Intercos Europe S.p.A.

(sole shareholder company)
Registered Office in Milan – Piazza Diaz 1
Share Capital €3,050,000 paid in
Milan REA No. 1125524
Subject to direction and coordination by Intercos S.p.A.
Companies Register and Tax Code No. 00712410190

Separate Financial Statements at December 31, 2018

REPORT ON OPERATIONS

Intercos Europe S.p.A. is a leading company in the manufacture of cosmetics for the most important worldwide brands. In 2018, the company reported a profit of €25,188 thousand.

2018 was marked by a further growth in orders acquired and sales, as well as a considerable increase in profitability.

Highlights for the year 2018 are the following:

(in € thousands)	*2018*	*2017*	*Change*
Revenues from sales and services	272,994	259,392	13,603
Adjusted EBITDA (1)	41,938	37,055	4,883
Operating profit	35,833	31,892	3,941
Pre-tax profit	35,358	30,945	4,413
Profit for the year	25,188	21,993	3,195

(in € thousands)	*12/31/2018*	*12/31/2017*	*Change*
Net invested capital (2)	58,161	62,006	*(3,846)*
Employee benefit obligations	3,524	3,906	*(382)*
Equity	68,198	54,441	*13,757*
Net financial position	10,037	(7,566)	*17,603*

(in € thousands)	*12/31/2018*	*12/31/2017*	*Change*
Capital expenditures	7,291	11,710	*(4,419)*
Employees (number at year-end)	846	823	23

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

Macroeconomic picture

Over the last few months the world economy has continued to grow but signs of cyclical deterioration have become evident in many advanced and emerging economies, especially in Europe and in Asia. The prospects for world trade continue to worsen following the slowdown in the first part of last year. The uncertainties surrounding the economic picture have had repercussions on international financial markets, with a shrinkage in long-term yields and the fall in stock prices. Global outlooks are burdened by the risks of a negative outcome in the trade talks between the United States and China, by a possible flare-up of financial tensions in emerging markets and the way in which Brexit will unfold. Besides financial and trade tensions, monitoring the risk of an inversion of the trend in consumer confidence is still vital since a deterioration could have negative consequences on public and private-sector debt.

In the eurozone, growth has weakened; in November, industrial production declined significantly in Germany, France and Italy. Inflation, although remaining widely at positive levels, fell due to the slowdown in the prices of energy products. The ECB Governing Council has reiterated its intention to maintain a significant monetary stimulus for an extended period.

In Italy, after growth was interrupted in the third quarter, available economic indicators suggest that expansion could be further reduced in the fourth quarter. Aside from the weakness of the summer months, the reduction in domestic demand also contributed, particularly capital expenditures and, to a lesser degree, household spending. In 2019, the capital expenditures programs of industrial and service companies would be more subdued owing both to political and economic uncertainty and trade tensions.

The trend of Italian exports is still favorable in the second half of the year; the slowdown in world trade has nevertheless affected future predictions of foreign orders from companies.

Overall inflation fell in December to 1.2 percent, owing especially to the slowdown in the prices of energy products; the dynamic of the fundamental component remained weak (0.5 percent).

The core projection of GDP growth is 0.6 percent this year, 0.4 percent less than what was previously forecast. Instead, the effects on growth are moderately positive: the impact of the reduction in long-term interest rates is favorable. The core projections for growth in 2020 and 2021 are 0.9 percent and 1.0 percent, respectively. The dispersion of the probability distribution surrounding these projections is particularly ample.

Inflation could increase gradually, from 1.0 percent this year to 1.5 percent on average in the next two years, in the wake of the increase in private remuneration and the gradual alignment of inflation expectations.

Besides the global factors of uncertainty already mentioned, the risks of the reduction in growth are linked to the possibility of a new increase in sovereign yields, a faster deterioration of loan conditions in the private sector and a further slowdown in the propensity to invest by companies. A more pronounced reduction in tensions over the yield of government securities could instead foster higher rates of growth.

2. *Market scenario*

The **global market of the Color Cosmetics sector** has a retail value of around USD 71 billion, with a year-over-year increase from +6.7% to +7.0%.

As for the different geographical regions, the Asian market (excluding Japan and Australia) remains the market with the highest growth rate, reporting an increase of +11.6% (+9.6% in 2017) and is positioned above the global growth rate. China, in particular, grew +15.7% in a market worth USD 5.9 billion.

The emerging markets (excluding China) show a reduction compared to the prior year but the trend is positive at +8.7% (+10.2% in 2017), including Brazil which reports an increase of +8.1% (+9.4% in 2017).

Although lower than global expansion, Western Europe and North America advanced by +4.7% and +6.4%, maintaining growth rates in line with 2017.

The continuous demand for innovation and the ability to anticipate market trends, in addition to the high degree of complexity of the processes have led to the outsourcing of production and higher growth in the B2B segment as compared to the reference market.

3. *Significant events in 2018*

A brief description of significant events in 2018 is reported below:

- On July 31, 2018, the board of directors of the parent Intercos S.p.A. approved a long-term share incentive plan, named Management Long-Term Incentive Plan, intended for certain key managers, some of whom are in Intercos Europe.

- On September 7, 2018, Intercos Europe S.p.A. and Drop Nail S.r.l. held their respective shareholders' meetings which approved the project for the merger of Drop Nail S.r.l. with and into Intercos Europe S.p.A. in order to simplify and rationalize the organization of the corporate structures within the Intercos Group and with a view to reduce the operating and administrative costs and, therefore achieve an overall improvement in terms of operating efficiency. The Drop Nail merger became effective under the Italian Civil Code on December 1, 2018. The accounting effects on the consolidated and separate financial statements are effective retroactively from January 1, 2018.

4. *Profit and Financial Performance in 2018*

Revenues from sales and services total €272,994 thousand, up +6% compared to 2017 owing to the strong contribution by emerging brands.

Revenues from sales and services by geographical region based on the territory of residence of the customer indicated on the sales invoice are presented below and show a robust expansion with customers in North America.

(in € thousands)	**2018**	**2017**
USA	81,575	62,970
EMEA	181,604	180,450
Asia	9,814	15,971
Total	**272,994**	**259,392**

Adjusted EBITDA is €41,938 thousand and records a strong growth of €4,882 thousand (+13.2%) compared to the prior year, with a notable increase in the Adjusted EBITDA margin to 15.4% from 14.3% in 2017.

Operating profit rose by €3,941 thousand (+12.4%) to €35,833 thousand compared to 2017. This is a confirmation and a consolidation of the success of the actions taken to optimize costs and increase productivity and is also thanks to the margins on the highly innovative products placed on the market.

Profit for the year comes to €25,188 thousand compared to €21,993 thousand in 2017; the profit margin increased by 0.7% to 14.2%.

Capital expenditures in property, plant and equipment and intangible assets total €7,291 thousand. The expenditures mainly focus on the purchase of machinery for manufacturing products, generic and specific plant and sundry equipment needed to boost, expand, renovate and automate the production system as a whole.

The reclassification from Assets under construction and payments on account to Other is mainly in reference to the renovation of the Cometa building leased in June 2017 to house the manufacturing department. The decreases are due to scrapping or sales to third parties.

The **Net financial position** is €10,037 thousand compared to a negative €7,566 thousand at the end of 2017. The improvement of €17,603 thousand is the result of a careful management of working capital through periodic meetings with credit committees, optimization of the supply chain, special attention devoted to the policy of payment terms with suppliers and daily monitoring of cash flows and liquidity.

Total **Equity** is €68,198 thousand compared to €54,441 thousand at December 31, 2017, with an increase of €13,757 thousand. In 2018, the company paid dividends of €11,000 thousand.

Costs for services and leases and rents in 2018 amount to €95,841 thousand compared to €89,831 thousand in 2017. The overall increase of €6,010 thousand is primarily due to higher manufacturing and sales volumes. The most important changes refer to €908 thousand due to increased processing and packaging costs and also €2,226 thousand of higher costs for services and royalties charged by the parent.

Employee benefit expenses total €52,052 thousand in 2018, of which €11,671 thousand relates to temp work. Employee benefit expenses as a percentage of revenues is 19% and unchanged compared to the prior year; this is a confirmation that such expenses are keeping pace with the increase in volumes.

For purposes of commenting on the changes in the balance sheet, the reclassified statement of financial position is presented below.

(in € thousands)	12/31/2018	12/31/2017
Fixed assets	**46,419**	**45,135**
Inventories	42,696	42,323
Trade receivables	43,480	53,471
Trade payables	(69,823)	(74,544)
Operating working capital	**16,353**	**21,250**
Other current receivables and payables	(8,271)	(7,162)
Net working capital	**8,082**	**14,088**
Other provisions and Non-current assets and liabilities	3,660	2,783
Invested capital	**58,161**	**62,006**
Equity	**68,198**	**54,441**
Cash and cash equivalents	(38,484)	(14,196)
Financial payables	28,447	21,762
Net financial position	**(10,037)**	**7,566**
Total sources	**58,161**	**62,006**

Ratios

Fixed Assets / Invested Capital	*79.81%*	*72.79%*
Net Financial Position / Equity	*(0.15)*	*0.14*
Invested Capital / Equity	*0.85*	*1.14*
Operating Working Capital / Revenues	*2.96%*	*5.43%*
Net Working Capital / Revenues	*2.96%*	*5.43%*

Compared to 2017, working capital turnover was positively impacted by the ever-increasing attention paid to operating and profit management and a more focused attention to cash flow management.

Additional information is provided in the Notes.

5. Share Capital

Share capital at December 31, 2018 is €3,050,000 and consists of 3,050,000 ordinary shares of par value €1 each.

There were no changes during the year, as illustrated in the following table at December 31, 2018:

Shareholders	Beginning balance	Ending balance	%
Intercos S.p.A.	3,050,000	3,050,000	100.00%
SHARE CAPITAL	**3,050,000**	**3,050,000**	**100.00%**

Pursuant to the provisions of article 2428 of the Italian Civil Code, it should be noted that the company neither holds nor has purchased or sold shares of the parent during the course of the year under examination, not even through fiduciaries or trustees.

