to grow in all distribution segments, in full service platforms and in the emerging markets of the Asia Pacific region and in Brazil.

The year thus featured an increase in orders and revenues in all geographical areas and Business Units.

Under the options permitted by IAS 1 for the presentation of the financial statements, the Group adopted a format based on revenues and cost of sales (expenses by function) for the income statement, which is considered to better representation of the performance of the Group. Since the year 2015 is the first time this format is being use, for purposes of comparison, the prior year's 2014 financial statements have been reclassified.

The Group reports **revenues** from sales in 2015 of €401,767 thousand compared to €349,127 thousand in 2014, with an increase of €52,640 thousand, or 15.1%.
Adjusted EBITDA* in 2015 is a positive €59,844 thousand, with a 14.9% adjusted EBITDA margin against 14.7% in the prior year.
Operating profit **(EBIT)** is €37,297 thousand, with a 9.3% EBIT margin compared to 7.6% in 2014.

Capital expenditures in property, plant and equipment and intangible assets are respectively €14,537 thousand and €7,444 thousand.

The **net financial position** is equal to €148,596 thousand from €175,341 thousand at December 31, 2014; this is a significant improvement of €26,745 thousand over 2014 due to a better management of **net working capital** which improved by €11,973 thousand.

Equity is €118,390 thousand compared to €96,853 thousand at December 31, 2014, increasing by €21,537 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*

Global economic growth continues, although it has been slightly penalized by the difficulties encountered by the larger emerging economies.

In the United States, the services and construction segments are growing more than the manufacturing segment and unemployment continues to fall. In December, the rise in interest rates on Federal Funds implemented by the Federal Reserve, motivated by the significant improvement in the labor market, marks the end of the United States policy of zero interest rates adopted since 2008.

The slowdown of the Chinese economy had a negative impact on the prices of raw materials and on business in emerging countries. The fact that high levels of investment and indebtedness have returned in China is a sign of the fragility of the country itself and poses a threat to the global economy.

In the Eurozone, the recovery of economic activity continued. Until now, the global slowdown has had a limited effect on the area but, in terms of the future outlook, constitutes a risk for a fall in growth and inflation, triggered by the weakness of foreign demand and the fall in oil prices of the last few months. In December, the Governing Council of the ECB introduced further expansive measures and extended the securities markets program, and is prepared to intervene again if necessary.

In Italy, the recovery is continuing gradually. Exports, which have sustained activity over the last few years, were affected by the weakness of extra-European markets, and are gradually being replaced by domestic demand. In the fourth quarter GDP increased in a similar way to that of the third quarter (when it grew by 0.2 per cent).

Unemployment in Italy dropped to 11.4% in the two months of October and November, the lowest level since the end of 2012.

In December inflation fell to 0.1 per cent year-over-year. In the next few months, the expectations of households and businesses suggest a modest growth in prices. Inflation is being affected by the recent fall in fuel prices, but also by the persisting broad margins of under-utilization of productive capacity, which is contributing to keeping the basic trend of prices at minimum levels.

In the autumn, funding in the private sector was strengthened; loans to businesses increased for the first time in almost four years. The relaxing of loan terms continued: the average cost of new loans to businesses is at a record low and the differential against the corresponding average rate in the Eurozone is now nil: at the end of 2012 it was equal to approximately 1 percentage point.

3. *Market scenario*

The **global market of the Color Cosmetics sector**, which has a retail value of approximately USD 58 billion, is up 6.5% year-over-year 2015 compared to 5.8% year-over-year 2014.

As for the different geographical areas, Western Europe grew by 3.4% from 2.2% in 2014.

The North American market shows a recovery of 2.3% over 1.6% in the prior year.

The Asian market (excluding Japan) expanded by 11.4% compared to 2014. China in particular is up 11.5% vs 2014 in a market worth USD 3.8 billion.

Emerging markets display a positive trend (+9.7%), including Brazil which records an increase of 9.5% compared to 2014.

4. *Relevant factors significantly impacting operating performance*

Technological innovation

The Intercos Group has adopted an R&D investment policy geared to identifying and developing 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; this know-how gives the Group an advantage in adapting to the changing demand of consumers, actively anticipating them and influencing them.
In 2015 the Intercos Group employed about 617 resources dedicated to innovation, creating over the course of just one year more than 527 color cosmetics formulae that became products, 39 new raw materials and over 690 new skin care formulae.

Market expansion thanks to new customer categories

The entry of new player in 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 categories of clients has made it possible to reach end consumers that were not previously served. This has enabled the Intercos Group to extend its offering of services since these new categories of customers do not have their own manufacturing capabilities and require a “full” service platform. The platform comprises not only the creation of the product but also its packaging and, if necessary, the marketing concept.

5. *Profit and financial review of the Intercos Group*

With the intention of providing information in line with the analysis and control parameters used by management of the Group, the consolidated statement of financial position at December 31, 2015 and the consolidated income statement for the year then ended, as well as the comparative statements at December 31, 2014 have been reclassified and supplemented with non-GAAP alternative performance measures.
The reclassifications had no effect on the net profit or the equity reported in the consolidated financial statements.

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

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

- **EBITDA:** is calculated as profit before taxes, financial income (expenses) without any adjustment and depreciation, amortization and impairment reversals (losses). EBITDA also excludes income (expenses) from the result of unconsolidated companies and securities, as well as gains or losses on disposal of consolidated investments, classified under Financial income (expenses) or for the share of the profit (loss) of investments accounted for using the equity method (non-operating) within the item Result from investments accounted for using the equity;
- **Adjusted EBITDA:** is calculated by the deducting the following, if applicable, from EBITDA, as defined above:
  - impairment of goodwill, if any;
  - amortization of the portion of the purchase price allocated to intangible assets in a business combination, as established in IFRS 3;
  - restructuring costs, under specific and significant restructuring plans;
  - nonrecurring other income (expenses) referring to particularly significant events unrelated to ordinary business operations;
- **Trade Working Capital** includes inventories and trade receivables and payables;
- **Net Working Capital:** is given by trade working capital net of other current assets and liabilities;
- **Net invested capital:** is the sum of non-current assets, non-current liabilities and Net Working Capital.

- **Net debt (cash) or net financial position:** is given by the sum of current and non-current financial liabilities net of short- and long-term financial receivables, including cash and cash equivalents;
- **Workforce:** is given by the number of employees registered in the payroll book on the last day of the period under consideration.

(*in € thousands*)	**2015**	2014	Change
Revenues	*401,767*	*349,127*	*52,640*
EBITDA	*58,761*	*46,890*	*11,870*
Adjusted EBITDA	***59,844***	*51,188*	*8,656*
% of revenues	***14.9%***	*14.7%*	*0.2%*
Operating profit (EBIT)	*37,297*	*26,650*	*10,647*
% of revenues	*9.3%*	*7.6%*	*1.7%*
EBT	*24,815*	*17,747*	*7,068*
Profit	*14,804*	*9,551*	*5,253*
Net working capital	*66,141*	*78,114*	*(11,973)*
Working capital turnover	*6.07*	*4.47*	*1.60*
Net invested capital	*266,986*	*272,194*	*(5,208)*
Non-current assets	*221,245*	*217,493*	*3,752*
Net financial position	*148,596*	*175,341*	*(26,745)*
Workforce (number)	*2,795*	*2,508*	*287*
Earnings per share (basic and diluted)	*0.16*	*0.10**	*0.06*

* Earnings per share (restated)

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, Reclassified consolidated statement of financial position and consolidated net debt (cash) are presented below:

Reclassified Consolidated Income Statement by function

(in € thousands)	**2015**	2014
Revenues	**401,767**	**349,127**
Cost of sales	(302,852)	(265,471)
Gross margin	**98,915**	**83,656**
% of revenues	*24.6%*	*24.0%*
R&D and innovation costs	(25,248)	(23,064)
Selling expenses	(18,945)	(14,899)
General and administrative expenses	(19,978)	(19,178)
Other operating income (expenses), net	3,636	4,433
Nonrecurring income (expenses)	(1,083)	(4,298)
Operating profit (EBIT)	**37,297**	**26,650**
% of revenues	*9.3%*	*7.6%*
Depreciation, amortization and impairment reversals (losses)	(21,463)	(20,240)
EBITDA (*)	**58,761**	**46,890**
Nonrecurring income (expenses)	(1,083)	(4,298)
Adjusted EBITDA (**)	**59,844**	**51,188**
% of revenues	*14.9%*	*14.7%*
Financial income (expenses), net (***)	(12,588)	(8,903)
Result from investments accounting for using the equity method	106	-
Profit before taxes (EBT)	**24,815**	**17,747**
Income taxes	(10,011)	(8,196)
Profit for the year	**14,804**	**9,551**

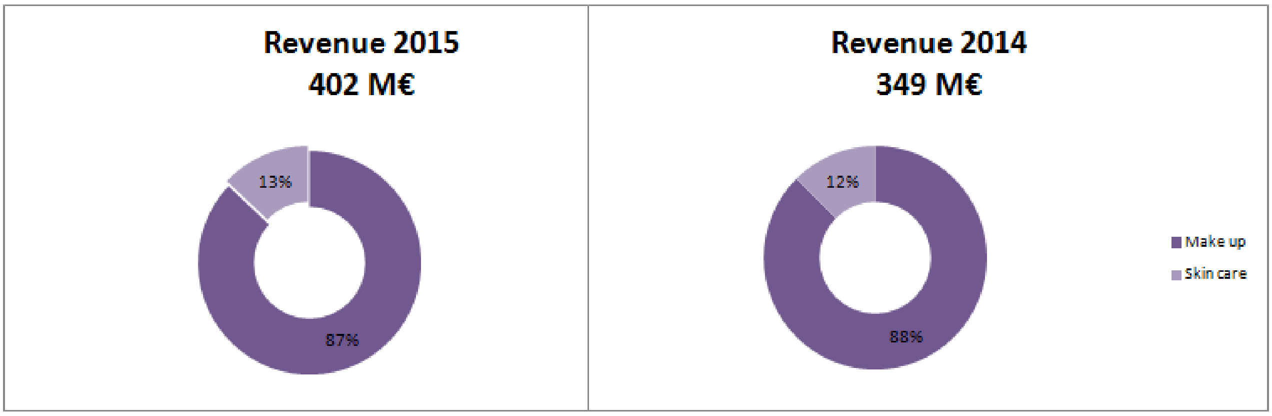
Of which:		
- attributable to the parent	14,701	9,564
- attributable to non-controlling interests	103	(14)

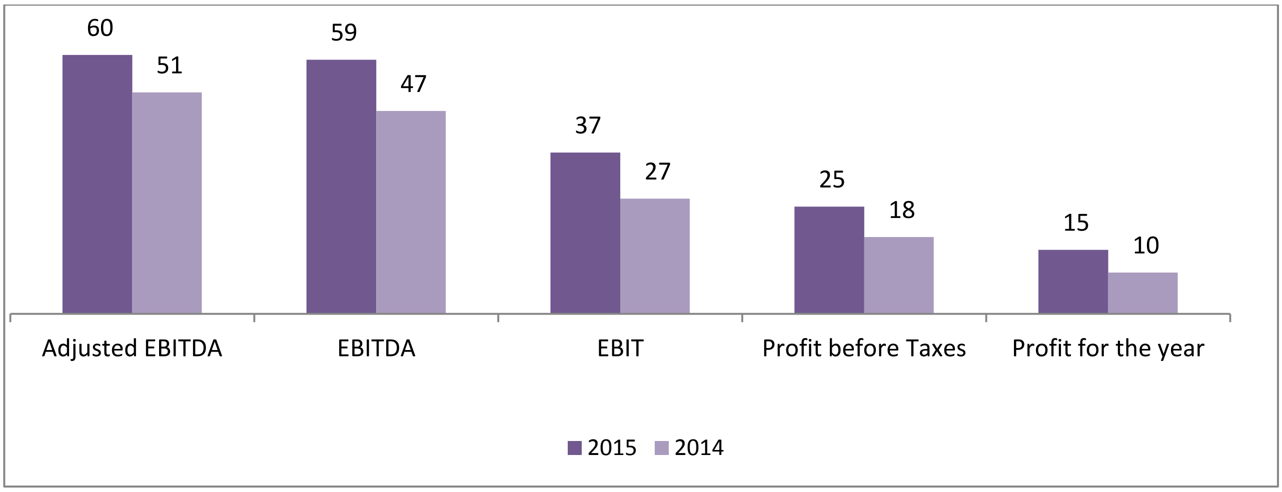
Earnings per share:		
Basic and diluted	0.16	0.10^

^ Earnings per share (restated)

Notes on the reconciliation of the Reclassified consolidated income statement and the Consolidated income statement:
(*) EBITDA is equal to Profit before taxes, Financial income and expenses without any adjustment and Depreciation, amortization and impairment reversals (losses). EBITDA also excludes the share of the profit (loss) of investments accounted for using the equity method (non-operating) within the item Result from investments accounted for using the equity method.
(**) Adjusted EBITDA is obtained by deducting nonrecurring income (expenses) from EBITDA, defined previously.

(***) Financial income (expenses) is from the sum of financial income (expenses) without any adjustment.





In 2015 consolidated **revenues** total €401,767 thousand, up 15.1% compared to 2014 and at a rate of growth higher than that of the market.

Breakdown of revenues by geographical area

A comparison of revenues by geographical area in the two years is as follows:

(in € thousands)	2015	2014
Revenues		
Americas	162,313	128,059
EMEA	190,632	178,885
Asia	48,822	42,184
Total	**401,767**	**349,127**

- *Americas area:* this area recorded 26.7% higher revenues than in the prior year mainly in the Prestige (+28%) compared to a 2.3% increase of the market.