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

6. 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 2018 and the statement of financial position at December 31, 2018 are described in the Notes.

7. Risk Management and Uncertainties

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

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

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

Types of risks hedged

Market risks

Exchange rate risk

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

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

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

The following sensitivity analysis was performed to illustrate the effects on profit and consequently on equity produced by an increase/decrease of 7.5% in exchange rates compared to the effective exchange rates at December 31, 2018. The following sensitivity analysis does not consider the tax effect on profit and equity.

(in € thousands)	**2018**	
	-7.50%	+7.50%
U.S. dollar	250	(215)
British pound	(14)	12
Other currencies	(21)	18
Total	**215**	**(185)**

Interest rate risk

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

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

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2018, with all other variables remaining constant.

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

This analysis includes financial payables and financial receivables at variable rates and cash and cash equivalents.

(in € thousands)	2018	
	-0.5%	+0.5%
Euro (Eurolibor)	64	(64)
Total	**64**	**(64)**

Credit risk

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

The credit risk related to trading counterparties is managed by the corporate Administration Function. Intercos Europe S.p.A. does not have significant concentrations of credit risk. However, there are policies in place to ensure that sales of products and services are made to customers with 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. The use of credit limits is monitored periodically. When considered appropriate, the company may also sell non-recourse receivables to factoring companies.

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

Trade accounts receivables, the provision for impairment of receivables and an ageing analysis of receivables with third party customers are presented at December 31, 2018.

12/31/2018	*Trade receivables*	*Current*	*Overdue 0-30 days*	*Overdue 30-60 days*	*Overdue over 60 days*	*Provision for impairment*
Intercos Europe S.p.A.	38,410	29,881	4,242	3,121	1,734	(567)

Liquidity risk

Prudent management of liquidity risk in the ordinary operations of the company implies maintaining an adequate level of cash as well as sufficient funds obtainable through the support of the parent Intercos S.p.A.

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

The amount of cash and cash equivalents available at December 31, 2018 compared to the end of the prior year is as follows:

(in € thousands)	**2018**	**2017**
Cash and cash equivalents	38,484	14,196
Total	**38,484**	**14,196**

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

(in € thousands)	**Within 1 year**	**From 1 to 5 years**	**Beyond 5 years**	**Total at December 31, 2018**
Borrowings from banks and other lenders - medium/long-term	11,099	9,875	0	20,973
Finance leases payable	10	319	0	329
Medium/long-term debt	**11,109**	**10,194**	0	**21,303**
Borrowings from banks and other lenders - short-term				0
Factoring companies payable	1,260	0	0	1,260
Trade payables	69,823	0	0	69,823
Loans payable to group companies - short-term	6,230	0		6,230
Other payables	12,154	0	0	12,154
Short-term debt	**89,467**	0	0	**89,467**
Total	**100,576**	**10,194**	**0**	**110,769**

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

(in € thousands)

12/31/2018	Financial assets at fair value through profit and loss	Receivables and loans	Available-for-sale financial assets	Held-to-maturity assets	Financial liabilities at fair value through profit and loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	-	-	-	-	-	-	-
Derivatives (assets)	-	-	-	-	-	-	-
Loans receivables	-	-	-	-	-	-	-
Trade receivables	-	43,480	-	-	-	-	-
Other assets	-	4,043	-	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	-	21,303	59
Trade payables	-	-	-	-	-	69,823	-
Loans payable						6,230	
Other payables	-	-	-	-	-	12,154	-
Derivatives (liabilities)	-	-	-	-	-	-	-

Total	**-**	**47,523**	**0**	**0**	**0**	**109,510**	**59**
Cash and cash equivalents	-	38,484					

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

8. Environment and Employees

The headcount of Intercos Europe at December 31, 2018 is 846 compared to 809 at December 31, 2017, with an increase of 37 units.

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

9. Research & Development

Expenditures for research & development are sustained by the parent Intercos S.p.A. where the laboratories and almost all the patents are concentrated.

10. Subsequent Events

During the beginning months of 2019, the sales trend was in line with budget and at this time there are no critical factors such as to require a revision of the anticipated outlook.

11. Secondary Offices

In compliance with article 2428 of the Italian Civil Code, the activities listed below are conducted at the locations indicated in the following table:

Description	City	Address
Operating unit	Dovera (CR)	KM 21 +150 S.P. No. 472 Bergamina
Operating unit	Agrate Brianza (MB)	Via Marconi 84
Operating unit	Agrate Brianza (MB)	Via Marconi 74

Offices and warehouses	Caponago (MB)	Via delle Gerole 13
Warehouses	Chieve (CR)	Via Lanfranco 15
Warehouses	Limbiate (MB)	Viale dei Mille 80

12. Appropriation of the Profit for the Year

To the shareholders,

We ask you to approve the Directors' Report on Operations for the year 2018 and the financial statements for the year ended December 31, 2018 as submitted to you, appropriating the profit for the year of €25,187,642 as follows: €12,687,642 to the extraordinary reserve and €12,500,000 to dividends on behalf of Intercos S.p.A.

Milan, March 28, 2019

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

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Intercos Europe S.p.A.

(company with a sole shareholder)

Registered Office in Milan – Piazza Diaz 1

Share Capital €3,050,000 paid in

Milan REA No. 1125524

Subject to direction and coordination by INTERCOS S.p.A.

Companies Register and Tax Code No. 00712410190

SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2018

PREPARED IN CONFORMITY WITH IFRS ADOPTED BY THE EUROPEAN UNION

Corporate Information

Intercos Europe S.p.A.

BOARD OF DIRECTORS

Name	Office
Dario Gianandrea Ferrari	Chairman and company representative
Pietro Oriani	CEO
Matteo Milani	CEO
Piergiorgio Bassani	Director
Maria D'Agata	Director

BOARD OF STATUTORY AUDITORS

Name	Office
Matteo Tamburini	Chairman
Mario Valenti	Standing auditor
Maria Maddalena Gnudi	Standing auditor
Maurizio Nastri	Alternate auditor
Simone Pesce	Alternate auditor

INDEPENDENT AUDITORS

EY S.p.A.

Statement of Financial Position at December 31, 2018

	(in euros)	**December 31, 2018**	**December 31, 2017**
	ASSETS		
	NON-CURRENT ASSETS		
7	Property, plant and equipment	25,649,806	24,575,033
8	Intangible assets	469,369	260,381
9	Goodwill	20,300,000	20,300,000
10	Deferred tax assets	4,381,876	4,054,109
11	Other non-current assets	3,142,129	3,086,308
	Non-current assets	**53,943,179**	52,275,831
	CURRENT ASSETS		
12	Inventories	42,695,645	42,322,610
13	Trade receivables	43,479,521	53,470,945
14	Taxes receivable	2,982,636	2,567,719
15	Other current assets	900,896	825,299
16	Cash and cash equivalents	38,483,511	14,195,970
	Current assets	**128,542,209**	113,382,542
	TOTAL ASSETS	**182,485,388**	165,658,373

	(in euros)	**December 31, 2018**	**December 31, 2017**
	EQUITY AND LIABILITIES		
	EQUITY		
	Share capital	3,050,000	3,050,000
	Legal reserve	600,000	600,000
	Other reserves	38,417,226	27,224,631
	Retained earnings, including profit for the year	26,130,586	23,566,072
17	**TOTAL EQUITY**	**68,197,812**	54,440,703
	LIABILITIES		
	NON-CURRENT LIABILITIES		
18	Borrowings from banks and other lenders – non-current	9,940,932	13,151,351
19	Provisions	58,905	204,533
20	Deferred tax liabilities	281,842	247,547
21	Employee benefit obligations	3,523,544	3,905,568
	Non-current liabilities	**13,805,223**	17,508,998
	CURRENT LIABILITIES		
22	Borrowings from banks and other lenders – current	12,275,458	2,380,261
23	Other financial payables		6,230,110
24	Loans payable to Group companies – short-term	6,230,110	0
25	Trade payables	69,822,649	74,543,656
26	Other payables	12,154,135	10,554,643
	Current liabilities	**100,482,353**	93,708,671
	TOTAL EQUITY AND LIABILITIES	**182,485,388**	165,658,373

Statement of Comprehensive Income for the year ended December 31, 2018

	(*in euros*)	**2018**	**2017**
27	Revenues from sales and services	272,994,486	259,391,637
28	Other income	5,937,897	6,058,548
29	Purchases of raw materials, semifinished products and consumables	(88,427,228)	(94,327,231)
30	Change in inventories of raw materials, semifinished and finished products	361,743	5,926,780
31	Costs for services and leases and rents	(95,840,967)	(89,831,046)
32	Employee benefit expenses	(52,051,864)	(49,540,430)
33	Accruals	0	(71,991)
34	Other operating expenses	(1,036,300)	(551,302)
	Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses)	**41,937,766**	37,054,964
35	Depreciation, amortization and impairment reversals (losses)	(5,908,915)	(5,103,010)
36	Nonrecurring income (expenses)	(196,291)	
	Operating profit	**35,832,560**	31,891,954
37	Financial income	563,543	88,772
38	Financial expenses	(1,038,540)	(1,036,199)
39	Income taxes	(10,169,921)	(8,951,507)
	Profit for the year	**25,187,642**	21,993,020
	Other comprehensive income		
	Other comprehensive income that will not be reclassified subsequently to the income statement		
40	Actuarial gains (losses)	(643,526)	(70,724)
	Total Other comprehensive income	**(643,526)**	(70,724)
	Total comprehensive income for the year	**24,544,116**	21,919,898

Statement of Cash Flows for the year ended December 31, 2018

(in € thousands)	**2018**	**2017**
Profit from continuing operations	25,188	21,993
Profit for the year	**25,188**	**21,993**
Depreciation, amortization and impairment reversals (losses)	5,909	5,103
Non-recurring income (expenses)		
Change in provisions	(528)	(74)
Financial income (expenses)	475	947
Decrease / (Increase) in inventories	(373)	(6,419)
Decrease / (Increase) in trade receivables, net	9,991	(5,406)
Increase / (Decrease) in trade payables	(4,721)	14,221
Decrease / (Increase) in other assets	(874)	(1,575)
Increase / (Decrease) in other payables	1,634	(4,714)
Cash flows provided by operating activities (a)	**36,701**	**24,075**
Acquisition of property, plant and equipment, net	(6,935)	(10,532)
Acquisition of intangible assets, net	(302)	(260)
Cash flows (used in) investing activities (b)	**(7,237)**	**(10,792)**
Share capital increase	0	0
(Increase) / Decrease in financial assets	0	0
Dividends paid	0	(10,000)
Increase / (Decrease) borrowings from banks and other lenders	(11,000)	(8,560)
Interest paid during the year	6,685	(1,044)
	(862)	
Cash flows (used in) financing activities (c)	**(5,177)**	**(19,604)**
Cash flows during the year (a)+(b)+ (c) + (d)	**24,287**	**(6,321)**
Cash and cash equivalents at beginning of the year	14,196	20,517
Cash and cash equivalents at end of the year	38,484	14,196
Net increase (decrease)in cash and cash equivalents during the year	**24,288**	**(6,321)**

Statement of Changes in Equity

Description	Share capital	Share premium reserve	Legal reserve	Other reserves	Revaluation reserve	Profit for the year	TOTAL
Equity at 12/31/2016	**3,000,000**	**755,885**	**600,000**	**14,996,676**	**2,909,999**	**19,888,056**	**42,150,614**
Appropriation 2016 profit				19,888,056		(19,888,056)	0
Other comprehensive income - actuarial loss				(73,122)			(73,122)
Payment of dividends				(10,000,000)			(10,000,000)
Profit 2017						22,425,007	22,425,007
Equity at 12/31/2017	**3,000,000**	**755,885**	**600,000**	**24,811,610**	**2,909,999**	**22,425,007**	**54,502,499**
Appropriation 2017 profit				22,425,007		(22,425,007)	0
Other comprehensive income - actuarial loss				(643,526)			(643,526)
Long-term incentive plan reserve				76,495			76,495
Drop Nail S.r.l. merger	50,000			24,702			74,702
Payment of dividends				(11,000,000)			(11,000,000)
Profit 2018						25,187,642	25,187,642
Equity at 12/31/2018	**3,050,000**	**755,885**	**600,000**	**35,694,288**	**2,909,999**	**25,187,642**	**68,197,812**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Intercos Europe S.p.A. is a corporation organized under the laws of the Republic of Italy. The company was formed on December 22, 1982 and has its registered office in Milan, Piazza Diaz 1.

The company is controlled by Intercos S.p.A., which is required to prepare the consolidated financial statements of the Intercos Group.

Significant events in 2018

- On July 31, 2018, the board of directors of the parent Intercos S.p.A. approved a long-term share incentive plan, named Management Long-Term Incentive Plan, intended for certain key managers, some of whom are in Intercos Europe.

- On September 7, 2018, Intercos Europe S.p.A. and Drop Nail S.r.l. held their respective shareholders' meetings which approved the project for the merger of Drop Nail S.r.l. with and into Intercos Europe S.p.A. in order to simplify and rationalize the organization of the corporate structures within the Intercos Group and with a view to reduce the operating and administrative costs and, therefore achieve an overall improvement in terms of operating efficiency. The accounting effects on the consolidated and separate financial statements are effective retroactively from January 1, 2018.

Drop Nail S.r.l.
Statement of Financial Position
at January 1, 2018
effective date of the merger

STATEMENT OF FINANCIAL POSITION

ASSETS

		1/1/2018
I – Intangible assets		
1. start-up and expansion costs		0
2. research, development and publicity		15,512
3. patent rights and intellectual property rights		7,027
4. concessions, licenses and trademarks		316
5. goodwill		0
6. assets under development and payments on account		0
7. other		11,640
	TOTAL	**34,496**
II – Property, plant and equipment		
1. land and buildings		5,341
2. plant and machinery		209,322
3. industrial and commercial equipment		145,906
4. other assets		0
a. office furniture and equipment		57,780
b. motor vehicles and internal transportation equipment		420
5. assets under construction and payments on account		0
	TOTAL	**418,769**
III – Financial assets		
1. equity investments in:		
b. subsidiaries		0
2. receivables:		
d. from others		0
	TOTAL	**0**
TOTAL FIXED ASSETS	**(B)**	**453,264**
I - Inventories		
1. raw materials and consumables		237,468
2. semifinished products		218,243
3. finished products		492
	TOTAL	**456,203**
II – Receivables		
1. from customers		324,086
2. from subsidiaries		0
4. from parents		112,645
4-bis. taxes receivable		191,065
due beyond 12 months		

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4-ter. deferred tax assets		128,315
5. from others		
a. from associated companies		
b. guarantee deposits (due beyond 12 months)		
c. from associates		17,063
d. other		62,303
e. advances to suppliers		
	TOTAL	**835,477**
IV - Cash		
1. bank and postal deposits		149,241
2. checks		0
3. money and valuables in cash		2,671
	TOTAL	**151,912**
TOTAL CURRENT ASSETS	**(C)**	**1,443,592**
1. accrued income		1
2. prepaid expenses		48,176
TOTAL ACCRUALS AND PREPAYMENTS (D)	TOTAL	**48,176**
TOTAL ASSETS		**1,945,033**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

		1/1/2018
I – Share capital		50,000
II – Share premium reserve		0
III – Revaluation reserve		0
IV – Legal reserve		0
VI – Extraordinary reserve		0
VII – Other reserves		0
a. merger surplus		
b. loss coverage		0
c. share capital increase reserve		289,840
VIII – Retained earnings (accumulated losses)		0
IX - Profit (loss) for the year		(415,138)
	TOTAL	**(75,298)**
B) PROVISIONS		
2. deferred taxes		0
3. other		0
	TOTAL	**0**
C) EMPLOYEE SEVERANCE INDEMNITIES	TOTAL	**57,246**

4. borrowings from banks	0
borrowings from banks (due beyond 12 months)	36,111
5. borrowings from other lenders	(0)
borrowings from other lenders (due beyond 12 months)	
7. trade payables	423,855
9. payables to associated companies	
11. payables to parent companies	1,417,204
12. taxes payable	29
13. social security agencies payable	13,993
14. other payables	
a. payables to associated companies	12,168,72
b. payables to employees	44,901,30
c. sundry payables	0,00
d. advances from customers	0,00
e. payables to tax authorities for withholdings	10,917,33
	67,987
TOTAL	**1,959,180**

1. accrued liabilities	3,905
2. deferred liabilities	
TOTAL	**3,905**

TOTAL EQUITY AND LIABILITIES	**1,945,033**

In view of the significance of the merger described above, a comparison of the two years would not be meaningful, therefore in order to present a homogeneous comparison of the two years, in applying IFRS 3 Business Combinations, the company restated the 2017 balances by including the adjusted balances for IAS/IFRS purposes of the merged company as if the merger had taken place during the year ended December 31, 2017.

Financial statements detailing the restatement of the figures for the year ended December 31, 2017 are presented on the following pages.

ASSETS	Pre-merger balances 12/31/2017	IAS/IFRS adjusted balances of merged company 12/31/2017	Restated balances 12/31/2017
NON-CURRENT ASSETS			
Property, plant and equipment	23,613,091	961,942	24,575,033
Intangible assets	225,885	34,496	260,381
Goodwill	20,300,000	0	20,300,000
Investments in other companies	0	0	0
Loans receivable from Group companies – medium/long-term	0	0	0
Deferred tax assets	3,925,794	128,315	4,054,109
Other non-current assets	3,086,308	0	3,086,308
Other financial assets	0	0	0
TOTAL NON-CURRENT ASSETS	**51,151,078**	**1,124,753**	**52,275,831**
CURRENT ASSETS			
Inventories	41,866,407	456,203	42,322,610
Trade receivables	53,129,796	341,149	53,470,945
Taxes receivable	2,376,654	191,065	2,567,719
Other current assets	649,942	175,357	825,299
Loans receivable from Group companies – short-term	0	0	0
Cash and cash equivalents	14,044,057	151,912	14,195,970
TOTAL CURRENT ASSETS	**112,066,856**	**1,315,686**	**113,382,542**
TOTAL ASSETS	**163,217,934**	**2,440,439**	**165,658,373**

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EQUITY AND LIABILITIES	Pre-merger balances 12/31/2017	IAS/IFRS adjusted balances of merged company 12/31/2017	Restated balances 12/31/2017
EQUITY			
Share capital	3,000,000	50,000	3,050,000
Legal reserve	600,000	0	600,000
Other reserves	26,909,236	315,395	27,224,631
Retained earnings	23,993,262	(427,190)	23,566,072
Total equity attributable to owners of the parent	54,502,498	(61,795)	54,440,703
Equity attributable to non-controlling interests	0		
TOTAL EQUITY	54,502,498	(61,795)	54,440,703
NON-CURRENT LIABILITIES			
Borrowings from banks and other lenders	12,726,331	425,020	13,151,351
Other financial liabilities		0	0
Loans payable to Group companies – medium/long-term		0	0
Provisions	204,533	0	204,533
Deferred tax liabilities	247,547	0	247,547
Other non-current liabilities	0	0	0
Employee benefit obligations	3,823,193	82,375	3,905,568
TOTAL NON-CURRENT LIABILITIES	**17,001,603**	**507,395**	**17,508,998**
CURRENT LIABILITIES			
Borrowings from banks and other lenders - current	2,312,397	67,864	2,380,261
Loans receivable from Group companies – short-term	5,000,000	1,230,110	6,230,110
Other financial liabilities	0	0	0
Trade payables	73,920,539	623,118	74,543,656
Other payables	10,480,897	73,746	10,554,643
Taxes payable	0	0	0
TOTAL CURRENT LIABILITIES	**91,713,832**	**1,994,839**	**93,708,671**
TOTAL EQUITY AND LIABILITIES	**163,217,934**	**2,440,439**	**165,658,373**