- *EMEA area:* the Group's strategy in this market was rewarded by the development of the Emerging Brands and Specialty Shop market which recorded a 6.6% increase in sales, about double that of the growth of the market in this region.
- *Asia area:* revenues in this area are up 15.7% compared to 2014. This increase is the result of the strengthening of the Group's control over the market through significant investments in the area and in a market that grew 11.4%.

Breakdown of sales by Business Unit

Details of the composition of Revenues in 2015 compared to 2014 by Business Unit are the following:

	Year		Change	
(in € thousands)	**2015**	**2014**	**2015 over 2014**	**2015 over 2014 %**
Make-up	349,651	305,494	44,157	14.45%
Skin-care	52,116	43,633	8,483	19.44%
Total	**401,767**	**349,127**	**52,640**	**15.08%**

The Group companies that contributed to sales revenues are summarized below:

(in € thousands) Company	**12/31/2015**	12/31/2014
Intercos Europe S.p.A.	206,359	191,565
Intercos America Inc.	105,096	81,523
Intercos Technology Co. Ltd	43,310	30,350
CRB S.A.	36,753	35,345
Interfila Cosmetics (Shanghai) Co. Ltd	16,491	14,140
Intercos Cosmetics Suzhou Co. Ltd	14,891	12,644
Other companies	15,759	8,956
Aggregate Total	**438,659**	**374,522**
Eliminations	(36,893)	(25,395)
Consolidated Total	**401,767**	**349,127**

Adjusted EBITDA is a positive €59,844 thousand, an increase compared to €51,188 in 2014 following an improvement in productivity and a positive product and geographical mix. The Adjusted EBITDA margin is 14.9% and higher than last year.

Operating profit (EBIT) is €37,297 thousand and shows a significant increase over 2014 owing to the considerable improvement in productivity and a positive product and geographical mix, in addition to benefitting from lower nonrecurring expenses of €3,214 thousand.
In 2014 net nonrecurring expenses totaled €4,298 and mainly related to €5,208 thousand for 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 for costs recorded in respect of a 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.

In 2015 nonrecurring expenses total €1,083 thousand mainly due to €449 thousand for legal expenses incurred by Intercos S.p.A. in respect of an open dispute relating to a proprietary patent of the Intercos Group and €543 thousand for the increase in the provision for risks as a result of higher customs duties prudently estimated by Intercos Cosmetics Suzhou.

Profit for the year is €14,804 thousand or 3.7% of revenues, compared to a profit of €9,551 thousand reported in 2014, or 2.7% of revenues).

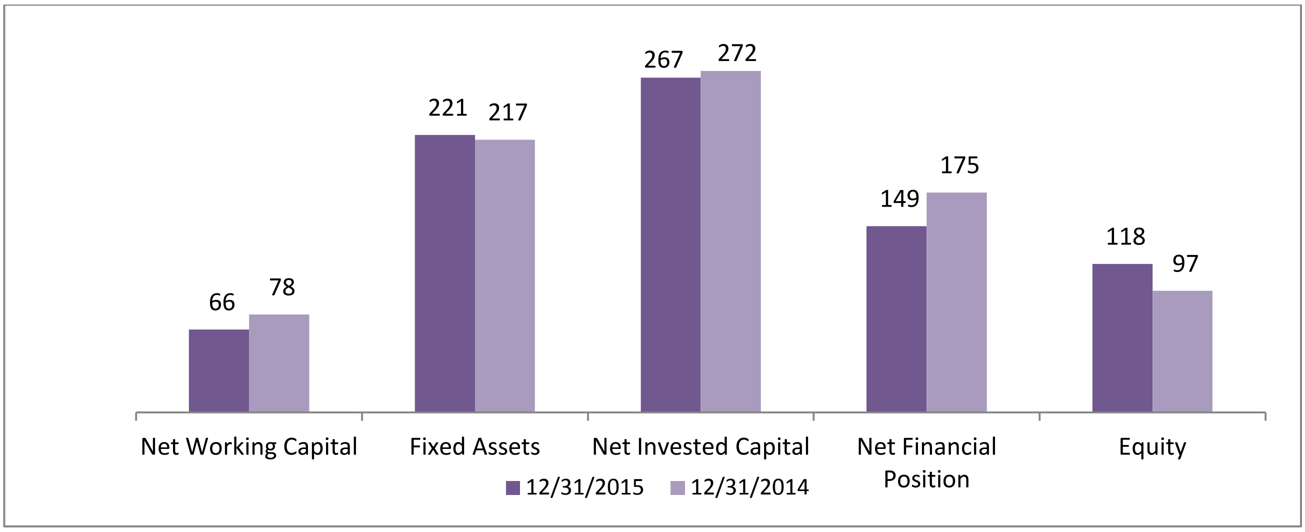
Reclassified Consolidated Statement of Financial Position

(in € thousands)	**12/31/2015**	12/31/2014
Fixed assets	**197,006**	**190,464**
Inventories	69,884	64,104
Trade receivables	73,626	72,893
Trade payables	(69,456)	(59,856)
Trade working capital	***74,054***	***77,142***
Other current assets and liabilities, net (*)	(7,913)	973
Net working capital	***66,141***	***78,114***
Other non-current assets and liabilities, net (**)	2,432	3,615
Investments accounted for using the equity method	1,408	-
Invested capital	***266,986***	***272,194***
Equity	***118,390***	***96,853***
Cash and cash equivalents	(50,683)	(32,727)
Financial payables	199,279	208,068
Net financial position	***148,596***	***175,341***
Total sources	***266,986***	***272,194***

Notes on the reconciliation between the Reclassified consolidated statement of financial position and the Consolidated statement of financial position:
(*) Other current assets and liabilities, net, Other current assets and Other current liabilities.
(**) Other non-current assets and liabilities, net include Deferred tax assets, Other non-current receivables, Non-current provisions, Deferred tax liabilities, Other non-current liabilities, Employee benefits.

Ratios

Fixed assets / Invested capital	73.90%	69.97%
Net financial position / Equity	1.26	1.81
Invested capital / Equity	2.26	2.81
Trade working capital / Revenues	18.43%	22.10%
Net working capital / Revenues	16.46%	22.37%



Capital expenditures in Property, plant and equipment and Intangible assets in 2015 total €21,981 thousand.

Actions continued in 2015 to optimize the supply chain processes and the management of working capital. This produced a considerable reduction in the Net financial position which, at December 31, 2015, is €148,596 thousand compared to €175,341 thousand at December 31, 2014.

Consolidated net debt (cash)

(in € thousands)	**12/31/2015**	12/31/2014
Current items:		
Cash and cash equivalents	(50,683)	(32,727)
Borrowings from banks and other lenders	30,321	50,097
Total current financial position	**(20,362)**	**17,370**
Non-current items:		
Borrowings from banks and other lenders	168,958	157,971
Non-current financial position	**168,958**	**157,971**
Total net financial position:		
Debt (cash)	**148,596**	**175,341**

Equity at December 31, 2015 is €118,390 thousand compared to €96,854 thousand at December 31, 2014, an increase of €21,536 thousand.

6. Significant events in 2015

The following significant events took place during 2015:

- **on January 27, 2015** the board of directors of Intercos S.p.A. – in consideration of the balance sheet of the subsidiary Drop Nail S.r.l. at December 31, 2014, which showed a loss of approximately €265 thousand and negative equity of €157 thousand – passed a resolution to waive, with immediate effect, a part of its non interest-bearing shareholder loans due from Drop Nail S.r.l., specifically €124.2 thousand, to be recorded in the equity of Drop Nail, under Other reserves, Payment against share capital increase. The other shareholder of Drop Nail S.r.l., Paragon Cosmetics S.r.l., also waived, in proportion to its investment in Drop Nail S.r.l. (40%), a part of its non interest-bearing shareholder loan, specifically €83 thousand. As a result of these actions taken by both shareholders of Drop Nail S.r.l., it was not necessary to adopt the measures pursuant to article 2482-*ter* of the Italian Civil Code.
- **On March 27, 2015** Intercos S.p.A. contracted: 1) with the pool of banks composed of Banca IMI S.p.A. and Unicredit S.p.A. a loan of €80,000 thousand due December 31, 2020 at a lower variable rate than the old loan Agreement (that is, Euribor or Libor plus a spread of between 2.65% and 1.50% depending on the Group's leverage ratio): 2) with institutional investors a non-convertible bond of €120,000 thousand due 2022 at a fixed rate of 3.875% per year, listed on the "Main Securities Market" of the Irish Stock Exchange.
- **On March 6, 2015, April 10, 2015 and May 22, 2015** the board of directors of Intercos S.p.A. approved the purchase of 20% of the share capital of Hana Co. Ltd., with its registered office in Hwasung, Korea at 22-15 Juseok-ro 184beon-gil (Bukyang-dong), hereafter "**Hana**", from the shareholders of Hana, and the creation of a joint venture with the latter. The transaction was completed **on June 12, 2015** at the purchase price of USD 1,500 thousand (equivalent amount of €1,330 thousand). The investment value could increase by another USD 500 thousand if, and only if, in 2015 and in 2016 Hana reaches an EBITDA of USD 2,000 thousand.

- It should be noted that since June the Milan Finance Police has been conducting a tax inquiry of an ordinary nature on Intercos S.p.A. for the years ended from 2009 to 2014. At the date of the presentation of these consolidated financial statement of the Group no exceptions or findings have arisen such as have an effect on the profit for the year.
- **On December 17, 2015** a special shareholders' meeting was called by the subsidiary Drop Nail to examine the financial condition of the company at October 31, 2015 under articles 2482-*bi*s e 2482-*ter* of the Italian Civil Code. In order to cover the loss of the subsidiary Drop Nail S.r.l., Intercos S.p.A. subscribed to and paid in €123,344, bringing its investment value to a total of €644,488.
- **On July 29, 2015 and September 24, 2015** the board of directors of Intercos S.p.A. approved – among other things – the transaction for the creation of a 50-50 joint venture between Intercos S.p.A. (or another company of the Group) and the Korean company Shinsegae International Co., Ltd, with its registered office in Gangnam-gu, Seoul at 449 Dosandae-ro, in order to grow the presence of the Group in Korea.

  As approved by the board of directors on July 29, 2015 and September 24, 2015:

  1. **on October 30, 2015** the company Intercos Korea Inc. and the company Shinsegae International Co., Ltd. signed the "Joint Venture Agreement" (subsequently amended **on December 18, 2015**) to form the above partnership.
  2. **On December 17, 2015** the transformation of Intercos Korea Limited (limited liability company) to Intercos Korea Inc. (stock company) was completed.
  3. **on December 21, 2015** Intercos S.p.A. conferred 50% of the share capital of Intercos Korea Inc. to Intercos Asia Pacific Limited (as better described *infra*).
  4. **On December 23, 2015** Intercos S.p.A. conferred the remaining 50% of the share capital of Intercos Korea Inc. to Shinsegae International Co., Ltd. for the price of approximately €555 thousand. The basic impacts relating to the loss of control over Intercos Korea Inc. were produced in January 2016 when the governance body appointed jointly by the two partners took office.
- **On September 24, 2015** the board of directors of Intercos S.p.A. approved – among other things – the project for the creation of a second headquarters of the Intercos Group located in Asia, through the formation of a 100%-owned holding company of the Intercos Group.

- As approved by the board of directors on September 24, 2015:

  1. **<u>on October 30, 2015</u>** the company Intercos Asia Pacific Limited was formed with its registered office on the 6th Floor, Alexandra House, 18 Chater Road Central, Hong Kong, 100% controlled by Intercos S.p.A.
  2. **<u>On December 14, 2015</u>** the parent Intercos S.p.A. conferred 100% of the share capital of the subsidiaries Intercos Cosmetics (Suzhou) Co. Ltd. and Intercos Technology (SIP) Co. Ltd. to Intercos Asia Pacific Limited.
  3. **<u>On December 15, 2015</u>** the parent conferred 100% of the share capital of the subsidiary Interfila Cosmetics (Shanghai) Co. Ltd to Intercos Asia Pacific Limited.
  4. **<u>On December 21, 2015</u>** Intercos S.p.A. conferred 50% of the share capital of the subsidiary Intercos Korea Inc to Intercos Asia Pacific Limited.
  5. **<u>again on December 21, 2015</u>** a share capital increase was carried out by Intercos Asia Pacific Limited for USD 6,000 thousand, subscribed to and fully paid-in by the parent Intercos S.p.A. as the sole shareholder of Intercos Asia Pacific Limited, after which, the share capital of the subsidiary amounts to USD 25,501 thousand.

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 2015 and the statement of financial position at December 31, 2015 are described in Note 32.

8. Performance of the main companies of the Group

Intercos Europe S.p.A.: Intercos Europe is the most important company of the Group in terms of volume. In 2015 the company reported revenues of €206,359 thousand, up 7.7% compared to 2014. Sales increased in the Delivery System and Powders segments, 52% of which is in the Retailers channel.

Intercos America Inc.: revenues in 2015 amount to €105,096 thousand, an increase of 28.9% over 2014, with increased sales in the Delivery System and Powders segments and in the Emerging Brands and Multinationals channels. The Prestige market accounts for 45% of the increase.

CRB S.A.: revenues amounting to €36,753 thousand are in line overall with the €35,345 thousand reported for year 2014 and relative to the Skin Care market.

Intercos Cosmetics Suzhou Ltd.: revenues recorded for €14,891 thousand are basically in line with the €12,478 thousand reported for 2014.