INCOME STATEMENT	Pre-merger balances 2017	IAS/IFRS adjusted balances of merged company 2017	Restated balances 2017
Revenues	257,500,543	1,891,094	259,391,637
Capitalized internal construction costs	0	0	0
Other income	5,805,707	252,841	6,058,548
Purchases of raw materials, semifinished products, consumables	(93,313,665)	(1,013,566)	(94,327,231)
Change in inventories of raw materials, semifinished and finished products	5,963,338	(36,557)	5,926,780
Costs for services and leases and rents	(89,254,707)	(576,339)	(89,831,046)
Employee benefit expenses	(48,825,969)	(714,462)	(49,540,430)
Accruals	(71,991)	0	(71,991)
Other operating expenses	(527,237)	(24,065)	(551,302)
Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income (expenses)	**37,276,018**	**(221,053)**	**37,054,964**
Depreciation, amortization and impairment reversals (losses)	(4,827,133)	(275,877)	(5,103,010)
Valuation adjustments to financial assets	0	0	0
Nonrecurring income (expenses)	(60,000)	0	(60,000)
Operating profit	**32,388,885**	**(496,931)**	**31,891,954**
Financial income	88,771	1	88,772
Financial expenses	(988,497)	(47,702)	(1,036,199)
Income taxes	(9,064,152)	112,645	(8,951,507)
PROFIT FOR THE YEAR	**22,425,007**	**(431,987)**	**21,993,020**
Other comprehensive income	**(73,122)**	**0**	**(73,122)**
Actuarial gains (losses) on defined benefit pension plans			
Total Other comprehensive income	**0**		
Total comprehensive income for the year	**22,351,885**	**(431,987)**	**21,919,898**

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements for the year ended December 31, 2018 of Intercos Europe S.p.A. are expressed in euros. The financial statements consist of the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity and the notes thereto. All amounts in the notes are expressed in thousands of euros, unless otherwise indicated. The statement of comprehensive income format presents a classification according to costs by nature.

The separate financial statements at December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), and adopted by the European Commission for the preparation of the consolidated and separate financial statements of companies with equity securities and/or debt listed on one of the regulated markets in the European Union.

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

The financial statements were approved for publication by the board of directors on March 28, 2019.

New accounting standards and interpretations adopted by the company

The accounting principles adopted in the preparation of the financial statements of the company at December 31, 2018 are consistent with those applied in the prior year, except for the adoption of recently issued standards and interpretations that became effective from January 1, 2018, as reported below.

Regulations 2016/1905 and 2017/1987, issued by the European Commission, respectively, on September 22, 2016 and October 31, 2017, adopted "*IFRS 15 - Revenue from Contracts with Customers*" and the document "*Clarifications to IFRS 15 - Revenue from Contracts with Customers*" that define the criteria for the recognition and measurement of revenues arising from contracts with customers.

IFRS 15 was adopted from January 1, 2018 and the company took advantage of the possibility allowed by the standard of recognizing the cumulative effect in equity at January 1, 2018, considering the situations existing at that date, without restating the prior years presented for comparison purposes. The application of the standard did not have significant accounting effects.

"*IFRS 9 - Financial Instruments*", adopted by Regulation 2016/2067 issued by the European Commission on November 22, 2016, was adopted beginning from January 1, 2018. As allowed by the transitional provisions of the standard, also due to the complexity of recalculating values at the beginning of the first year presented without the use of elements known afterwards, the effects of the first-time application of IFRS 9 as regards classification and measurement, including impairment, of financial assets, were recognized in equity at January 1, 2018, without restating the prior years presented for comparison purposes. As for hedge accounting, the adoption of the new provisions did not have significant effects.

Specifically, the adoption of IFRS 9 resulted in an increase in equity of €313 thousand referring to €20 thousand for higher impairments due to the adoption of the expected credit loss model for trade receivables and €293 thousand for other receivables due to the application of the amortized cost criterion for the measurement of financial payables.

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

Regulation 2017/1986, issued by the European Commission on October 31, 2017, adopted "*IFRS - 16 Leases*", which replaces IAS 17 and related interpretations. Specifically, IFRS 16 defines a lease as a contract that conveys to the lessee a right to use the asset for a specified period of time in exchange for consideration. The new standard eliminates the distinction between operating or finance lease for purposes of the preparation of financial statements by lessees; in particular, for all lease contracts with a lease term of more than 12 months the following is required:

- in the statement of financial position, the recognition of an asset, representing the right to use the asset (hereafter "right-of-use asset") and a liability (hereafter "lease liability"), representing the obligation to make the payments established by the contract; in accordance with the standard, the right-of-use asset and the lease liability are recognized in separate captions of the balance sheet;
- in the income statement, recognition of depreciation on the right-to-use asset and the interest expense on the lease liability, in lieu of the recognition of operating lease payments recorded in operating costs, if not capitalized, according to the provisions of IAS 17 in effect until the end of the year 2018. In the event the depreciation of the right-to-use asset and the interest expense on the lease liability are directly associated with the realization of assets, they are capitalized on such assets and later recognized in the income statement through depreciation;[1]

[1]. The income statement will also include: (i) lease payments relating to short-term leases and leases of low-value assets, as allowed by IFRS 16; and (ii) variable lease payments, not included in calculating the lease liability (e.g. payments based on the use of the leased asset).

- in the statement of cash flows, the recognition of cash payments on the lease liability presented within financing activities and the interest expense presented within operating activities, if charged to the income statement, or in investing activities if they are capitalized if they refer to assets leased and used for the realization of other assets. Consequently, compared to the provisions of IAS 17, as regards operating leases, the application of IFRS 16 will have a significant impact on the statement of cash flows.

Instead, the lessor, in its financial statements, continues to classify its leases as operating leases or finance leases. IFRS 16 increases the disclosure of leases in the financial statements both for the lessor and lessee. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019.

During 2018, the analyses have been completed for the identification of areas affected by the new provisions, for the updating of company processes and systems and for the calculation of the estimated relative effects.

Upon first-time application, the company intends to take advantage of the following practical exemption set out in the standard:

- decision not to assimilate, on transition, leases with a remaining lease term of less than 12 months at January 1, 2019 with short-term leases and leases of low-value assets of less than USD 5 thousand according to the interpretation IFRS 16 Leases - IFRS Effects Analysis International Financial Reporting Standard (January 2016).

Based on available information, the application of IFRS 16 will result in the recognition of a lease liability of €8,585 thousand. This estimate could change depending on the possible evolution of interpretations according to indications by IFRIC, as well as perfecting the formulation process in anticipation of the first-time application of the standard in 2019.

In order to recognize the effect of the retroactive recalculation resulting from the application of the new standard, prior years presented for comparison purposes will be restated under the full retrospective approach.

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

Accounting standards, interpretations and amendments, which, at the date of the preparation of these financial statements, are in the process of being adopted by the European Commission are illustrated below.

On May 18, 2017, the IASB issued *"IFRS 17 - Insurance Contracts"*, which defines the accounting for insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which supersede those currently set out in *"IFRS 4 - Insurance Contracts"*, are effective for reporting periods beginning on or after January 1, 2021.

On February 7, 2018, the IASB also amended *"IAS 19 - Plan Amendment, Curtailment or Settlement"* (hereafter amendments to IAS 19), aimed mainly at requiring the use of updated actuarial assumptions to calculate current service cost and net interest for the period following an amendment, curtailment or an existing defined benefit plan. The amendments to IAS 19 are effective for reporting periods beginning on or after January 1, 2019.

On March 29, 2018, the IASB issued the document *"Amendments to References to the Conceptual Framework in IFRS Standards"*, containing amendments, mainly of a technical and editorial nature, to international standards aimed at supporting transition to the revised IFRS *Conceptual Framework for Financial Reporting* issued by the IASB on the same date. The amendments to the standards are effective for reporting periods beginning on or after January 1, 2020.

On October 22, 2018, the IASB issued amendments to *"IFRS 3 - Business Combinations"*, to provide clarification on the definition of a business. The amendments to IFRS 3 are effective for reporting periods beginning on or after January 1, 2020.

On October 31, 2018, the IASB issued amendments to *"IAS 1 and IAS 8 - Definition of Material"* (hereafter amendments to IAS 1 and IAS 8) aimed at clarifying and rendering uniform within the IFRS and other publications, the definition of material for the purpose of providing support to companies in the formulation of opinions. In particular, information must be considered material if it can reasonably be assumed that to omit, misstate or obscure it influences the primary users of general-purpose financial statements in making decisions on the basis of those statements. The amendments to IAS 1 and IAS 8 are effective for reporting periods beginning on or after January 1, 2020.

On December 12, 2017, the IASB issued the document "*Annual Improvements to IFRS Standards 2015-2017 Cycle"*, containing amendments, mainly of a technical and editorial nature, of the international standards. effective for reporting periods beginning on or after January 1, 2019.

With EU Regulation 2018/1595 issued on October 23, 2018, the European Commission adopted "*IFRIC 23 - Uncertainty over Income Tax Treatments"*, which contains indications on current and/or deferred accounting for income taxes when there is uncertainty over the application of the tax law. The provisions of IFRIC 23 are effective for reporting periods beginning on or after January 1, 2019. The effects of the new provisions are currently being assessed.

Furthermore, with EU Regulation 2019/237 issued by the European Commission on February 8, 2019, the amendments to *"IAS 28 - Long-term Interests in Associates and Joint Ventures"* (hereafter amendments to IAS 28) were adopted with the aim of clarifying that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments to IAS 28 are effective for reporting periods beginning on or after January 1, 2019.

The company is assessing these standards, where applicable, in order to evaluate whether their adoption will or will not have any significant impact on the financial statements.

Summary of significant accounting policies

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

The financial statements have been prepared under the going concern concept.