Intercos Technology Ltd.: this company manages the production facility of the Intercos Group for sales in the Asia area. In 2015 the company reported revenues of €43,310 thousand. This is a 42.7% increase mainly in the Delivery System and Skin Care segments, 43% of which is in the Emerging Brands and Retailers channels of the mass market.

Interfila Cosmetics (Shanghai) Ltd.: sales of this company show an increase to €16,491 thousand in 2015 from €12,126 thousand in 2014.

9. Research & Development

In 2015 the Group continued to invest in new products and technologies, confirming its global leadership position in the Make-up and Skin Care businesses.

The capitalization of Research & Development costs in 2015 totals €5,149 thousand. The increase in Assets under development and payments in advance is €2,294 thousand and relates to projects that have still not been completed. The development of these projects is for the most part conducted by Intercos S.p.A. and the Intercos America Inc. subsidiary.

Research and development costs increased by €6,284 thousand during the year. Of this amount €5,149 thousand refers to projects not yet completed and classified under Assets under development and payments in advance conducted mainly by Intercos S.p.A. and €1,135 thousand classified under Research & Development costs, of which €448 thousand relates to increases at Intercos America, €184 thousand to projects at CRB S.A. and €503 thousand for research conducted by Vitalab S.r.l.

The increase in “Assets under development and payments in advance” of €5,149 thousand mainly refers to costs for uncompleted R&D projects of Intercos S.p.A. for €4,079 thousand and these refer mainly to:

(i) Research and development for €3,454 thousand (ii) software for €625 thousand and the “Pricing Power*”* project which has the objective of improving synergies among the functions Sales, R&D and Business Units.

The increase during the year refers to research and development for a total of €3,454 thousand referring to the following principal projects:

- “*Bis Cotto Back Injection*” for €1,488 thousand; begun in January 2014 the project 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; the project is expected to be completed next year.
- “*Marker”:* for €654 thousand; begun in the third quarter of 2014 the objective of the project is to characterize and standardize the cosmetic inks suitable for use in colored and pearly cosmetic markers.
- “*Shielded Lakes*” or “Innovative cosmetic pigments constituted by organic lake pigments and dyes with improved stability to heat, light and water” for €732 thousand; begun in the fourth quarter of 2014 and continued during 2015.
- “*Future Cushion”:* for €119 thousand; the project seeks to diffuse different types of product (for the eyes, face and lips) using an alternative system to the one now employed, by means of sponges of different materials that leave the hands clean and maximize the sensorial perception of the product.

- *Prisma Wave”:* for €116 thousand; begun in 2015 the project aims to further develop the technology already known to the Group, enhancing it with additional innovative structures such as no-weight volumes.
- *“Biomimicry”:* for €345 thousand; also begun during 2015 the project has the purpose of obtaining new cosmetic pigments and fillers coated with molecules able to mimic the superficial strata of the skin and adapt to it.

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

- “Powder Gelling” project, year 2011, unamortized amount: €1,232 thousand di euro, remaining period of amortization: 0.7 years.

- “Exclusive Materials” project, year 2014, unamortized amount: €2,829 thousand; remaining period of amortization: 3.3 years.

- “Back Injection” project, year 2014, unamortized amount: €1,206 thousand; remaining period of amortization: 3.7 years.

- “Nails” project, completed in 2015, unamortized amount: €973 thousand; remaining period of amortization: 4.7 years.

- “Slurry” project, also completed in 2015, unamortized amount: €1,205 thousand; remaining period of amortization: 4.9 years.

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

Additional details on Research & Development are discussed in the Notes.

10. Personnel and organization

The **headcount** of the Group, including temp workers, at December 31, 2015 numbers 3,822 compared to 3,420 at year-end 2014, an increase of 402 people.

The breakdown by category is as follows:

Group headcount	December 31, 2015	December 31, 2014
Executive and mid-level managers	221	205
White-collars	866	801
Blue-collars	1,708	1,502
Total	**2,795**	**2,508**
Temporary	**1,027**	**912**
Total	**3,822**	**3,420**

The breakdown by permanent and fixed-term personnel is the following:

Group headcount	December 31, 2015	December 31, 2014
Permanent	2,395	2,115
Fixed-term	400	393
Total	**2,795**	**2,508**

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

Employee benefit expenses rose €18,734 thousand, from €102,992 thousand in 2014 to €121,726 thousand in 2015, or an increase of 18.2%. The change is mainly due to an increase in the Group's workforce as a result of higher manufacturing and sales volumes.

The Group uses temp work contracts for its manufacturing activities in order to render direct manufacturing costs more flexible. The growth in business during 2014 and 2015 led to an increase in these costs of €4,263 thousand compared to the prior year, from €21,485 thousand in 2014 to €25,748 thousand in 2015.

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.

Exchange rate risk

The Group operates globally and is exposed to foreign exchange risk arising from fluctuations in the equivalent amount of commercial and financial flows denominated in currencies other than the functional currency 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/RMB: with reference to commercial and financial transactions entered into by Chinese companies operating on the North American market and vice versa.
- EUR/RMB: 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, exposures 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.

These hedges are monitored by net currency positions managed by the Group or by using derivative contracts.
The following sensitivity analysis was performed to illustrate 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, 2015 and at December 31, 2014.

The following sensitivity analysis does not consider the tax effect on profit and equity.

(in € thousands)	12/31/2015		12/31/2014	
	-7.50%	7.50%	-7.50%	7.50%
US dollar	(1,732)	1,490	(1,190)	11,024
British pound	400	(345)	145	(125)
Other currencies	326	(280)	(13)	11
Total	**(1,006)**	**866**	**(1,059)**	**911**

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 hedging, the Group may use derivative contracts which limit the impact of interest rate fluctuations on the income statement.

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

The following sensitivity analysis was performed to illustrate 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, 2015 and at December 31, 2014, with all other variables remaining constant.

(in € thousands)	12/31/2015		12/31/2014	
	-0.50%	+0.50%	-0.50%	+0.50%
Euro (Euribor)	(169)	169	(720)	720
US dollar (Libor)	(83)	83	(93)	93
Total	**(252)**	**252**	**(814)**	**814**

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 corporate Administration, Finance and Control Function. The Intercos 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.

As for credit risk relating to the management of financial resources and cash, the risk is monitored by the Administration, Finance and Control Function of the Group 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, 2015 and December 31, 2014.

(in € thousands)

12/31/2015	Trade receivables	Current	Overdue 0-60 days	Overdue 61-90 days	Overdue over 90 days	Provision for impairment
Make-up	64,433	54,730	8,695	867	413	(271)
Skin Care	9,193	7,154	1,556	290	344	(151)
Total	**73,626**	**61,884**	**10,251**	**1,156**	**757**	**(422)**

(in € thousands)

12/31/2014	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)
Total	**72,893**	**56,428**	**15,406**	**857**	**1,350**	**(1,148)**

The above ageing highlights a reduction in total overdue receivables of €5,449 thousand from December 31, 2014. The percentage of overdue receivables to total trade receivables decreased by 8%

compared to the prior year.

Liquidity risk

Prudent management of liquidity risk in the ordinary operations of the Group implies maintaining an adequate level of cash as well as sufficient funds through 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 available at December 31, 2015 compared to the end of the prior year is as follows:

(in € thousands)	December 31, 2015	December 31, 2014
Cash	50,683	32,727
Unused committed credit lines	30,000	20,000
Total	**80,683**	**52,727**

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 tables are presented at their nominal amount:

(in € thousands)	Within 1 year	1 to 5 years	Beyond 5 years	At December 31, 2015
Bond	-	-	120,000	120,000
Borrowings from banks and other lenders - m-l/term	6,335	42,525	0	48,860
Finance leases payable	239	700	0	939
Medium/long-term debt	**6,574**	**43,225**	**120,000**	**169,799**
Borrowings from banks and other lenders - s/term	19,131	0	0	19,131
Factoring companies payable	199	0	0	199
Trade payables	69,456	0	0	69,456
Short-term debt	**88,786**	**0**	**0**	**88,786**
Total	**95,360**	**43,225**	**120,000**	**258,585**

(in € thousands)	Within 1 year	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
Medium/long-term debt	**16,232**	**154,027**	**2,668**	**172,926**
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
Short-term debt	**96,871**	**0**	**0**	**96,871**
Total	**113,103**	**154,027**	**2,668**	**269,797**

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)

12/31/2015	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	-	73,626	-	-	-	-	-
Other receivables (*)	-	6,494	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	199,279	-
Trade payables	-	-	-	-	-	69,456	-
Other payables (*)	-	-	-	-	-	20,063	-
Derivatives (liabilities)	-	-	-	-	-	-	586
Total	**-**	**80,120**	**-**	**-**	**-**	**288,798**	**586**

(in € thousands)

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

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

Derivatives

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

The following table illustrates the fair value of the financial instruments portfolio:

Fair value hierarchy

(in € thousands)	December 31, 2015 Level 2	December 31, 2014 Level 2
Assets		
Currency Forwards / swaps/ options		
Fair value hedge	-	-
Liabilities		
Currency Forwards / swaps/ options		
Fair value hedge	586	-

Fair value hedges are used to hedge exchange rate risk on financial assets and liabilities recorded in the financial statements.

With reference to the derivatives to hedge exchange rate risks an indication is given below of the estimated dates of flows in US dollars.

Notional amount in thousands of USD

	December 31, 2015		December 31, 2014	
Due	**Collection**	**Payment**	**Collection**	**Payment**
Within 1 year	-	24,000	-	-
1 to 5 years	-	-	-	-
Beyond 5 years	-	-	-	-
Total	**-**	**24,000**	-	-

12. Environmental analysis

The environmental impact on the territory by the company's production process, especially in terms of the disposal of expired cosmetics and 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 in these areas ensured that, during the year 2015, there were no cases of accidents at work causing serious injury to employees, or charges of harming the environment.

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.

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, 2015 is unchanged compared to December 31, 2014, amounts to €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 Intercos S.p.A. pursuant to law, without prejudice to article 5 of the bylaws.

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

	At December 31, 2015	At December 31, 2014	At December 31, 2013
Class A shares - number	51,624,356	51,624,356	5,330,000
Class B shares - number	39,267,544	39,267,544	50,193
Class C shares - number	427,970	427,970	-
Class D shares - number	-	-	5,330,000
Total share capital in euros	**10,710,193**	**10,710,193**	**10,710,193**

Subject to 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

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

As for developments in the early months of 2016, a description of significant subsequent events is presented below.

- **On January 19, 2016** Intercos S.p.A. (parent) signed an amicable settlement agreement with Woojung Tech. Co., Ltd. and Mr Dong-Pil Choi to definitively close the dispute begun in September 2014 between the company and the latter, in relation to which a summons was filed by Intercos S.p.A. for trade secret misappropriation before the Courts in Los Angeles, California.

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

- **On February 10, 2016** – following the intent manifested by of Drop Nail S.r.l.'s shareholder Paragon Cosmetics S.r.l. to: 1) divest of its interest in the capital of Drop Nail S.r.l. through the sale of its 40% investment, equal to a nominal amount of €20 thousand and 2) sell its remaining receivable due from Drop Nail S.r.l., for the shareholder loans extended in the past, for a total amount of €1 thousand – Intercos S.p.A, under its business plan aimed at strengthening its product range represented by nail polishes and nail care products, purchased Paragon's investment and receivable thus bringing its investment to €1,187,488, representing 100% of the capital of the company Drop Nail S.r.l.

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. Outlook for 2016

A substantially positive outlook is expected for the year 2016, in effect confirming the Group's expectations as illustrated in its Business Plan.

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Milan, March 25, 2016

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

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Company Information

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

INDEPENDENT AUDITORS

Reconta Ernst & Young S.p.A.

Consolidated Statement of Financial Position at December 31, 2015

(in € thousands)	Note	December 31, 2015	December 31, 2014
NON-CURRENT ASSETS			
Property, plant and equipment	*7*	*98,254*	*95,490*
Intangible assets	*8*	*22,075*	*20,043*
Goodwill	*9*	*76,677*	*74,931*
Investments		*1,408*	*-*
Deferred tax assets	*10*	*16,603*	*20,623*
Other non-current receivables	*11*	*6,229*	*6,406*
Non-current assets		***221,245***	***217,493***
CURRENT ASSETS			
Inventories	*12*	*69,884*	*64,104*
Trade receivables	*13*	*73,626*	*72,893*
Other current receivables	*14*	*14,503*	*20,848*
Cash and cash equivalents	*15*	*50,683*	*32,727*
Current assets		***208,695***	***190,573***
TOTAL ASSETS		***429,941***	***408,066***
EQUITY			
Share capital		*10,710*	*10,710*
Other reserves		*66,005*	*66,005*
Retained earnings		*38,857*	*18,074*
Equity attributable to owners of the parent		*115,572*	*94. 789*
Equity attributable to non-controlling interests		*2,819*	*2,065*
TOTAL EQUITY	*16*	***118,391***	***96,854***
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings from banks and other lenders	*17*	*168,959*	*157,971*
Provisions	*18*	*2,777*	*4,313*
Deferred tax liabilities	*19*	*9,079*	*9,706*
Other non-current liabilities		*165*	*150*
Employee benefit obligations	*20*	*8,379*	*9,245*
Non-current liabilities		***189,359***	***181,385***
CURRENT LIABILITIES			
Borrowings from banks and other lenders	*17*	*29,761*	*48,532*
Other financial payables	*17*	*560*	*1,566*
Trade payables	*21*	*69,456*	*59,856*
Other current liabilities	*22*	*22,415*	*19,876*
Current liabilities		***122,192***	***129,828***
TOTAL EQUITY AND LIABILITIES		***429,941***	***408,066***

CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	2015	2014 *reclassified*
Revenues	*23*	***401,767***	***349,127***
Cost of sales	24	(302,852)	(265,471)
Industrial gross margin		***98,915***	***83,656***
Research & Development and innovation costs	25	(25,248)	(23,064)
Selling expenses	26	(18,944)	(14,899)
General and administrative expenses	27	(19,978)	(19,178)
Other operating income (expenses)		3,636	4,433
Nonrecurring expenses	28	(1,083)	(4,298)
Operating profit (EBIT)		***37,297***	***26,650***
Financial income	29	9,985	7,698
Financial expenses	29	(22,573)	(16,601)
Result from investments	30	106	-
Profit before tax (EBT)		***24,815***	***17,747***
Income taxes	31	(10,011)	(8,196)
Profit for the year		***14,804***	***9,551***
attributable to:			
- owners of the parent		***14,701***	***9,564***
- non-controlling interests		***103***	***(14)***
Earnings per share:			
Basic and diluted	*33*	0.16	*0.10^*

^ Earnings per share (restated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € thousands)		2015	2014 *reclassified*
Net profit		***14,804***	***9,551***
Other comprehensive income that will not be reclassified subsequently to the income statement, net of tax effect			
- Gains (losses) on remeasurement of employee defined benefit plans	*20*	*396*	*(1,354)*
- Tax effect	*10/19*	*(113)*	*330*
Total		***283***	***(1,024)***
Other comprehensive income that will be reclassified subsequently to the income statement, net of tax effect			
- Exchange differences on translating foreign operations	*16*	*5,926*	*5,277*
Total		***5,926***	***5,277***
Comprehensive income for the year		***21,013***	***13,805***
Attributable to:			
- owners of the parent		*20,792*	*13,883*
- non-controlling interests		*220*	*(78)*

Consolidated Statement of Changes in Equity at December 31, 2015

(in € thousands)	Retained earnings				Attributable to non-controlling interests		Total
Description	Share capital	Other reserves (Share premium reserve)	Reserves and retained earnings	Profit for the year	Share capital	Profit (Loss) for the year	
Balances at January 1, 2015	**10,710**	**66,005**	**4,191**	**13,883**	**2,143**	**(78)**	**96,854**
Appropriation of 2014 profit	-	-	13,883	(13,883)	(78)	78	-
Exchange differences on translating foreign differences	-	-	-	5,827	-	99	5,926
Increase in capital of non-controlling interests	-	-	-	-	165	-	165
Other comprehensive income, net of tax effect	-	-	-	265	-	18	283
Consolidation reserve	-	-	(9)	-	369	-	360
Profit for the year	-	-	-	14,701	-	103	14,804
Balances at December 31, 2015	**10,710**	**66,005**	**18,065**	**20,792**	**2,599**	**220**	**118,391**

Consolidated Statement of Change in Equity at December 31, 2014

(in € thousands)	Retained earnings				Attributable to non-controlling interests		Total
Description	Share capital	Other reserves (Share premium reserve)	Reserves and retained earnings (accumulated losses)	Profit for the year	Share capital	Profit (Loss) for the year	
Balances at January 1, 2014	**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
Balances at December 31, 2014	**10,710**	**66,005**	**4,191**	**13,882**	**2,143**	**(78)**	**96,854**

Consolidated Statement of Cash Flows for the years ended December 31, 2015

(in € thousands)		**2015**	**2014**
Profit from continuing operations		*14,804*	*9,551*
Profit from discontinued operations		-	-
Profit for the year attributable to owners of the parent		***14,804***	***9,551***
Depreciation, amortization and impairment reversals (losses)		*21,125*	*19,808*
Nonrecurring income (expenses)		-	*2,639*
Change in provisions	10/18/19/20	*(2,120)*	*(4,519)*
Financial income (expenses)	28	*12,588*	*8,903*
Decrease / (Increase) in inventories	12	*(3,120)*	*(239)*
Decrease / (Increase) in trade receivables, net	13	*2,595*	*(314)*
Increase / (Decrease) in trade payables	21	*7,601*	*12,786*
Decrease / (Increase) in other assets	14/11/19	*9,111*	*(4,870)*
Increase / (Decrease) in other payables	22	*1,245*	*1,645*
Cash flows provided by operating activities (a)		***63,830***	***45,390***
Acquisition of property, plant and equipment, net	7	*(14,537)*	*(18,038)*
Acquisition of intangible assets, net	8	*(7,447)*	*(7,997)*
Acquisitions of investments		*(1,408)*	*0*
Changes in assets/liabilities held for sale		*0*	*0*
Cash flows (used in) investing activities (b)		***(23,391)***	***(26,035)***
Share capital increase	16	*0*	*0*
Increase / (Decrease) in borrowings from banks and other lenders	17	*(17,961)*	*(16,710)*
Interest paid during the year		*(6,140)*	*(5,228)*
Cash flows (used in) financing activities (c)		***(24,101)***	***(21,938)***
Change in equity (d)	16	*525*	*282*
Net increase (decrease) in cash and cash equivalents (a)+(b)+ (c) + (d)		***16,862***	***(2,302)***
Cash and cash equivalents at beginning of the year	15	*32,727*	*33,741*
Translation exchange differences		*(1,094)*	*(1,288)*
Cash and cash equivalents at end of the year	15	*50,683*	*32,727*
Net increase (decrease) in cash and cash equivalents during the year		***16,862***	***(2,302)***

TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Group structure

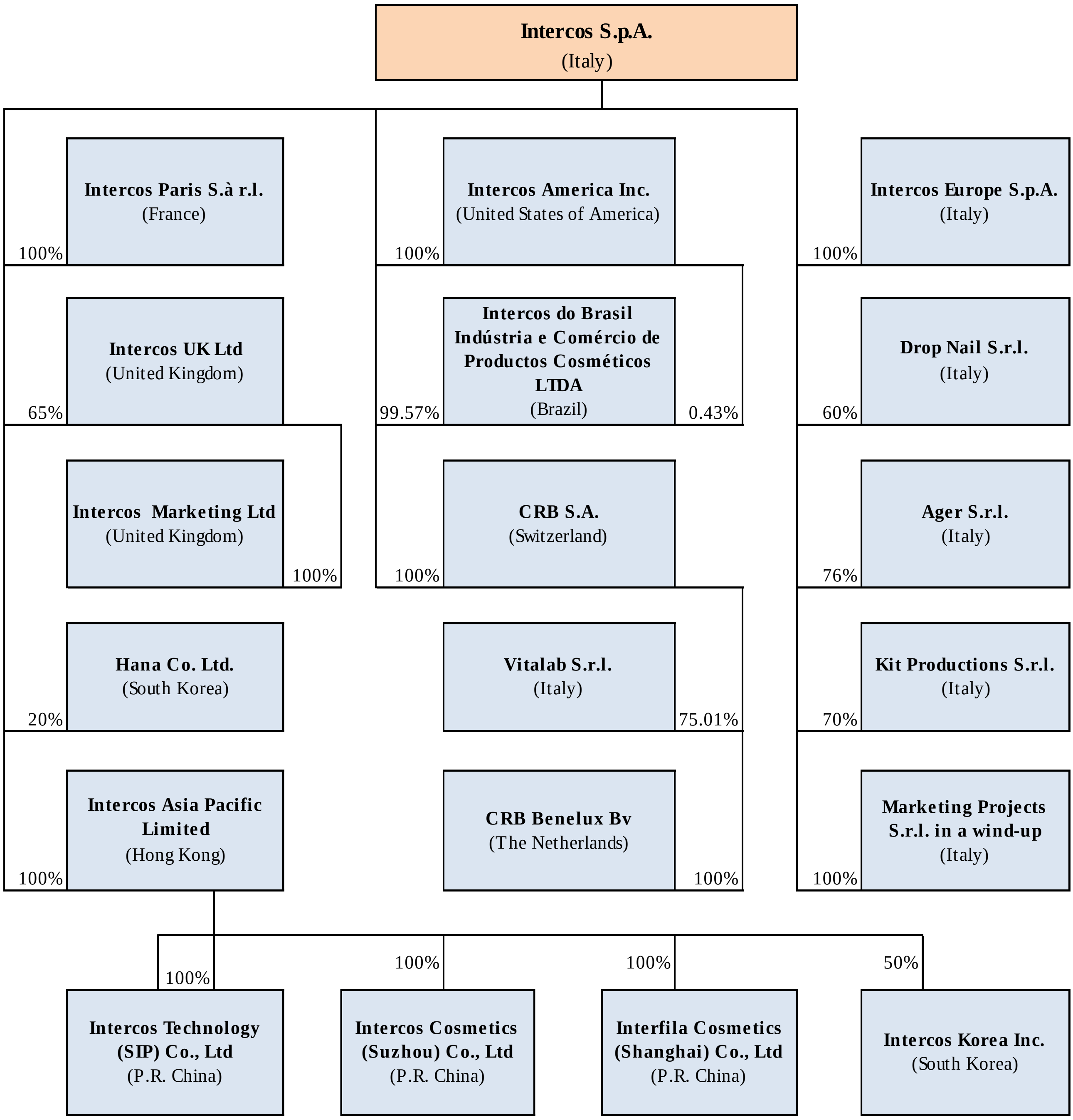
Intercos S.p.A. is a corporation organized under the laws of the Republic of Italy, with its registered office in Milan, Piazza Diaz 1.

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 B.U.:*** 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 B.U.:*** specialized in the manufacture and marketing of cosmetic and skin care creams.

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

The Group's organization structure is updated to the closing date of the consolidated financial statements at December 31, 2015 and shows the operating companies and those in liquidation.



2. Significant accounting policies

Basis of preparation

The consolidated financial statements for the year ended December 31, 2015 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 changes in equity, the statement of cash flows and the notes thereto.

All amounts in the notes are expressed in thousands of euros, unless otherwise indicated.

The format of the income statement, as permitted by IAS 1, presents a format by function showing revenues and cost of sales, which is considered to be a better representation of the economic and financial performance of the Group. Since 2015 is the first year of application of this format, the income statement for 2014 has been duly reclassified for purposes of comparison.

The consolidated financial statements at December 31, 2015 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 March 25, 2016, the date on which the board of directors of Intercos S.p.A. approved the draft consolidated financial statements of the Group. 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 March 25, 2016.

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, 2015 are consistent with those applied in the prior year.

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 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 falling within the scope of IAS 39 or IFRS 9 regardless of whether they meet the definition of financial assets or liabilities; (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.

These amendments refer to situations that currently do not apply to the Group; consequently they did not have any impact on the results of operation or the financial position of the Group.

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

The standards, amendments and interpretations endorsed by the European Commission in 2015, but not yet effective, are listed and described below:

Regulation 2015/2173. issued by the European Commission on November 24, 2015 endorsed the amendment contained in the document "*Accounting for Acquisitions of Interests in Joint Operations*" (Amendments to IFRS 11)", issued by the IASB on May 6, 2014. The amendments clarify the accounting for the initial and the additional acquisition of an interest in a joint operation (in the latter case, previously held interests are not remeasured) which meets the definition of a business, as defined in IFRS 3.

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

Regulation 2015/2343 of December 15, 2015 endorsed the "*Annual Improvements to IFRSs – 2012-2014 Cycle*" issued by the IASB on September 25, 2014, which: (i) for IFRS 5, clarifies that any reclassification of an asset (or disposal group) from held for sale to held for 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 *Financial Instruments: Disclosures* provides additional guidance in the determination of whether or not there exists continuing involvement in a financial asset that has been transferred, where a service agreement pertaining to it exists, 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 county 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.

Regulation 2015/2406, issued by the European Commission on December 18, 2015, endorsed the amendments contained in the document "*Disclosure Initiative* (Amendments to that IAS 1)" issued by the IASB on

December 18, 2014. The document clarifies guidance on materiality, the disaggregation and aggregation of line items, the systematic presentation of notes and the identification of accounting policies and information requirements for other components of comprehensive income arising from the measurement of investments accounted for using the equity method.

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

The above regulations are effective for annual periods beginning on or after January 1, 2016.

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

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

The amendments to IAS 19 permit accounting for contributions by third parties or employees to defined benefit plans that are independent of the number of years of service as a deduction of current service cost of the period in lieu of allocation of such contributions over the period in which the service is rendered.

The last two amendments apply to annual periods beginning on or after February 1, 2015 (the year 2016 in the case of the Group).

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

The following is a list and description of newly issued amendments, standards and interpretations which, at the date of the financial statements, are in the process of being endorsed by the European Commission and address matters pertaining to the 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 IASB, 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. The European Commission has decided to postpone the endorsement process of this standard until it become definitive.

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, not necessarily coinciding with the current concept of the transfer of risks and rewards. It provides a more structured approach to the measurement and recognition of revenues, with a detailed application guide, also with reference, for example, to the recognition of variable consideration. The provisions of IFRS 15 subsequent to the changes resulting from the amendment issued on September 11, 2015 are effective for annual periods beginning on or after January 1, 2018, except for any postponements established during the endorsement process by the European Commission.

On 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; (ii) embedded derivatives are no longer required to be separated; (iii) 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; (iv) 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 September 11, 2014 the IASB issued the document "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - Amendments to IFRS 10 and IAS 28". The amendments aim to define in greater detail the accounting treatment and the recognition of the related effects in the income statement, of the loss of control of a subsidiary due to its sale to an associate or a joint venture. The different accounting treatment to be adopted in the financial statements of the investor depends on whether the assets sold or contributed constitute a business, as defined by IFRS 3. On December 17, 2015 the IASB indefinitely deferred the adoption date of these amendments.