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

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

Property, plant and equipment

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

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

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

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

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

Description			*Rates*
Land and Buildings			4%/5.5%
Plant			
	o	Generic	10%
	o	Specific	12%
	o	Water purification plant	15%
Machinery			12%/12.5%
Industrial equipment			
	o	Laboratory, workshop, molds	40%
	o	Light constructions	40%
Other assets			
	o	Office furniture and fixtures	12%
	o	Electronic machines	20%
	o	Internal transportation equipment	20%
	o	Motor vehicles	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 of the cost relating to the expansion, renovation or improvement of the structural elements in use by third parties corresponds to the lower of the remaining estimated useful life of the property, plant and equipment and the remaining term of the lease contract.

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

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

Leased assets

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

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

Intangible assets

Intangible assets are identifiable assets without physical substance, controlled by the company and able to produce expected future economic benefits, as well as goodwill, when acquired against payment. Identifiability of an intangible asset is defined as the possibility of distinguishing it from goodwill. This requisite is normally satisfied when: (i) the asset arises from contractual or other legal rights, or (ii) the asset is separable, i.e. is capable of being sold, transferred, rented or exchanged individually or as an integral part of other assets. An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. Such assets are recorded at the cost of purchase and/or production, including incidental expenses directly attributable to the preparation of the asset for its intended use, net of accumulated amortization, and any impairment losses. Any borrowing costs arising during and for the development of intangible assets are expensed in the income statement. Amortization starts when the asset is available for use and is charged on a straight-line basis over the remaining period of possible utilization, intended as the estimated useful life.

(i) Goodwill

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

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

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

(ii) Trademarks, licenses and similar rights

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

(iii) R&D costs

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

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

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

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

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

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

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

Impairment of property, plant and equipment and intangible assets

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

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

Financial instruments

Financial assets

Financial assets mainly relate to accounts receivable from customers, with fixed or determinable payments, that are non-derivative and are not listed on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified in non-current assets. Such assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Where there is objective evidence of an indication of impairment, the asset is reduced so that it equals the present value of estimated future cash flows. The impairment loss is recognized in the income statement. Where an impairment loss on assets subsequently no longer exists or has decreased, the carrying amount of the asset is increased up to the carrying amount that would have been recorded under the amortized cost method had no impairment loss been recognized.

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

Financial liabilities

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

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

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

Inventories

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

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

Cash and cash equivalents

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

Provisions

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

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

Employee benefit obligations

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

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

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

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

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

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

Translation of foreign currency balances and transactions

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

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

<u>Sales of products</u>

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

- 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 the economic benefits associated with the transaction will flow to the company;
- the costs incurred or to be incurred can be measured 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 & 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 the risks and rewards associated with their ownership. Such transactions refer solely to immediately available products of Intercos Europe and will be concluded within a short time after the date the "Bill & Hold" agreement is signed between the parties.

<u>Performance of services</u>

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

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

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

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

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

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

In addition, Intercos Europe S.p.A. has adhered to the national tax consolidation procedure under articles 117-129 of T.U.I.R. of the parent Intercos S.p.A., as the “consolidating” company together with Marketing Projects S.r.l. in liquidation, Ager S.r.l., Kit Productions S.r.l., Vitalab S.r.l., Intercos Concept S.r.l. and Intercos Europe S.p.A. as the “consolidated” companies. Therefore, considering that the settlement for the current year resulted in a taxable profit, this was transferred to the consolidating company and the company recorded the relative amount payable to the latter, at 24% (IRES rate in force), net of the receivable for withholding taxes on current account interest, also transferred to the consolidating company.

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

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

Public grants – Disclosure ex art. 1, paragraphs 125 – 129, Law 124/2017

Art.1, paragraphs 125 - 129 of Law 124/2017 regulate public grants and, specifically, the obligations of both beneficiaries and grantors.

Intercos S.p.A., as a company not directly or indirectly controlled by the government, is not obliged by paragraph 126 to indicate any disbursements granted to Italian and foreign beneficiaries.

Instead, regarding disbursements received from Italian government agencies and entities, given that presentation is not required for the following:

- forms of incentives/subsidies received under a general system of assistance to all those entitled (such as, for example, tax relief measures);
- consideration referring to the performance of works/services, including sponsorships;
- reimbursements or indemnities paid to parties participating in traineeships and orientation programs;
- grants received for continual training from interprofessional funds established under the legal form of an association;
- membership dues for trade and territorial associations in addition to those for foundations, or equivalent organizations, related to the activities of the company's business,

under the provisions of art. 3-quater of Legislative Decree 135/2018, for disbursements received in 2018 and included in the National Register of Government Assistance referred to in art. 52 of Law 234 of December 24, 2012, reference should be made to the indications contained therein and note should be taken that any other grants, subsidies, consideration and economic advantages of whatsoever type received during the year from government or related entities not included in the above Register (in particular, the Youth Guarantee incentive applied through INPS) total less than €10,000.

3. DIRECTION AND COORDINATION ACTIVITIES

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

For a meaningful and complete understanding of the financial condition and cash flows of said company at December 31, 2018, as well as the results of operations for the year then ended, reference should be made to the financial statements which, accompanied by the independent auditors' report, are available in the form and manner established by law.

4. RISK MANAGEMENT

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

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

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

Types of risks hedged

Exchange rate risk

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

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

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

The following sensitivity analysis was performed to illustrate the effects on profit and consequently on equity produced by an increase/decrease of 7.5% in the exchange rates compared to the effective exchange rates at December 31, 2018. The following sensitivity analysis does not consider the tax effect on profit and equity.

(in € thousands)	**2018**	
	-7.50%	+7.50%
U.S. dollar	250	(215)
British pound	(14)	12
Other currencies	(21)	18
Total	**215**	**(185)**

Interest rate risk

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

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

The following sensitivity analysis was performed to illustrate the effects on profit produced by an increase/decrease of 50 basis points in interest rates compared to the effective interest rates at December 31, 2018, with all other variables remaining constant.

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

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

(in € thousands)	**2018**	
	-0.5%	+0.5%
Euro (Eurolibor)	64	(64)
Total	**64**	**(64)**

Credit risk

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

The credit risk related to trading counterparties is managed by the corporate Administration Function. Intercos Europe S.p.A. does not have significant concentrations of credit risk. However, there are policies in place to ensure that sales of products and services are made to customers with 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. The use of credit limits is monitored periodically. When considered appropriate, the company may also sell non-recourse receivables to factoring companies.

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

Trade accounts receivables, the provision for impairment of receivables and an ageing analysis of receivables from third party customers are presented at December 31, 2017 and 2018.

12/31/2017	*Trade receivables*	*Current*	*Overdue 0 – 30 days*	*Overdue 30 – 60 days*	*Overdue over 60 days*	*Provision for impairment*
Intercos Europe S.p.A.	45,010	31,409	11,439	915	1,382	(135)

12/31/2018	*Trade receivables*	*Current*	*Overdue 0 – 30 days*	*Overdue 30 – 60 days*	*Overdue over 60 days*	*Provision for impairment*
Intercos Europe S.p.A.	38,410	29,881	4,242	3,121	1,734	(567)

Liquidity risk

Prudent management of liquidity risk in the ordinary operations of the company implies maintaining an adequate level of cash as well as sufficient funds obtainable through the support of the parent Intercos S.p.A.

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

The amount of liquid reserves available at December 31, 2018 compared to the end of the prior year is as follows:

(in € thousands)	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	38,484	14,196
Total	**38,484**	**14,196**

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

(in € thousands)	**Within 1 year**	**From 1 to 5 years**	**Beyond 5 years**	**Total at December 31, 2018**
Borrowings from banks and other lenders - medium/long-term	11,099	9,875	0	20,973
Finance leases payable	10	319	0	329
Medium/long-term debt	**11,109**	**10,194**	0	**21,303**
Borrowings from banks and other lenders - short-term				0
Factoring companies payable	1,260	0	0	1,260
Trade payables	69,823	0	0	69,823
Loans from Group companies - short-term	6,230	0		6,230
Other payables	12,154	0	0	12,154
Short-term debt	**89,467**	0	0	**89,467**
Total	**100,576**	**10,194**	**0**	**110,769**

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

(in € thousands)

12/31/2018	Financial assets at fair value through profit and loss	Receivables and loans	Available-for-sale financial assets	Held-to-maturity assets	Financial liabilities at fair value through profit and loss	Other liabilities at amortized cost	Hedging derivatives
Available-for-sale financial assets	0	0	0	0	0	0	0
Derivatives (assets)	0	0	0	0	0	0	0
Loans receivable	0	0	0	0	0	0	0
Trade receivables	0	43,480	0	0	0	0	0
Other assets	0	4,043	0	0	0	0	0
Borrowings from banks and other lenders	0	0	0	0	0	0	0
Trade payables	0	0	0	0	0	21,303	59
Loans payable	0	0	0	0	0	69,823	0
Other payables	0	0	0	0	0	6,230	0
Derivatives (liabilities)	0	0	0	0	0	12,154	0
Available-for-sale financial assets	0	0	0	0	0	0	0
Total	**0**	**47,523**	**0**	**0**	**0**	**109,510**	**59**
Cash and cash equivalents	0	38,484	0	0	0	0	0

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

5. USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to apply accounting principles and methods which at times are based upon complex subjective judgments and estimates connected with past experience as well as reasonable and realistic assumptions according to the relevant circumstances. The use of these estimates and assumptions can affect the amounts reported in the financial statements, such as the statement of financial position, the statement of comprehensive income and the statement of cash flows, in addition to the disclosure provided. 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 from within the company and from the market and from historical experience. Moreover, whenever an impairment may exist, the company determines the impairment loss on the basis of appropriate measurement techniques. The proper identification of the factors indicating that an impairment may exist and the estimates used depend on factors which could vary over time and affect management's judgments and estimates.