On December 18, 2014 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. The provisions set forth in the documents are effective for annual periods beginning on or after January 1, 2016; to date the document has not been endorsed by the European Commission.

On January 13, 2016 the IASB issued IFRS 16 - *Leases*. Considering that all leases consist in conveying to an entity the right to use an asset for a period of time in exchange for consideration and that, if the payment of such consideration is made over the duration of the contract, the entity is implicitly obtaining a loan. IFRS 16 eliminates the distinction between finance leases and operating leases and introduces a single lessee accounting model to recognize leases. The application of this model requires the entity to recognize (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is low value, and to recognize (ii) depreciation of the right-of-use asset and interest on the lease liability separately in the income statement payable. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, except for any postponements established during the endorsement process by the European Commission

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

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

Summary of significant accounting policies

The financial statements are prepared under the going concern concept.

The following accounting policies have been applied on a consistent basis for all periods presented.

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 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, 2015 and the method of consolidation of the various companies are presented in the following table:

SUBSIDIARIES

(consolidated line-by-line)

Name	Head Office	Currency	Capital in thousands of currency	Percentage of ownership	
				Direct	Indirect
Intercos Europe S.p.A.	Milan	Euro	3,000	100.00%	
Kit Productions S.r.l.	Pessano con Bornago (Milan)	Euro	10	70.00%	
Marketing Projects S.r.l. in liquidation	Milan	Euro	40	100.00%	
Ager S.r.l.	Monza	Euro	31	76.00%	
Drop Nail S.r.l.	Milan	Euro	50	60.00%	
Intercos Korea Inc.	Seongnam-Gyeonggi (South Korea)	Euro	1,128	50.00%	
Intercos America Inc.	Wilmington (USA)	US dollar	10	100.00%	
Intercos do Brasil	Atibaia (Brazil)	Brazilian real	22,377	99.57%	
Intercos Paris Sarl	Neuilly-sur-Seine (France)	Euro	14	100.00%	
Intercos UK Ltd	Barnstaple (UK)	British pound	0.1	65.00%	
Intercos Marketing Ltd	South Molton (UK)	British pound	0.001		100%
CRB S.A.	Puidoux (Switzerland)	Swiss franc	100	100.00%	
Vitalab S.r.l.	Milan	Euro	160		75.01%
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 Asia Pacific Limited	Hong Kong (South Korea)	US dollar	25,504*	100.00%	

* The investment in Intercos Asia Pacific is recorded for USD 25,501 thousand and HKD 26 thousand which, converted at the exchange rate at the transaction date is €3 thousand.

The company “Intercos Asia Pacific Limited”, 100%-owned Intercos S.p.A., was incorporated on October 30, 2015.

In December, subsequent to the resolution passed by the board of directors of Intercos S.p.A. (parent) on September 24, 2015, the following were transferred to Intercos Asia Pacific, according to the terms and conditions of the Equity Transfer Agreements, signed among the above-mentioned companies:

- 100% of the share capital of the subsidiaries Intercos Cosmetics (Suzhou) Co. Ltd. and Intercos Technology (SIP) Co. Ltd., on December 14, 2015;
- 100% of the share capital of the subsidiary Interfila Cosmetics (Shanghai) Co. Ltd., on December 15, 2015;
- 50% of the share capital of the subsidiary Intercos Korea Inc. (formerly Intercos Korea Limited), on December 21, 2015 and the sale of the remaining 50% of the share capital of Intercos Korea Inc. to Shinsegae International Co., Ltd., as better described below.

Again in December, under the Joint Venture Agreement signed on October 30, 2015 (subsequently amended on December 18, 2015) between Intercos S.p.A. (parent), Intercos Korea and Shinsegae, for the purpose of forming a strategic partnership between the Intercos Group, indirectly through its investment in Intercos Asia Pacific, and Shinsegae, aimed at the development, manufacture and distribution of cosmetic products in Korea and in other countries agreed between the parties, the following transactions were finalized:

- on December 17, 2015 the transformation of Intercos Korea Limited (limited liability company) to Intercos Korea Inc. (stock company) was completed.
- On December 21, 2015 Intercos S.p.A. conferred 50% of the share capital of Intercos Korea Inc. to Intercos Asia Pacific Limited.
- On December 23, 2015 Intercos S.p.A. conferred the remaining 50% of the share capital of Intercos Korea Inc. to Shinsegae for the price of €555,470 and in that way proceeded to form the joint venture between Intercos Asia Pacific and Shinsegae as the new shareholders of Intercos Korea Inc. The essential effects relating to the loss of control over Intercos Korea Inc. were produced in January 2016 when the governance body appointed jointly by the two partners took office. Consequently, Intercos Korea Inc. is no longer consolidated and the remaining investment is accounted for using the equity method as from the beginning of 2016.

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

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 and joint ventures

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.

SOCIETA' CONSOLIDATE CON IL METODO DEL PATRIMONIO NETTO

Società	Sede	Tipo di attività svolta	Data riferimento bilancio	Principi contabili usati	Capitale €/000	Totale Attivo €/000	Totale Passivo €/000	Divisa	% di possesso	% diritti di voto	Possesso > 50% dirtti di voto ma non controllo	Possesso < 50% dirtti di voto ma controllo	Possesso > 20% dirtti di voto ma non influenza significativa	Possesso < 20% dirtti di voto ma influenza significativa	Valore €/000
Controllo: Diretto															
Hana Co.Ltd	Hwasung, Korea	Packaging	31/12/2015	IFRS	922	12.794	11.841	KRW	20,00%	20,00%	N/A	N/A	√	N/A	1.408

In June the parent Intercos S.p.A. purchased 20% of the shares of "Hana Co. Ltd.", a company specialized in innovative packaging for make-up with its registered office in South Korea. The investment was acquired for USD 1,500,000, an equivalent amount of €1,329,905.

At the closing date of the 2015 financial statements, it was not deemed necessary to record the liability since Hana had not reached the EBITDA €2,000 thousand threshold.

In addition from the prospective vision of its financial data it does not appear as though the above threshold will even be reached in 2016.

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;
- 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.

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;
- 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, 2015 and December 31, 2014 and the average exchange rates for the year 2014 and 2015 are as follows:

	Income statement 2015	Statement of financial position 12/31/2015	Income statement 2014	Statement of financial position 12/31/2014
U.S. dollar	1.1096	1.0887	1.3288	1.2124
Pound sterling	0.7261	0.7339	0.8064	0.7789
Swiss franc	1.0676	1.0835	1.2146	1.2024
Chinese renminbi (yuan)	6.9730	7.0608	8.1892	7.5358
Brazilian real	3.6916	4.3117	3.1227	3.2207
South Korean won	1,255.74	1,280.78	1,399.03	1,324.80

Property, plant and equipment

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

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

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

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

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

	Depreciation rate	
	December 31, 2015	**December 31, 2014**
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.

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.

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

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

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 financial expense, recognized in the income statement, and the repayment of principal, recorded as a reduction of the financial payables.

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

Intangible assets

Intangible assets are identifiable 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) R&D costs

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

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

b) the technical feasibility of the project;

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

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.

At first-time recognition, the financial assets are classified, depending on the case, as financial assets through profit or loss, loans and receivables, financial assets held to maturity or available-for-sale financial assets. All financial 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.

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.

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.

Financial liabilities are classified, on first-time recognition in financial liabilities at fair value through profit or loss or in financing and loans.

All financial liabilities are recognized initially at fair value, to which directly attributable transaction costs are added in the case of financing, loans and payables.

The financial liabilities of the Group include financing and loans, included bank overdrafts and guarantees provided.

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.

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

Cash includes 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 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 Financial 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.

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.

Revenues and costs

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

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

Revenue recognition

Sales of products

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

- when the significant risks and rewards of ownership are transferred to the customer;
- effective control over the assets in the transaction and the normal continuing level of business associated with ownership have ceased;
- the revenues can be measured reliably;
- it is probable that economic benefits associated with the sales transaction will flow to the company;
- the costs incurred or to be incurred can be determined reliably;
- in the event the nature and the extent of the seller's involvement is such that the risks and rewards relating to ownership are not in fact transferred, the time of revenue recognition is deferred until the date when such transfer can be considered to have taken place.
- Under "bill and hold" transactions, revenue is recognized when there is a contract signed by the customer in which the customer expressly asks that delivery of the products be deferred while nevertheless assuming all their associated risks and rewards. Such transactions refer solely to products of Intercos Europe that are immediately available and will be concluded in a short period of time after the date in which the "bill and hold" agreement was signed between the parties.

Performance of services

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

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

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

- the costs incurred for the transaction and the costs to be incurred to complete the transaction can be determined reliably.

Financial expenses

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

Income taxes

Current income taxes

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 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 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; in the calculation, account was taken of the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017 as established by Law 208 of December 28, 2015, known as the Stability Law 2016.

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.

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 subsequent revisions, the last, currently in existence, on October 1, 2014.

3. Risk management

Financial risk management is an integral part of the management of the Group's business. 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 Administration, Finance 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.

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/RMB: with reference to commercial and financial transactions entered into by Chinese companies operating on the North American market and vice versa.
- EUR/RMB: 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.

These hedges are monitored by net currency positions managed by the Group or by using derivative contracts.
The following sensitivity analysis was performed to illustrate 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, 2015 and at December 31, 2014.
The following sensitivity analysis does not consider the tax effect on profit and equity.

(in € thousands)	**12/31/2015**		**12/31/2014**	
	-7.50%	7.50%	-7.50%	7.50%
US dollar	(1,732)	1,490	(1,190)	11,024
British pound	400	(345)	145	(125)
Other currencies	326	(280)	(13)	11
Total	**(1,006)**	**866**	**(1,059)**	**10,910**

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 hedging, the Group may use derivative contracts which limit the impact of interest rate fluctuations on the income statement.

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

The following sensitivity analysis was performed to illustrate 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, 2015 and at December 31, 2014, with all other variables remaining constant.

(in € thousands)	12/31/2015		12/31/2014	
	-0.50%	+0.50%	-0.50%	+0.50%
Euro (Euribor)	(169)	169	(720)	720
US dollar (Libor)	(83)	83	(93)	93
Total	**(252)**	**252**	**(814)**	**814**

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 corporate Administration, Finance and Control Function. The Intercos 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".

As for credit risk relating to the management of financial resources and cash, the risk is monitored by the Administration, Finance and Control Function of the Group 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, 2015 and December 31, 2014.

(in € thousands)

12/31/2015	Trade receivables	Current	Overdue 0-60 days	Overdue 61-90 days	Overdue Over 90 days	Provision for impairment
Make-up	64,433	54,730	8,695	867	413	(271)
Skin Care	9,193	7,154	1,556	290	344	(151)
Total	**73,626**	**61,884**	**10,251**	**1,156**	**757**	**(422)**

(in € thousands)

12/31/2014	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)
Total	**72,893**	**56,428**	**15,406**	**857**	**1,350**	**(1,148)**

The above ageing highlights a reduction in total overdue receivables of €5,449 thousand from December 31, 2014. The percentage of overdue receivables to total trade receivables decreased by 8% compared to the prior year.

Liquidity risk

Prudent management of liquidity risk in the ordinary operations of the Group implies maintaining an adequate level of cash as well as sufficient funds through 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 available at December 31, 2015 compared to the end of the prior year is as follows:

(in € thousands)	December 31, 2015	December 31, 2014
Cash and cash equivalents	50,683	32,727
Unused committed credit lines	30,000	20,000
Total	**80,683**	**52,727**

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 tables are presented at their nominal amount:

(in € thousands)	Within 1 year	1 to 5 years	Beyond 5 years	December 31, 2015
Bond	-	-	120,000	120,000
Borrowings from banks and other lenders - m-l/term	6,335	42,525	-	48,860
Finance leases payable	239	700	-	939
Medium/long-term debt	**6,574**	**43,225**	**120,000**	**169,799**
Borrowings from banks and other lenders - s/term	19,131	-	-	19,131
Factoring companies payable	199	-	-	199
Trade payables	69,456	-	-	69,456
Short-term debt	**88,786**	**-**	**-**	**88,786**
Total	**95,360**	**43,225**	**120,000**	**258,585**

(in € thousands)	Within 1 year	1 to 5 years	Beyond 5 years	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	-	853
Medium/long-term debt	**16,232**	**154,027**	**2,668**	**172,926**
Borrowings from banks and other lenders - s/term	36,434	-	-	36,434
Factoring companies payable	581			581
Trade payables	59,856			59,856
Short-term debt	**96,871**	**-**	**-**	**96,871**
Total	**113,103**	**154,027**	**2,668**	**269,797**

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)

12/31/2015	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	-	73,626	-	-	-	-	-
Other receivables (*)	-	6,494	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	199,279	-
Trade payables	-	-	-	-	-	69,456	-
Other payables (*)	-	-	-	-	-	20,063	-
Derivatives (liabilities)	-	-	-	-	-	-	586
Total	**-**	**80,120**	**-**	**-**	**-**	**288,798**	**586**

(in € thousands)

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

(*) 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.

Derivatives

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

Fair value hierarchy

(in € thousands)	December 31, 2015 Level 2	December 31, 2014 Level 2
Asset		
Currency Forwards/ swaps/ options		
Fair value hedge	-	-
Liabilities		
Currency Forwards / swaps/ options		
Fair value hedge	586	-

Fair value hedges are used to hedge exchange rate risk on financial assets and liabilities recorded in the financial statements.

With reference to the derivatives to hedge exchange rate risk an indication is given below of the estimated dates of flows in US dollars.