- *Depreciation of property, plant and equipment*

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

- *Deferred taxes*

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

- *Provisions*

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

7. Property, plant and equipment

Movements in Property, plant and equipment in 2018 are as follows:

(in € thousands)	*December 31, 2017*	*Drop Nail merger balances*	Increases / Depreciation	Translation differences / Reclassifications	Decreases / Utilization / Adjustments	December 31, 2018
Historical cost						
Land and buildings	**8,654**	606	54	8	(149)	**9,174**
Plant and machinery	**70,786**	592	2,587	1,454	(476)	**74,943**
Industrial equipment	**34,904**	531	1,242	706	(325)	**37,058**
Office furniture and equipment	**1,780**	91	78	210	(1)	**2,157**
Motor vehicles and internal transportation equipment	**889**	1	20	34	(226)	**717**
Cell phones	**0**	0	0	0	0	**0**
Assets under construction and payments on account	**3,015**	0	2,126	(3,889)	(49)	**1,202**
Other	0	0	883	1,456	**0**	**2,338**
Total	**120,028**	**1,820**	**6,989**	**(22)**	**(1,226)**	**127,589**
Accumulated depreciation						
Land and buildings	**6,343**	276	200	0	(105)	6,714
Plant and machinery	**55,598**	268	3,429	0	(497)	58,798
Industrial equipment	**32,353**	270	1,861	0	(325)	34,159
Office furniture and equipment	**1,274**	33	162	0	(0)	1,469
Motor vehicles and internal transportation equipment	**847**	0	34	0	(222)	659
Cell phones	**0**	0	0	0	0	0
Assets under construction and payments on account	**0**	0	0	0	0	0
Other	**0**	0	140	0	0	140
Total	**96,414**	847	5,826	0	**(1,149)**	101,940
Net carrying amount	**23,613**	973	1,163	**(22)**	**(77)**	25,650

The increases during the year mainly refer to the purchase of machinery for the manufacture of products, generic and specific plant, as well as sundry equipment needed to boost, expand, renovate and automate the production plants as a whole. The reclassification from Assets under construction and payments on account to Other mainly refers to the completion of the work to renovate the Cometa building leased in June 2017 to accommodate the production department. The decrease refers to eliminations for scrapping or sales to third parties.

The table shows the balances related to the merger which took place during the year, as better described in the preceding paragraphs with the relative effects of the adoption of IAS/IFRS.

7.1 Leases

Assets acquired under finance lease contracts entered into by Intercos Europe S.p.A. are included in the respective classes of property, plant and equipment. Following the merger, the company became the holder of some leasing contracts that were entered into by Drop Nail S.r.l. The following table gives details of these assets that mainly refer to buildings in Romanengo, machinery, equipment and motor vehicles and a comparison with December 31, 2017:

	December 31, 2017			December 31, 2018		
(in € thousands)	Capitalized cost	Accumulated depreciation	Net carrying amount	Capitalized cost	Accumulated depreciation	Net carrying amount
Building	0	0	**0**	450	(197)	**253**
Plant and machinery	0	0	**0**	206	(115)	**91**
Industrial equipment	0	0	**0**	316	(316)	**0**
Other assets	205	(163)	**42**	110	(104)	**6**
TOTAL	**205**	**(163)**	**42**	**1,081**	**(731)**	**350**

Required disclosure in accordance with IAS 17, paragraph 31, is as follows: the depreciable amount of leased assets is €350 thousand and total future lease payments due at the end of the year amount to €330 thousand. Lease installments recorded as expenses during the year come to €13 thousand.

8. Intangible assets

Movements in Intangible assets in 2018 are as follows:

(in € thousands)	*December 31, 2017*	*Increases*	*Increases due to merger*	*Reclassifications*	*Disposals*	*Amortization*	*December 31, 2018*
Capitalized development costs	0	0	0	0	0	0	**0**
Patent and software rights	98	258	0	86	0	(53)	**390**
Concessions and licenses	12	0	1	1	(6)	(3)	**5**
Assets under development and payments on account	1	44	0	29	0	0	**74**
Other intangible assets	116	0	0	(116)	0	0	**0**
TOTAL	**226**	**302**	**1**	**0**	**(6)**	**(56)**	**469**

The increase in Patent and software rights refers to expenditures for the development and upgrading of the corporate information system.

9. Goodwill

Movements in Goodwill are as follows:

in € thousands)	**January 1, 2018**	**Change during the year**	**December 31, 2018**
Goodwill	**20,300**	**--**	**20,300**

Goodwill is tested annually for impairment.

For purposes of impairment testing, the goodwill of €20,300 thousand was allocated to the Make-up Cash-Generating Unit (CGU).

The impairment test was conducted by comparing the total carrying amount of goodwill and the aggregate net assets able to independently produce cash flows (CGU), to which goodwill can reasonably be allocated, with the higher of the value in use of the CGU and the recoverable amount through sale. In particular, the value in use was determined using the discounted cash flow method by discounting to present value the operating flows from the profit and financial projections relating to a period of five years based on assumptions included in the plan approved by management. The valuation model determines the value in use as the sum of operating cash flows (defined as gross operating margin net of implicit income tax on operating profit, and also changes in net working capital, changes in employee severance indemnities and acquisitions and disposals of fixed assets) for each year of the plan. The cash flows were discounted at a WACC rate of 9.09% for the Make-up CGU (7.5% at December 31, 2017). The terminal value was determined by applying a perpetual growth factor that is basically representative of the expected inflation rate of 2% to the operating cash flows for the last year of the normalized plan

No impairment losses on the carrying amount of goodwill resulted from the impairment tests conducted at December 31, 2018 as the value in use determined for the CGU identified was higher than the relative carrying amount.

10. Deferred tax assets

Deferred tax assets amount to €4,382 thousand at December 31, 2018, with an increase of €328 thousand compared to December 31, 2017.

The following table gives details according to the source of deferred tax assets at December 31, 2018 and 2017.

Description	12/31/2018			12/31/2017		
(in € thousands)	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Provision for inventory obsolescence	14,054	3,373	0	12,090	2,902	0
Provision for sundry risks	0	0	0	145	35	0
Exchange losses	226	54	0	315	75	0
Building accumulated depreciation (revaluation)	3,000	720	117	3,000	720	117
Building accumulated depreciation (land portion)	87	21	3	87	21	3
Difference on employee severance indemnity (IAS 19)	50	12	0	139	33	0
Provision for impairment of receivables	223	54	0	0	0	0
Other	117	28	0	80	20	0
Total	**17,757**	**4,262**	**120**	**15,856**	**3,806**	**120**

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

11. Other non-current assets

Details of Other non-current assets at December 31, 2018 and 2017 are as follows:

	December 31,	
(in € thousands)	**2018**	**2017**
Interest on VAT receivables	76	76
Other medium/long-term receivables	56	0
Security deposits	10	10
VAT 2011 refund receivable	3,000	3,000
Total	**3,142**	**3,086**

Interest on VAT receivables has remained unchanged compared to the prior year since a prudent approach continues to be adopted and no interest was recorded for the year 2018 on the VAT receivable of €3,000 thousand relating to the year 2011, under the assumption that the interest recorded to date is reasonable. The receivable is classified as non-current since the receipt of the refund is subject to the settlement of proceedings pending with the Revenues Agency which are expected to be concluded after 2018, as described in the Note on Provisions.

Security deposits are unchanged compared to the prior year.

Other medium/long-term receivables include receivables from the owner of the Cometa building leased by the subsidiary Intercos Europe S.p.A. and on which company has a purchase option as a result of the amounts spent for the renovation works.

12. Inventories

Details of Inventories at December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	**2017**
Raw materials and consumables	21,739	20,778
Semifinished products	18,945	19,640
Finished products	2,011	1,904
Total	**42,696**	**42,323**

Inventories are influenced by various operational factors, including the seasonality of sales, the evolution of orders and their delivery terms. Compared to the prior year, total inventories increased by €373 thousand. This increase can be traced to a trend of growth in sales during the year and a confirmation of the trend also for next year. The company therefore committed to a robust provisioning policy during the last four months of the year in order to complete future orders in an efficient manner.

Inventories are presented net of the provision for inventory writedowns, which shows the following movements during 2018:

(in € thousands)	December 31, 2017	Accrual	Utilization	December 31, 2018
Provision for raw materials writedowns	4,598	2,442	(1,809)	5,232
Provision for semifinished products writedowns	3,791	4,935	(3,177)	5,549
Provision for finished products writedowns	3,701	969	(1,397)	3,273
Total	12,090	8,346	(6,382)	14,054

The net balance of inventories increased while the ratio of inventories to sales basically fell compared to the prior year. This is thus a confirmation of the operating policy consolidated over time that has resulted in improvements in materials management in terms of provisioning, in addition to greater control over excess production. Moreover, the utilization refers to products that were destroyed during the year for an amount of €6,382 thousand.

13. Trade receivables

Details of Trade receivables at December 31, 2018 and 2017 are as follows:

(in € thousands)	December 31, 2018	2017
Receivables from third party customers	38,976	45,145
Receivables from Group companies, including joint ventures	5,070	8,461
Provision for impairment of receivables	(567)	(135)
Total	**43,480**	**53,471**

In order to provide an indication of estimated realizable value, the nominal amount of receivables is adjusted by the recognition of a provision for impairment, based on an analysis of the balances. The movements in the provision account are presented as follows:

(in € thousands)	December 31, 2018
Beginning balance	(135)
Accrual	(443)
Utilization	11
Ending balance	**(567)**

The accrual during the year of €423 thousand relates to the prudent writedown of certain receivables from sales of doubtful collectibility and the remaining €20 thousand refers to the accrual on receivables for purposes of IFRS 9.

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

A non-recourse receivables factoring transaction was entered into in December 2018 for €11,476 thousand. As a result, all the risks and rewards of the receivables were transferred to the factoring company and the receivables were derecognized from the financial statements at December 31, 2018.

14. Taxes receivable

(in € thousands)	December 31, 2018	2017
VAT receivable	2,880	2,509
IRAP receivable	58	59
Withholdings on royalty income	45	0
Total	**2,982**	**2,567**

The IRAP receivable of €58 thousand consists solely of the refund request relating to prior years and is likely to be collected in 2019.