Notional amount in thousands of USD

	December 31, 2015		December 31, 2014	
Due	**Payment**	**Collection**	**Payment**	**Collection**
Within 1 year	-	24,000	-	-
1 to 5 years	-	-	-	-
Beyond 5 years	-	-	-	-
Total	**-**	**24,000**	-	-

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. 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 year.

- *Deferred taxes*

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

- *Provisions*

Accruals are made to provisions for probable liabilities relating to disputes with employees, suppliers, third parties and, generally, the expenses which the 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

At December 31, 2015 the Group's business is aggregated into two Business Units 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 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, 2015 and 2014 is presented in the following tables.

2015 *(in € thousands)*	**Make-up**	**Skin Care**	**Total**
Revenues	349,651	52,116	401,767
Adjusted EBITDA	50,878	8,966	59,844
Depreciation, amortization and impairment reversals (losses)	(19,551)	(1,912)	(21,463)
Nonrecurring income (expenses)			(1,083)
Financial income (expenses)			(12,588)
Income taxes			(10,011)
Profit (loss) from discontinued operations			-
Profit for the year			14,804
Net invested capital	219,306	47,681	266,986

2014 *(in € thousands)*	**Make-up**	**Skin Care**	**Total**
Revenues	305,494	43,633	349,127
Adjusted EBITDA	42,728	8,461	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 (loss) from discontinued operations			-
Profit for the year			9,551
Net invested capital	234,110	38,084	272,194

Make-Up Business Unit: revenues total €349,651 thousand, an increase of €44,157 thousand (+14.5%) compared to 2014.

EBITDA[1], represented by operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses), grew €8,150 thousand, from €42,728 thousand to €50,878 thousand.
The increase in EBITDA in 2015 is due to higher volumes generated by a favorable product mix in the most important geographical areas in which the Group operates.

Skin Care Business Unit: sales in 2015 are €52,116 thousand, an increase of €8,483 thousand (+19.4%) from 2014.
EBITDA remains in line with the prior year owing to higher manufacturing and structure costs.

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.

(in € thousands)	**2015**	**2014**
Revenues		
Americas	162,313	128,059
EMEA	190,632	178,885
Asia	48,822	42,184
Total	**401,767**	**349,127**

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

- *Americas area:* this area recorded 26.7% higher revenues than in the prior year mainly in the Prestige (+28%) compared to a 2.3% increase of the market.
- *EMEA area:* the Group's strategy in this market was rewarded by the development of the Emerging Brands and Specialty Shop market which recorded a 6.6% increase in sales, about double that of the growth of the market in this region.
- *Asia area:* revenues in this area are up 15.7% compared to 2014. This increase is the result of the strengthening of the Group's control over the market through significant investments in the area and in a market that grew 11.4%.

Assets of the Group by geographical area are as follows:

(in € thousands)	**2015**	**2014**
Assets		
Americas	74,296	74. 259
EMEA	265,787	276,841
Asia	89,857	56,966
Total	**429,941**	**408,066**

[1] 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 for the assessment of the Group's trend in operating profit. Since the composition of EBITDA is not regulated by IFRS, the criteria used by the Group in its determination may not be the same as those adopted by other companies and therefore is not a comparable performance measure.

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

(in € thousands)	**2015**	**2014**
Capital expenditures		
Americas	2,248	2,937
EMEA	7,692	10,233
Asia	4,597	4,867
Total	**14,537**	**18,037**

Capital expenditures in the Americas area in 2015 include €1,031 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 €563 thousand relating to the Intercos do Brasil production facility, of which €556 thousand refers to furniture, office machines and equipment.

The EMEA area spent a total of €7,692 thousand for capital expenditures, of which €5,999 thousand in Intercos Europe S.p.A. and €569 thousand in CRB S.A. Capital expenditures in both of these companies were for the purchase of new machinery totaling €3,455 thousand and new industrial equipment amounting to €1,192 thousand.

As for the Asia area the Group, through the subsidiary Intercos Technology Ltd, spent a total of €3,093 thousand, including €1,098 thousand, for industrial machinery and equipment and €1,015 thousand on construction in progress for the completion of the new production facility in China.

6. Significant events in 2015

The following significant events took place during 2015:

- **<u>on January 27, 2015</u>** the board of directors of Intercos S.p.A. – in consideration of the balance sheet of the subsidiary Drop Nail S.r.l. at December 31, 2014, which showed a loss of approximately €265 thousand and negative equity of €157 thousand – passed a resolution to waive, with immediate effect, a part of its non interest-bearing shareholder loans due from Drop Nail S.r.l., specifically €124.2 thousand, to be recorded in the equity of Drop Nail, under Other reserves, Payment against share capital increase. The other shareholder of Drop Nail S.r.l., Paragon Cosmetics S.r.l., also waived, in proportion to its investment in Drop Nail S.r.l. (40%), a part of its non interest-bearing shareholder loan, specifically €83 thousand. As a result of these actions taken by both shareholders of Drop Nail S.r.l., it was not necessary to adopt the measures pursuant to article 2482-*ter* of the Italian Civil Code.

- **On March 27, 2015** Intercos S.p.A. contracted: 1) with the pool of banks composed of Banca IMI S.p.A. and Unicredit S.p.A. a loan of €80,000 thousand due December 31, 2020 at a lower variable rate than the old Loan Agreement (that is, Euribor or Libor plus a spread of between 2.65% and 1.50% depending on the Group's leverage ratio): 2) with institutional investors a non-convertible bond of €120,000 thousand due 2022 at a fixed rate of 3.875% per year, listed on the "Main Securities Market" of the Irish Stock Exchange.
- **On March 6, 2015, April 10, 2015 and May 22, 2015** the board of directors of Intercos S.p.A. approved the purchase of 20% of the share capital of Hana Co. Ltd., with its registered office in Hwasung, Korea at 22-15 Juseok-ro 184beon-gil (Bukyang-dong), hereafter "**Hana**", from the shareholders of Hana, and the creation of a joint venture with the latter. The transaction was completed **on June 12, 2015** at the purchase price of USD 1,500 thousand (equivalent amount of €1,330 thousand). The investment value could increase by another USD 500 thousand if, and only if, in 2015 and in 2016 Hana reaches an EBITDA of USD 2,000 thousand. Additional details are given under Consolidation principles.
- **On May 22, 2015** the board of directors of the parent Intercos S.p.A., among other things, approved the following intercompany loans extended to the subsidiaries Ager S.r.l., Kit Productions S.r.l. and Intercos UK Ltd:
  - for Ager S.r.l., a total loan of €1,000 thousand, at an interest rate of 1.2% and a spread at the 3-month-Euribor, due by December 31, 2016;
  - for Kit Productions S.r.l., a total loan of €350 thousand, at an interest rate of 1.2% and a spread at the 3-month Euribor, due by December 31, 2016;
  - for Intercos UK Ltd, a total loan of £400 thousand, at a flat rate of 1.5%, repayable by October 13, 2015.
- It should be noted that since June the Milan Finance Police has been conducting a tax inquiry of an ordinary nature on Intercos S.p.A. for the years ended from 2009 to 2014. At the date of the presentation of these consolidated financial statement of the Group no exceptions or findings have arisen such as have an effect on the profit for the year.
- **On December 17, 2015** a special shareholders' meeting was called by the subsidiary Drop Nail to examine the financial condition of the company at October 31, 2015 under articles 2482-*bis* and 2482-

ter of the Italian Civil Code. In order to cover the loss of the subsidiary Drop Nail S.r.l., Intercos S.p.A. subscribed to and paid in €123,344, bringing its investment value to a total of €644,488.

- **On July 29, 2015 and September 24, 2015** the board of directors of Intercos S.p.A. approved – among other things – the transaction for the creation of a 50-50 joint venture between Intercos S.p.A. (or another company of the Group) and the Korean company Shinsegae International Co., Ltd, with its registered office in Gangnam-gu, Seoul at 449 Dosandae-ro, in order to grow the presence of the Group in Korea.

  As approved by the board of directors on July 29, 2015 and September 24, 2015:

  1. **on October 30, 2015** the company Intercos Korea Inc. and the company Shinsegae International Co., Ltd. signed the "Joint Venture Agreement" (subsequently amended **on December 18, 2015**) to form the above partnership.
  2. **On December 17, 2015** the transformation of Intercos Korea Limited (limited liability company) to Intercos Korea Inc. (stock company) was completed.
  3. **on December 21, 2015** Intercos S.p.A. conferred 50% of the share capital of Intercos Korea Inc. to Intercos Asia Pacific Limited (as better described *infra*).

     On December 23, 2015 Intercos S.p.A. transferred the remaining 50% of the share capital of Intercos Korea Inc. to Shinsegae International Co., Ltd. for the price of approximately €555 thousand. The basic impacts relating to the loss of control over Intercos Korea Inc. were produced in January 2016 when the governance body appointed jointly by the two partners took office. Consequently, Intercos Korea Inc. is no longer consolidated and the remaining investment is accounted for using the equity method as from the beginning of 2016.

- **On September 24, 2015** the board of directors of Intercos S.p.A. approved – among other things – the project for the creation of a second headquarters of the Intercos Group located in Asia, through the formation of a 100%-owned holding company of the Intercos Group.

  As approved by the board of directors on September 24, 2015:

  1. **on October 30, 2015** the company Intercos Asia Pacific Limited was formed with its registered office on the 6th Floor, Alexandra House, 18 Chater Road Central, Hong Kong, 100% controlled by Intercos S.p.A.

2. **On December 14, 2015** the parent Intercos S.p.A. conferred 100% of the share capital of the subsidiaries Intercos Cosmetics (Suzhou) Co. Ltd. and Intercos Technology (SIP) Co. Ltd. to Intercos Asia Pacific Limited.
3. **On December 15, 2015** the parent conferred 100% of the share capital of the subsidiary Interfila Cosmetics (Shanghai) Co. Ltd to Intercos Asia Pacific Limited.
4. **On December 21, 2015** Intercos S.p.A. conferred 50% of the share capital of the subsidiary Intercos Korea Inc to Intercos Asia Pacific Limited.
5. **again on December 21, 2015** a share capital increase was carried out by Intercos Asia Pacific Limited for USD 6,000 thousand, subscribed to and fully paid-in by the parent Intercos S.p.A. as the sole shareholder of Intercos Asia Pacific Limited, after which, the share capital of the subsidiary amounts to USD 25,501 thousand.

7. Property, plant and equipment

Movements in Property, plant and equipment in 2015 are as follows:

December 31, 2015

(in € thousands)	*December 31, 2014*	*Increases / Depreciation*	*Translation differences / Reclassifications*	*Decreases / Utilization*	*December 31, 2015*
Historical cost					
Land and buildings	**124,946**	1,988	6,070	-	**133,004**
Plant and machinery	**110,840**	6,331	1,643	(294)	**118,520**
Industrial equipment	**32,805**	1,621	186	(42)	**34,569**
Office furniture and equipment	**13,079**	1,087	(104)	(197)	**13,865**
Motor vehicles and internal transportation equipment	**2,360**	247	(16)	(291)	**2,301**
Cell phones	**21**	-	-	-	**21**
Assets under construction and payments on account	**1,080**	3,264	(598)	65	**3,811**
Total	**285,130**	**14,537**	**7,181**	**(758)**	**306,091**
Accumulated depreciation					
Land and buildings	**59,535**	5,915	3,290	(108)	**68,632**
Plant and machinery	**89,007**	6,664	368	(252)	**95,787**
Industrial equipment	**30,186**	1,442	(3)	(38)	**31,587**
Office furniture and equipment	**8,953**	1,088	48	(183)	**9,906**
Motor vehicles and internal transportation equipment	**1,940**	250	(26)	(259)	**1,905**
Cell phones	**20**	-	-	-	**20**
Assets under construction and payments on account	**-**	-	-	-	**-**
Total	**189,640**	**15,360**	**3,677**	**(840)**	**207,837**
Net carrying amount	**95,490**	**(823)**	**3,503**	**82**	**98,254**

Capital expenditures overall amount to €14,537 thousand, of which €1,031 thousand relates to the purchase of machinery and equipment by Intercos America, in order to increase productivity and productive capacity of the filling and pencil departments, €563 thousand relating to the work on the Intercos do Brasil production facility, of which €556 thousand is for furniture, office machines and equipment.

The increases in “Plant and machinery” and “Industrial equipment” refer to capital expenditures respectively of €6,331 thousand and €1,621 thousand relating to the purchase of new machinery for Intercos Europe S.p.A (€3,270 thousand), for Intercos Technology Ltd (€1,098 thousand) and for Intercos America Inc (€718 thousand); as for the purchase of new industrial equipment, €1,133 thousand is by Intercos Europe S.p.A. and €238 thousand by the Chinese companies.

8. Intangible assets

Movements in Intangible assets in 2015 are as follows:

(in € thousands)	*December 31, 2014*	*Increases*	*Decreases/ Adjustments/ Translation differences*	*Reclassifications*	*Amortization*	*December 31, 2015*
Development costs	**11,054**	1,135	259	2,251	(4,231)	**10,468**
Patent rights and software	**3,736**	600	71	255	(1,306)	**3,356**
Concessions and licenses	**1,045**	276	45	(0)	(147)	**1,220**
Assets under development	**3,580**	5,149	(303)	(2,294)	0	**6,131**
Other intangible assets	**628**	287	153	(87)	(81)	**900**
TOTAL	**20,043**	**7,447**	**225**	**126**	**(5,765)**	**22,075**

Increase total €7,447 thousand and mainly refer to the following changes:

- Research & Development costs capitalized for €6,284 thousand refer to €5,149 thousand for uncompleted projects classified as Assets under development, conducted principally by Intercos S.p.A, and €1,135 thousand classified under Development costs, of which €448 thousand is for increases relating to Intercos America, €184 thousand to projects at CRB S.A. and €503 thousand for research conducted by Vitalab S.r.l.
- Patent rights and software includes €600 thousand capitalized in 2015 of which €548 thousand refers to the installation of the Hyperion software system in Intercos S.p.A. and the installation of the SAP system in all Group companies.

The increase in Assets under development of €5,149 thousand mainly refers to costs for uncompleted R&D projects of Intercos S.p.A. for €4,079 thousand and these refer mainly to:

(i) research and development for €3,454 thousand (ii) software for €625 thousand and the Pricing Power project which has the objective of improving synergies among the functions Sales, R&D and Business Units.

The increase during the year for research and development for a total of €3,454 thousand refers to the following principal projects:

- "*Bis Cotto Back Injection*": for €1,488 thousand; begun in January 2014 the project 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; the project is expected to be completed in the first few months of next year.

- "*Marker":* for €654 thousand; begun in the third quarter of 2014 and continued during 2015 the objective of the project is to characterize and standardize the cosmetic inks suitable for use in colored and pearly cosmetic markers.

- "*Shielded Lakes*" or "Innovative cosmetic pigments constituted by organic lake pigments and dyes with improved stability to heat, light and water" for €732 thousand; begun in the fourth quarter of 2014 and continued during 2015.
- "*Future Cushion":* for €119 thousand; the project seeks to diffuse different types of product (for the eyes, face and lips) using an alternative system to the one now employed, by means of sponges of different materials that leave the hands clean and maximize the sensorial perception of the product.
- *"Prisma Wave":* for €116 thousand; begun in 2015 the project aims to further develop the technology already known to the Group, enhancing it with additional innovative structures such as no-weight volumes;
- *"Biomimicry":* for €345 thousand; also begun during 2015 the project has the purpose of obtaining new cosmetic pigments and fillers coated with molecules able to mimic the superficial strata of the skin and adapt to it.

In capitalizing the above projects, management carefully assesses their expected economic benefits and, over the course of their useful life, tests for any impairment.

As far as the principal projects capitalized under Development costs are concerned, including those capitalized in prior years, the remaining periods of amortization are the following:

- "Powder Gelling" project, year 2011, unamortized amount: €1,232 thousand di euro, remaining period of amortization: 0.7 years.

- "Exclusive Materials" project, year 2014, unamortized amount: €2,829 thousand; remaining period of amortization: 3.3 years.

- "Back Injection" project, year 2014, unamortized amount: €1,206 thousand; remaining period of amortization: 3.7 years.

- "Nails" project, completed in 2015, unamortized amount: €973 thousand; remaining period of amortization: 4.7 years.

- "Slurry" project, also completed in 2015, unamortized amount: €1,205 thousand; remaining period of amortization: 4.9 years.

There are no intangible assets with an indefinite useful life.

9. Goodwill

Movements in Goodwill are as follows:

(in € thousands)	*December 31, 2014*	*Increases*	*Translation differences*	*December 31, 2015*
Goodwill	**74,931**	-	1,746	**76,677**

During 2015 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 (Cash Generating Units) identified by management at December 31, 2015 are the same as those in the prior year 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, 2015 is allocated as follows: €60.1 million to the Make-Up CGU and €16.6 million to the Skin Care CGU.

Goodwill increased by €1,746 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 Group management (the five-year 2016-2020 profit, financial position and cash flows plan).

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 8.6% for the Make-up CGU (8.1% at December 31, 2014) and 8.1% for the Skin Care CGU (7.5% at December 31, 2014), consistently with the geographic locations of such activities. The terminal value was determined by applying a perpetual growth factor that is basically representative of the expected inflation rate of 2% (unchanged compared to December 31, 2014) 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:

(in € millions)	**Enterprise value**	**Net invested capital**	**Cover**
Skin Care CGU	206.4	33.7	172.7
Make-Up CGU	399.6	232.5	167.1
Total	**606.0**	**266.2**	**339.8**

No impairment losses on the carrying amount of goodwill resulted from the impairment tests conducted at December 31, 2015 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 13.0%;
- 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 31.3%;
- 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 €16,603 thousand at December 31, 2015 and are mainly composed of the following:

(in € thousands)	**December 31, 2015**	**December 31, 2014**
Provision for inventory obsolescence	6,412	6,415
Differences from exchange adjustments	1,053	1,228
Fees and interest, royalties deductible on a cash basis and not paid	3,206	2,620
Provision for impairment of receivables	63	304
Provisions	79	769
Loss carryforwards	2,119	6,462
Temporary differences on PPE revaluations	1,820	1,257
Temporary differences regarding foreign tax laws	1,338	1,020
Differences on employee severance indemnities revaluation	21	-
Other minor differences (maintenance, hospitality expenses etc.)	492	547
Total	**16,603**	**20,623**

The reduction at December 31, 2015 compared to December 31, 2014 is mainly due to the utilization of tax losses carried forward by Intercos S.p.A. to calculate current income taxes at the reporting date.

As mentioned in the introduction to the notes, account was taken of the reduction in the IRES tax from 27.5% to 24% starting from the year 2017 as established in Law 208 of December 28, 2015, known as the Stability Law 2016.

11. Other non-current assets

Other non-current assets are detailed as follows:

(in € thousands)	December 31, 2015	December 31, 2014
VAT receivables	5,017	5,302
Interest on VAT receivables	509	509
Security deposits	704	595
Total	**6,229**	**6,406**

Other non-current assets are basically in line with the prior year. VAT receivables for which refunds have been filed are classified as non-current since they are not expected to be settled within 12 months.

12. Inventories

Details of Inventories are as follows:

(in € thousands)	December 31, 2015	December 31, 2014
Raw materials, packaging and consumables	33,115	28,975
Semifinished products	25,524	23,976
Finished products and merchandise	11,245	11,153
Total	**69,884**	**64,104**

Inventories increased in 2015 by €5,780 thousand (+9 %).

The above balance is net of the provision for inventory writedowns which shows the following movements during the year ended December 31, 2015:

(in € thousands)	December 31, 2015	December 31, 2014
Beginning balance	20,885	20,595
Accrual	9,939	10,337
Utilization	(9,409)	(10,047)
Ending balance	**21,415**	**20,885**

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 at the end of 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:

(in € thousands)	December 31, 2015	December 31, 2014
Receivables from third parties	74,047	74,041
Provision for impairment of receivables	(422)	(1,148)
Total	**73,626**	**72,893**

Net trade receivables at December 31, 2015 are basically in line with the balance at December 31, 2014.

Movements in the provision for impairment of receivables in 2015 are as follows:

(in € thousands)	December 31, 2015	December 31, 2014
Beginning balance	1,148	977
Accrual	830	709
Utilization	(1,556)	(537)
Ending balance	**422**	**1,148**

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 assets

Details of other current assets are as follows:

(in € thousands)	December 31, 2015	December 31, 2014
Receivables from the tax authorities	9,221	15,579
Sundry receivables	1,770	2,489
Advances to suppliers	1,785	1,513
Accrued income and prepaid expenses	1,727	1,267

Total	**14,503**	**20,848**

Other current assets decreased by €6,345 thousand mainly due to the reduction in Receivables from the tax authorities because of reimbursements obtained in 2015 for the 2008 and 2010 VAT receivables of €2,370 thousand and €1,400 thousand, respectively.

15. Cash and cash equivalents

Cash increased by €17,956 thousand, from €32,727 thousand at year-end 2014 to €50,638 thousand at December 31, 2015.

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

(in € thousands)	**December 31, 2015**	**December 31, 2014**
Bank and postal deposits	49,217	32,408
Cash on hand	1,466	319
Total	**50,683**	**32,727**

16. Equity

Share capital

Share capital at December 31, 2015 is unchanged compared to December 31, 2014, amounts to €10,710,193 and is represented by 91,319,870 no par value ordinary shares divided as follows:

	At December 31, 2015	**At December 31, 2014**	**At December 31, 2013**
Class A shares - number	51,624,356	51,624,356	5,330,000
Class B shares - number	39,267,544	39,267,544	50,193
Class C shares - number	427,970	427,970	-
Class D shares - number	-	-	5,330,000
Total share capital in euros	**10,710,193**	**10,710,193**	**10,710,193**

Class A, Class B and Class C shares all have the same rights and can be transferred by acts between living persons and by succession due to death, with effect on Intercos S.p.A. pursuant to law, without prejudice to article 5 of the bylaws.

Subject to 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.

The shareholders of Intercos S.p.A. are as follows:

SHAREHOLDERS	NUMBER OF SHARES	% HELD
DAFE 4000 S.P.A.	37,591,900 Class "A"	41.165%
DAFE 5000 S.R.L.	14,032,456 Class "A"	15.366%
DAFE 3000 S.R.L.	97,950 Special Class "C"	0.107%
CP7 BEAUTY LUXCO S.ÀR.L.	39,267,544 Class "B"	43.000%
MANAGERS	330,020 Special Class "C"	0.361%
Total	**91,319,870**	**100.00%**

During 2015 several managers sold shares of the company totaling 0.107% of capital to the company Dafe 3000 S.r.l.

Other reserves

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

Retained earnings

Retained earnings include the profit for the year attributable to the owners of the parent of €14,965 thousand, including attributable actuarial gains net of the tax effect (€265 thousand), the reserve on translating foreign operations of €5,827 thousand, the attributable retained earnings of prior years of €18,074 thousand and an attributable negative effect of €9 thousand relating to the change in the scope of consolidation; additional details are provided in Note 2 under Scope of consolidation.

Non-controlling interests

Non-controlling interests include the attributable share of capital and the retained earnings from prior years of €2,065 thousand, the profit for the year attributable to non-controlling interests of €121 thousand including the attributable actuarial gains net of the tax effect (€18 thousand), the attributable capital increase €165 thousand, the reserve on translating foreign operations of €99 thousand and an attributable positive effect of €369 thousand relating to the change in the scope of consolidation of minority interests; additional details are provided in Note 2 under Scope of consolidation.

17. Borrowings from banks and other lenders

Borrowings from banks and other lenders total €199,279 thousand; an indication of the relative due dates are provided in the following table under Borrowings from banks and other lender.

December 31, 2015

December 31, 2015	Short-term	Medium-term	Long-term	Total
Intercos S.p.A. bond	3,542	17,708	99,775	121,025
Medium/long-term bank borrowings (pool)	6,010	41,961	-	47,971
Medium/long-term bank borrowings (America)	-	-	-	-
Medium/long-term bank borrowings (CRB)	457	7,670	-	8,127
Medium/long-term bank borrowings (Technology)	513	1,026	- 0	1,540
Drop Nail mortgage	108	1	-	109
Payables under Law 46 /Mediocredito	122	118	-	240
Finance leases payable	239	700	-	939
Medium/long-term debt	**10,990**	**69,184**	**99,775**	**179,949**
Revolving credit facility Intercos S.p.A.	-	-	-	-
Revolving credit facility Intercos America	-	-	-	-
Revolving credit facility Intercos China	7,976	-	-	7,976
Bank overdrafts	1,061	-	-	1,061
Advances on invoices	10,094	-	-	10,094
Short-term debt	**19,131**	**-**	**-**	**19,131**
Borrowings from other lenders	-	-	-	-
Factoring companies payable	199	-	-	199
Total	**30,321**	**69,184**	**99,775**	**199,279**

December 31, 2014

December 31, 2014	Short-term	Medium-term	Long-term	Total
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)	183	732	2,237	3,152
Medium/long-term bank borrowings (Technology)	498	995	430	1,923
Drop Nail mortgage	-	156	-	156
Payables under Law 46 /Mediocredito	609	-	-	609
Finance leases payable	209	644	-	853
Medium/long-term debt	**16,172**	**152,214**	**2,668**	**171,053**
Revolving credit facility	16,707	-	-	16,707
Bank overdrafts	1,060	-	-	1,060
Advances on invoices	18,500	-	-	18,500
Borrowings from other lenders	165	-	-	166
Short-term debt	**36,433**	**-**	**-**	**36,434**
Factoring companies payable	582	-	-	582
Total	**53,187**	**152,214**	**2,668**	**208,069**

As described under Significant events in 2015, the Group contracted with a pool of banks for (1) a placement of a bond of €120 million maturing after seven years from issue at a fixed rate of 3.875% and (2) a new loan contract of €80 million due at the end of 2020 at a lower variable rate than the old loan agreement (variable rate at the 1-month, 3-month and 6-month Euribor/Libor and a spread of between 2.65% and 1.5%). This transaction took place on March 27, 2015.

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

Details of medium/long-term debt outstanding at December 31, 2015 are as follows:

Company	*Bank*	*Amount*	*Internal rate of return*	*Description*
Intercos S.p.A.	Bank pool	12,101	2.36%	Tranche in EUR
Intercos S.p.A.	Bank pool	16,446	3.14%	Tranche in USD
Intercos S.p.A.	Institutional investors	121,025	4.26%	Bond
Intercos Europe S.p.A.	Bank pool	19,424	2.43%	Tranche in EUR
		168,996		
Intercos S.p.A.	Other lenders	240	3.36%	Low-rate loan Law 46 grant 11337 (EUR)
		240		
CRB S.A.	SH Bank	92	0.00%	Loan guarantee
CRB S.A	BCV Bank	1,430	1.85%	Mortgage loan (in CHF)
CRB S.A	UBS Bank	1,772	0.99%	Filling Plant loan (in CHF)
CRB S.A	BCV Bank	4,833	2.18%	Batiplus (in CHF)
		8,127		
Intercos Technology	HSBC Bank	**1,540**	5.22%	HSBC LT loan (in RMB)
Drop Nail	BPM Bank	109	1.75%	Mortgage (in EUR)
		109		

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

18. Provisions

Al December 31, 2015 Provisions mainly includes the following accruals:

- €61 thousand mainly referring to disputes with personnel of Intercos Europe;
- €543 thousand relating to estimated higher customs duties prudently accrued in 2015 by Intercos Cosmetics Suzhou.