15. Other current assets

Details of Other current assets at December 31, 2018 and 2017 are as follows:

	December 31,	
(in € thousands)	**2018**	**2017**
Advances to suppliers	565	309
Sundry receivables	5	68
Accrued income and prepaid expenses	119	124
Receivables from parent under the tax consolidation procedure	212	325
Total	**901**	**826**

Sundry receivables include only a receivable from I.N.A.I.L.

Accrued income and prepaid expenses at December 31, 2018 include prepaid rent, insurance, utilities and rentals for a total of €119 thousand.

Receivables from the parent under the tax consolidation procedure total €212 thousand and include the receivable relative to the claims filed (also on behalf of the merged company Interfila S.r.l.) for the refund of IRES taxes as a consequence of the non-deductibility of payroll costs relating to IRAP tax for the years 2007 to 2011.

16. Cash and cash equivalents

Details of Cash and cash equivalents at December 31, 2018 and 2017 are as follows:

	December 31,	
(in € thousands)	**2018**	**2017**
Bank and postal deposits	38,328	14,173
Cash on hand	155	23
Total	**38,484**	**14,196**

The liquid assets are available for immediate use; at this date there are no restricted cash balances.

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

17. Equity

Equity amounts to €68,198 thousand compared to €54,441 thousand at December 31, 2017.

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

Share Capital

Share capital totals €3,050,000 and consists of 3,050,000 shares of par value €1 each.

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

Nature/Description *(in € thousands)*	**Balance at December 31, 2018**	**Possibility of utilization**
Share capital	3,050	-
Share premium reserve (*)	756	A, B, C
Revaluation reserve	2,910	A,B
Reserve ex art 55 DPR 917/86	47	A,B
Other reserves (*) (**)	897	A,B,C
Long-term incentive plan reserve	76	-
Legal reserve	600	B
Extraordinary reserve	34,674	A,B,C
Profit for the year (*)	25,188	-
Equity at 12/31/2018	**68,198**	

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

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

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

18. Borrowings from banks and other lenders – non-current

Details of medium/long-term debt outstanding at December 31, 2018, together with the relative due dates referring to the loan from the banking syndicate, are as follows:

(in € thousands)	**Bank**	**Amount**	**Internal rate of return**	**Year due**
Intercos Europe S.p.A.	Banking syndicate	12,880	2.582%	2021
Total (*)		**12,880**		

(*) Debt secured by the pledge on shares and special liens.

Pursuant to IFRS 9, the incidental charges incurred in connection with the loan were included in the calculation of the effective interest rate on the loan and are amortized over the remaining term of the loan.

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

December 31, 2017

(in € thousands)	**Within 1 year**	**1 to 5 years**	**Beyond 5 years**	**TOTAL**
Payable to banking syndicate	2,290	12,916	0	15,206
Finance leases and factoring companies payable	91	235	0	326
Total	**2,380**	**13,152**	**0**	**15,532**

December 31, 2018

(in € thousands)	**Within 1 year**	**1 to 5 years**	**Beyond 5 years**	**TOTAL**
Payable to banking syndicate	11,099	9,529	0	20,627
Finance leases and factoring companies payable	1,270	319	0	1,589
Total	**12,369**	**9,848**	**0**	**22,216**

19. Provisions

Movements in Provisions are as follows:

in € thousands)	**December 31, 2018**	**December 31, 2017**
Beginning balance	205	241
Accrual	0	132
Utilization	(146)	(168)
Ending balance	**59**	**205**

The balance of the provision of €59 thousand relates to a dispute with the Revenues Agency concerning the value of a business segment disposed of in 2010 and not yet settled at year-end.
The total utilization of the provision refers to the amounts paid in respect of labor disputes settled during the year.

20. Deferred tax liabilities

Deferred tax liabilities amount to €282 thousand, with a decrease of €34 thousand compared to the prior year. Details of the temporary differences that gave rise to the calculation of deferred income taxes are provided in the following table. In this case, too, account was taken of the reduction in the IRES tax rate from the current 27.5% to 24%, starting from the year 2017, as established by Law 208 of December 28, 2015 (the Budget Law 2016).

Description	December 31, 2018			December 31, 2017		
	Taxable	IRES	IRAP	Taxable	IRES	IRAP
Temporary differences on depreciation	602	145	23	674	162	26
Exchange gains	239	57	0	240	58	0
IAS Drop Nail S.r.l. leases	96	23	5	0	0	0
Employees severance indemnity discounted under IAS 19 application	122	29	0	8	2	0
Total	**1,059**	**254**	**28**	**922**	**222**	**26**

21. Employee benefit obligations

Movements in Employee benefit obligations are as follows:

(in € thousands)	**December 31, 2018**	**December 31, 2017**
Beginning balance	3,823	3,994
Interest cost	65	102
Utilization	(249)	(180)
Actuarial gains (losses)	(115)	(10)
Ending balance	**3,524**	**3,906**

The following table presents the assumptions used in determining the actuarial value of Employee benefit obligations at December 31, 2018.

	December 31, 2018	December 31, 2017
Discount rate	1.97%	1.61%
Annual inflation rate	1.50%	1.50%
Annual rate of increase in employee severance indemnities	2.62%	2.62%
Annual rate of increase in salaries	1.50%	1.50%

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

The following sensitivity analysis was performed to illustrate the effects produced by an increase/decrease in the main assumptions used on the data at December 31, 2018.

Deferred Benefit Obligation at December 31, 2018	
	(in € thousands)
Inflation rate +0.25%	3,558
Inflation rate -0.25%	3,489
Discount rate +0.25%	3,470
Discount rate -0.25%	3,579
Turnover rate +1%	3,522

Turnover rate -1%	3,526

As regards the workforce, the headcount at year-end 2018 is 846 compared to 823 at year-end 2017. The following table provides a breakdown of headcount at December 31, 2018 by category and type of contract:

	Headcount at December 31, 2017	**Headcount at December 31, 2018**
Executives	8	6
Mid-level managers and white-collars	372	389
Blue-collars	443	451
Total	**823**	**846**

	Headcount 2016	**Headcount 2017**	**Headcount 2018**
Employees at January 1	675	780	823
Employees at December 31	767	823	846
Of whom			
Permanent	760	814	839
Fixed term	7	9	7
Total	767	823	846

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

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

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

22. Borrowings from banks and other lenders – current

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

(in € thousands)	**December 31, 2018**	**December 31, 2017**
Factoring companies payable	1,260	0
Finance leases and factoring companies payable	10	90
Bank advance account	8,000	0

Payable to Banca Intesa	3,005	2,290
Total	**12,275**	**2,380**

Finance leases and factoring companies payable of €10 thousand refer to finance leases payable.

The Bank advance account includes the entire short-term loan secured from Unicredit.

23. Other financial payables

The balance at year-end is zero.

24. Loans payable to Group companies – short-term

Loans payable to Group companies – short-term total €6,230 thousand and refer to subsidiaries. The balance includes the outstanding amount payable at the date the merger became effective of €1,230 thousand.

The due date on the loan was extended to December 31, 2019.

25. Trade payables

Trade payables at December 31, 2018 and 2017 are as follows:

	December 31,	
(in € thousands)	**2018**	**2017**
Trade payables to third party suppliers	44,380	51,012
Trade payables to Group companies, including joint ventures	25,443	23,532
Total	69,823	74,544

Trade payables to third party suppliers decreased by €6,208 thousand (-12%) from the end of the prior year due mainly to a prompter supplier payment policy aimed also at obtaining purchase volume discounts.

Purchases management is always focused on reducing cash flows for trade payables and increasingly geared to a policy directed to improving the company's payment terms.

26. Other payables

Details of Other payables at December 31, 2018 and 2017 are as follows:

	December 31,	
(in € thousands)	**2018**	**2017**
Taxes payable	**137**	**55**
Payables to employees	**5,205**	**4,441**
Social security agencies payable	**2,692**	**2,248**
Payables to tax authorities for withholdings	**365**	**496**
Accrued liabilities and deferred income	**1,373**	**27**
Advances from customers	**0**	**0**
Payables to parent under the tax consolidation procedure	**1,300**	**2,405**
Sundry payables	**1,083**	**883**
Total	**12,154**	**10,555**

Taxes payable mainly include €8 thousand for the balance of the 2018 substitute tax and €129 thousand for the IRAP taxes payable for the year 2018.

Payables to employees principally refer to the employee incentive plan of €2,747 thousand, vacation pay accrued and not used of €2,191 thousand and the thirteenth month salary of €265 thousand.

Social security agencies payable refer to social security contributions and costs on December compensation to employees paid in January of €1,027 thousand, social security contributions on vacation pay accrued and not used of €636 thousand and on additional months' salaries of €1,028 thousand.

Payables to tax authorities for withholdings refer to IRPEF withholding taxes on employee compensation of €365 thousand and withholding taxes on self-employed compensation for the remaining €0.3 thousand.

Payables to the parent under the tax consolidation procedure of €1,300 thousand include the IRES payable that arose on the 2018 liquidation transferred to Intercos S.p.A. by virtue of the existing tax consolidation agreements.

Accrued liabilities and deferred income total €1,373 thousand and refer to accrual for other costs, interests and insurance premiums of €34 thousand and deferred income of €1,339 for deferred sundry revenues on molds for the purposes of the application of IFRS 15.

Sundry payables of €1,083 thousand include €19 thousand for miscellaneous labor-related payables, €611 thousand for amounts deposited by third parties as security, €318 thousand for the normalization of lease payments on the Cometa building and €135 thousand for the transfer, by the parent company, of the company's share of financial expenses on the debt renegotiated in 2017.