The amount utilized mainly refers to €2,126 thousand to complete the termination procedure for the closing of Intercos Europe S.p.A.'s Limbiate factory.

Movements during the year in provisions are as follows:

(in € thousands)	**December 31, 2015**	**December 31, 2014**
Beginning balance	4,313	4,554
Accrual	604	378
Utilization	(2,139)	(619)
Ending balance	**2,777**	**4,313**

19. Deferred tax liabilities

Deferred tax liabilities amount to €9,079 thousand at December 31, 2015.

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

(in € thousands)	December 31, 2015	December 31, 2014
Land and buildings revaluation IAS 16	4,822	5,838
Exchange gains	1,673	999
Tax differences on PPE (elimination of tax effect/revaluations by law)	918	1,429
Consolidation adjustments on inventories	518	488
Consolidation adjustments on PPE (revaluations)	122	122
Differences on employee severance indemnities measurement IAS 19	134	330
Difference on fin. instruments measurement IAS 39 (effective interest)	18	24
Other minor differences	874	476
Total	**9,079**	**9,706**

20. Employee benefit obligations

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

(in € thousands)	December 31, 2015	December 31, 2014
Beginning balance	9,245	8,110
Utilizations	(597)	(411)
Interest cost	127	192
Actuarial gains (losses)	(396)	1,354
Total	**8,379**	**9,245**

The following table presents the main assumptions used in determining the actuarial value of Employee benefit obligations at December 31, 2015 and 2014.

Intercos S.p.A.	December 31, 2015	December 31, 2014
Discount rate	2.30%	1.25%
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, 2015	December 31, 2014
Discount rate	0.90%	1.15%
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, 2015**	**December 31, 2014**
Executive and mid-level managers	221	205
White-collars	866	801
Blue-collars	1,708	1,502
Total	**2,795**	**2,508**
Temporary	**1,027**	**912**
Total	**3,822**	**3,420**

The breakdown by permanent and fixed-term headcount is the following:

Group headcount	**December 31, 2015**	**December 31, 2014**
Permanent	2,395	2,115
Fixed-term	400	393
Total	**2,795**	**2,508**

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

21. Trade payables

Trade payable at December 31, 2015 and December 31, 2014 total respectively €69,456 thousand and €59,856 thousand, an increase of €9,600 thousand.

Trade 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 current liabilities

Details of Other current liabilities are as follows:

(in € thousands)	**December 31, 2015**	**December 31, 2014**
Payables to employees	11,142	11,070
Social security agencies payable	1,104	836
Tax authorities payable	1,932	2,098
Advances from customers	3,778	3,064
Accrued liabilities	77	171
Sundry payables	3,797	2,636
Derivatives (liabilities)	586	-
Total	**22,415**	**19,876**

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 payable and December payroll paid in January.

As for derivatives (liabilities) at December 31, 2015 there are two FX Swap contracts for USD 18 million and USD 6 million, expiring respectively on April 7, and June 17, 2016. The fair value at the balance sheet date is €586 thousand. Additional details are given in Note 3 - Risk Management, under Derivatives

Guarantees and other commitments

Guarantees provided refer to sureties and guarantees provided by Intercos S.p.A., on its behalf (€11,066 thousand at December 31, 2015) and on behalf of subsidiaries (€8,316 thousand at December 31, 2015).

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

The following pledges and guarantees were provided to guarantee the new bank loan obtained on March 24, 2015, as better described under Significant events in 2015:

1) in favor of Banca IMI, the following pledge and lien as collateral was provided for the loan secured and in compliance with the requirements of the ABI Code:

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

Among the most important guarantees provided to third parties at December 31, 2015 are the following:

- guarantee provided on behalf of the company Madina S.r.l. for an amount €2,000 thousand to guarantee the transaction for the sale of the business segment put it place in 2012 by the subsidiary Marketing Project S.r.l. in liquidation, which was released in March 2015.
- guarantee provided in favor of the company Cometa S.r.l. for €250 thousand to guarantee the lease contract which ended on July 1, 2015.
- guarantee in favor of the Revenues Agency to guarantee the VAT receivable for the 2008 refund request of €2,785 thousand, expiring on February 2, 2018.
- guarantee in favor of the Revenues Agency to guarantee the VAT receivable for the 2010 refund request of €1,514 thousand, expiring on November 30, 2018.
- guarantee given in April 2014 through a surety policy provided by HSBC Brazil in favor of the owner of the building where Intercos do Brasil has its manufacturing activities for BRL 800 thousand, corresponding to €186 thousand.
- guarantee of the Long Term Credit Facility provided by HSBC on behalf of Intercos Technology for USD 2,500 thousand, corresponding to €2,296 thousand.
- guarantee on the lease contract of Intercos America Inc for the commercial office in New York City at 37th West 57th Street for USD 2,203 thousand, corresponding to €2,024 thousand.
- guarantee in the interests of Intercos America Inc for the bank facility in favor of Intesa BCI for USD 1,400 thousand, corresponding to €1,286 thousand.

23. Revenues

(in € thousands)	2015	2014
Revenues from sales and services	**401,767**	349,127

The increase in revenues is €52,640 thousand (+15%).

The trend is the geographical areas in 2015 compared to 2014 is positive in all regions.

Additional information is provided in Note 5 Segment Report and in the Report on Operations.

24. Cost of sales

Cost of sales in 2015 totals €302,852 thousand.

The composition is as follows:

(in € thousands)	2015	2014
Labor cost	86,093	72,471
Raw materials, consumables and merchandise	139,986	123,834
Outside work	25,819	25,809
Shipping	14,808	11,633
Depreciation	11,444	10,727
Utilities	6,164	5,367
Maintenance	7,435	6,430
Other cost of sales	11,103	9,200
Total	**302,852**	**265,471**

The change from 2014 is €37,381 thousand.

25. Research &Development and innovation costs

Research & Development and innovation costs amount to €25,248 thousand in 2015.

The composition is as follows:

(in € thousands)	**2015**	**2014**
Labor cost	16,246	14,201
Raw materials, consumables and merchandise	1,455	1,356
Consulting	1,624	868
Travel	1,802	1,488
Depreciation	7,098	7,055
Utilities	513	360
Capitalized internal construction costs	(5,235)	(4,096)
Other general expenses	1,745	1,833
Total	**25,248**	**23,064**

The change is €2,184 thousand compared to 2014.

26. Selling expenses

In 2015 selling expenses amount to €18,944 thousand.

The composition is as follows:

(in € thousands)	**2015**	**2014**
Labor costs	11,058	8,456
Commercial expenses	1,064	1,146
Shipping	610	564
Consulting	778	465
Depreciation	350	256
Utilities	870	690
Losses on receivables	703	491
Other general expenses	3,512	2,831
Total	**18,944**	**14,899**

The change from 2014 is €4,045 thousand.

27. General and administrative expenses

General and administrative expenses in 2015 amount to €19,978 thousand.

The composition is as follows:

(in € thousands)	2015	2014
Labor costs	8,329	7,864
Computer system services	2,020	2,215
Employee training and selection	653	610
Consulting	2,817	2,167
Depreciation	2,233	1,771
Utilities	659	661
Rent	351	519
Other general expenses	2,917	3,372
Total	**19,978**	**19,178**

The change from the prior year is €800 thousand.

28. Nonrecurring expenses

Nonrecurring expenses in 2015 total €1,083 thousand and mainly include €449 thousand for legal costs incurred by Intercos S.p.A. for a pending dispute relating to a patent owned by the Intercos Group and €543 thousand to increase provisions for higher customs duties prudently estimated by Intercos Cosmetics Suzhou.

29. Financial income (expenses)

Financial income (expenses), net show an expense balance of €12,588 thousand in 2015. Details are as follows:

(in € thousands)	**2015**	**2014**
Banking interest income	(38)	(39)
Other financial income	(24)	-
Total financial income	**(62)**	**(39)**
Interest on short-term borrowings	1,582	1,689
Interest on medium/long-term borrowings	6,536	4,138
Fair value adjustment	586	-
Interest discounted under IAS 19 application	127	192
Interest under IAS 23	(183)	(163)
Interest under IAS 39	4,353	2,707
Interest on leases under IAS 17 application	62	(3)
Bank charges	566	550
Total financial expenses	**13,628**	**9,110**
Foreign exchange gains	(9,923)	(7,641)
Foreign exchange losses	8,945	7,473
Net foreign exchange	**(978)**	**(168)**
Total	**12,588**	**8,903**

Financial expenses include a part of the costs relating to the restructuring of medium- and long-term debt in March 2015 as described under Significant events.

30. Result from investments

The share of the profit of equity method investees is as follows:

(in € thousands)	**2015**	**2014**
Share of the profit from investments accounted for using the equity method	106	-
Total	**106**	**-**

Additional information is provided in Note 2 – Significant accounting policies under Scope of consolidation.

31. Income taxes

Details of income taxes are as follows:

(in € thousands)	2015	2014
Current income taxes	5,842	6,181
Deferred income taxes	4,255	2,168
Prior years' taxes	(86)	(154)
Total	**10,011**	**8,196**

The tax charge in 2015 is €10,011 thousand and is composed of €5,842 thousand of current income taxes and €4,255 thousand of deferred taxes.

The Group utilized tax loss carryforwards in 2015 for a total of €15,795 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 2015 in the consolidated financial statements and the theoretical tax charge based on the theoretical tax rate in Italy is as follows:

	2015	
(in € thousands)	Amount	Rate
Pre-tax profit	**24,815**	
Theoretical tax charge	6,824	27.50%
IRAP	1,618	6.52%
Effect of increases in permanent difference in Italy	1,410	5.68%
Effect of decreases in permanent differences in Italy	(811)	-3.27%
Effect of tax changes at foreign companies	757	3.05%
Effect of different tax rate at foreign companies	(426)	-1.72%
Prior years' taxes	639	2.58%
Tax charge in income statement	**10,011**	**40.34%**

32. 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 effects of related party transactions on the consolidated income statement in 2015 and the consolidated statement of financial position at December 31, 2015 are as follows:

Related parties *(in € thousands)*	**Cost for services and leases and rent**	**Directors' compensation**	**Employee benefit expenses**	**Other current receivables**	**Trade payables**
DAFE International	129	-	-	-	-
SCI Maragia	30	-	-	-	-
Family and relatives of Dario Ferrari	-	-	245	-	-
Maragia USA Inc	27	-	-	-	-
Vault	264	-	-	-	-
Catterton	362	-	-	-	6
My Style	8	-	-	-	2
Interior	23	-	-	-	22
Arterra	332	50	-	259	425
Total	**1,175**	**50**	**245**	**259**	**455**

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.

33. Earnings per share

Earnings per share (EPS) is calculated as follows:

- by dividing the profit attributable to the holders of ordinary shares by the average number of ordinary shares during the year, net of treasury shares (*basic EPS*);
- by dividing the profit by the average number of ordinary shares and the potential number of shares arising from the exercise during the year of all option rights for the stock option plans, net of treasury shares (*diluted EPS*).

Basic EPS	***2015***	***2014***
Average number of shares during the year	91,319,870	91,319,870
Profit for the year *(in € thousands)*	14,804	9,551
Basic EPS and Diluted EPS	**0.16**	**0.10***

* Earnings per share (restated).

For comparison purposes, EPS was restated for the year 2014, specifically with reference to the average number of ordinary shares during the year following the change in the shareholder base of Intercos S.p.A..

34. Compensation to the boards of directors and boards of statutory auditors

The costs relating to the compensation of the corporate boards for 2015 are as follows:

(in € thousands)	Compensation
Boards of directors	1,873
Boards of statutory auditors	68
Total	**1,941**

35. Fees to the audit firm

(in € thousands)	Importo
Fee for the audit of the consolidated financial statements	749
Fee for services other than audit	90
Total	**839**

36. Contingent liabilities

At December 31, 2015 the company is not aware of any contingent liabilities.

37. Subsequent events

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

As for developments in the Group in the beginning months of 2016, a description of significant subsequent events is presented below.

- **On January 19, 2016** Intercos S.p.A. (parent) signed an amicable settlement agreement with Woojung Tech. Co., Ltd. and Mr Dong-Pil Choi to definitively close the dispute begun in September 2014 between the company and the latter, in relation to which a summons was filed by Intercos S.p.A. for trade secret misappropriation before the Courts in Los Angeles, California.

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

- **On February 10, 2016** – following the intent manifested by Drop Nail S.r.l.'s shareholder Paragon Cosmetics S.r.l. to: 1) divest of its interest in the capital of Drop Nail S.r.l. through the sale of its 40% investment, equal to a nominal amount of €20 thousand and 2) sell its remaining receivable due from Drop Nail S.r.l., for the shareholder loans extended in the past, for a total amount of €1 thousand – Intercos S.p.A, under its business plan aimed at strengthening its product range represented by nail polishes and nail care products, purchased Paragon's investment and receivable thus bringing its investment to €1,187,488, representing 100% of the capital of the company Drop Nail S.r.l.

Milan, March 25, 2016

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

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