26 bis. Guarantees and other commitments

Guarantees provided refer to the following:

Beneficiary	Type of Guarantee	Description	Guarantee amount	Due
Lunabra	Surety	To guarantee lease contract of warehouse Via Gerole 13, Caponago (MB)	€75,000	8/31/2021
Progetto 81	Surety	To guarantee lease contract of warehouse Via Gerole 17, Caponago (MB)	€6,250	2/1/2022
La Cometa	Surety	To guarantee lease contract of Cometa warehouse Via Marconi 74, Agrate Brianza	€100,000	5/31/2018
Banca IMI and bank syndicate + Bondholders	Corporate Guarantee	Corporate Guarantee (1) on behalf of the bank syndicate to guarantee repayment of the loan granted on March 24, 2015 (as amended) and (ii) on behalf of the bondholders of the bonds issued on March 27, 2015 (as amended)	The amount is equal to the outstanding amount of the loan and bonds	3/28/2023

27. Revenues from sales and services

Details of Revenues from sales and services in 2018 and 2017 are the following:

(in € thousands)	2018	2017
Revenues from sales to third-party customers	262,420	247,593
Revenues from sales to Group companies	10,403	10,403
Other revenues	172	1395
Total	**272,994**	**259,392**

Revenues from sales and services increased by €13,602 thousand (+5%) compared to the prior year. Additional details are provided in the Report on operations.

For the breakdown of Revenues from sales to the Group companies, reference should be made to the Note on Related party transactions, whereas details of revenues divided by product line and commercial geographical region are provided below:

(in € thousands)	2018	2017
Make-up line	265,317	252,961
Skincare line	7,677	6,431
Total	**272,994**	**259,392**

Sales by geographical region are based on the territory of residence of the customers indicated on the sales invoice, as follows:

(in € thousands)	**2018**	**2017**
USA	81,575	62,970
EMEA	181,604	180,450
Asia	9,814	15,971
Total	**272,994**	**259,392**

An in-depth analysis of revenues by geographical region is presented in the Report on operations.

28. Other income

Details of Other income in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Expense recoveries	772	937
Other revenue from expenses recharged	4,139	3,612
Insurance compensation	9	31
Rent income	0	0
Discounts and allowances	2	3
Commission income	630	740
Prior period income, sundry allowances	340	703
Gains on disposal of property, plant and equipment	46	32
Total	**5,938**	**6,059**

Expense recoveries and Other revenue from expenses recharged include intercompany income for a total of €2,376 thousand.

29. Purchases of raw materials, semifinished products and consumables

Details of Purchases of raw materials, semifinished products and consumables in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Purchase of raw materials	38,514	41,851
Purchase of packaging materials	40,875	42,838
Purchase of semifinished products and consumables	7,187	6,403
Purchase of sundry materials	752	744
Purchase of finished products	615	2,023
Purchase of samples and sample lines	120	110
Mold accessories	365	357
Total	**88,427**	94,326

These purchases decreased from 2017 by a total of €5,899 thousand (-6%) and as a percentage of revenues decreased from 36% in 2017 to 32% in 2018. The reasons for the reduction can mainly be traced to a better purchasing policy making it possible to obtain higher discounts thanks to various synergies within the Group, a higher request for "free issue" orders where the packaging is purchased directly by the customer.

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

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

(in € thousands)	**2018**	**2017**
Raw materials	797	(2,892)
Packaging materials	(994)	(854)
Consumables	(628)	(116)
Maintenance materials	0	0
Semifinished products	570	(4,022)
Finished products	(106)	1,958
Total	**(362)**	**(5,927)**

31. Costs for services and leases and rents

Details of Costs for services and leases and rents in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Shipping on sales	1,476	1,621
Shipping on purchases	2,191	2,683
Other shipping	1,885	1,845
Processing and packaging	35,914	35,006
Commissions and royalties	19,556	17,530
Sundry services from the parent	14,671	13,220
Services, logistics and warehousing	3,132	2,131
Maintenance	3,715	4,037
Sundry utilities	3,639	2,936
Legal and notary fees	77	43
Board of statutory auditors' compensation	31	31
Consulting fees	602	510
Insurance	251	238
Cleaning	1,102	988
Security	653	529
Rent expense	2,077	1,902
Stationery and forms	783	559
Laboratory analyses	1,432	1,448
Rentals	943	782
Stationery and forms	98	75
Fuel costs	56	47
Publicity and trade fairs	184	95
Other costs	1,373	1,577
Total	**95,841**	**89,832**

Costs for services and leases and rents increased by €6,009 thousand compared to 2017. Such increase is mainly due to variable costs directly associated with higher production and sales volumes, such as processing and packaging, maintenance, logistics services, sundry utilities, as well as commissions and royalties. Fixed costs, on the other hand, have remained essentially in line with the previous year.

Commissions and royalties and Sundry services from the parent include charges from the parent Intercos S.p.A., in its capacity of providing direction and coordination, under the service agreements regulating the method used to reallocate corporate expenses with costs recharged of €14,598 thousand and under license agreements covering the method used to reallocate license costs for the utilization of manufacturing formulae made available with costs recharged of €13,521 thousand.

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

Rent expense includes the rent for the year of the Dovera and Agrate Brianza production facilities, charged back by Intercos S.p.A., owner of the buildings, in addition to the lease on the Cometa building located in Agrate Brianza.

Other costs comprise the following:

- personnel-related expenses of €800 thousand

- travel of €363 thousand

- security and surveillance of €132 thousand

- IT expenses of €70 thousand

32. Employee benefit expenses

Details of Employee benefit expenses in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Salaries and wages	28,567	26,536
Social security	9,059	8,303
Defined contribution plan costs	1,832	1,670
Temp work	11,671	12,149
Board of directors' compensation	370	304
Coordinated and continual and occasional collaboration work	263	274
Medical visits	116	102
Work clothes	174	203
Total	**52,052**	**49,540**

Employee benefit expenses show a total increase of €2,510 thousand compared to 2017 and, as a percentage of sales, is basically in line with the prior year: 19.0% in 2017 and 19.1 % in 2018.

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

33. Accruals

Accruals have a zero balance during the year as it was not necessary to set aside funds to provisions.

34. Other operating expenses

Details of Other operating expenses in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Prior period expenses, sundry allowances, late fees and penalties	323	266
Losses on disposals of fixed assets	0	0
Sundry taxes and duties	74	71
Association membership dues	117	110
Motor vehicle expenses	5	5
Impairment loss on trade receivables	443	0
Other costs	73	99
Total	**1,036**	**551**

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

Sundry taxes and duties consist of the IMU property tax of €58 thousand, and the garbage tax, government concession tax, Chamber of Commerce (CCIAA) fees and registration tax for a total of €16 thousand.

The Impairment loss on trade receivables of €423 thousand relates to the prudent writedown of certain receivables from sales of doubtful collectability and the remaining €20 thousand refers to the accrual on receivables for purposes of IFRS 9.

Other costs comprise expenses for certifications and revenue stamps of €23 thousand, purchase of books and magazines of €2 thousand, contributions and donations of €19 thousand, late fees and penalties of €9 thousand and losses due to thefts of €20 thousand, for a total of €73 thousand.

35. Depreciation, amortization and impairment reversals (losses)

Details of Depreciation, amortization and impairment reversals (losses) in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Amortization of intangible assets	55	120
Depreciation of property, plant and equipment	5,826	4,947
Impairment of property, plant and equipment	27	36
Total	**5,909**	**5,103**

Additional information is provided in Notes 6, 7 and 8 relating to Property, plant and equipment and Intangible assets.

36. Nonrecurring income (expenses)

The nonrecurring expenses total €196 thousand and refer to €30 thousand for participation in the start-up costs for the processing activities in Poland contracted to the associated company Tatra Spring, €90 thousand for the costs of material that was destroyed by a fire aboard a ship during transport and €76 thousand for employee costs relating to the incentive plan, discussed in greater detail in the paragraph Significant events in 2018.

37. Financial income

Details of Financial income in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Interest income on bank current accounts	2	2
Total financial income	**2**	**2**
Foreign exchange losses	(825)	(1,621)
Foreign exchange gains	1,386	1,708
Foreign exchange differences, net	**561**	**87**
Total financial income, net	**564**	**89**

Foreign exchange differences, net show a net exchange gain of €561 thousand.

38. Financial expenses

Details of Financial expenses in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Interest on medium/long-term borrowings	182	221
Interest on bank overdrafts	4	0
Interest on export advances	15	3
Interest on factoring transactions	57	49
Banking fees and commissions and factoring charges	152	122
Other interest expenses	629	641
Total interest and financial expenses	**1,039**	**1,036**

Other interest expenses include the financial component of the actuarial measurement of employee severance indemnities of €65 thousand.

Financial expenses also include the reclassification of commissions and banking fees and factoring charges.

39. Income taxes

Details of Income taxes in 2018 and 2017 are as follows:

(in € thousands)	**2018**	**2017**
Current income taxes	10,485	9,264
Deferred income taxes	(315)	(350)
Prior years' taxes	1	37
Total	10,170	8,951

Current income taxes include the IRAP tax charge of €1,917 thousand in 2018 and the credit for IRES taxes of €8,568 thousand for the benefit due to the parent under the existing tax consolidation procedure.

With regard to deferred taxes, reference should be made to Notes 10 and 20.

Prior years' taxes include only higher IRAP taxes relating to the payment made in 2017.

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

(in € thousands)

IRES	
Pre-tax profit	**35,358**
Theoretical IRES (24%)	**8,486**
Temporary differences deductible in future years	*9,049*
Non-deductible costs	*1,127*
Temporary differences taxable in future years	*(555)*
Reversal of temporary differences of prior years	*(6,617)*
Other deductions and recoveries	*(2,661)*
Taxable income	**35,701**
Ires (24.2%)	**8,568**
IRES benefit due to the parent	**8,568**

IRAP

Difference between production value and costs	**36,029**
Theoretical IRAP (3.9%)	**1,405**
Costs not considered for IRAP purposes	*13,231*
Taxable for IRAP purposes	**49,140**
IRAP (5.3%)	**1,916**

40. Actuarial gains (losses)

The actuarial loss of €644 thousand refers to the year-end measurement of employee severance indemnities in accordance with IAS 19.

41. Related party transactions

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

The effects of related party transactions on the income statement for 2018 and the statement of financial position at December 31, 2018 are as follows:

<u>Transactions with Group companies, including joint ventures</u>

(in € thousands)	**Trade receivables**	**Other receivables**	**Loans from Group companies – short-term**	**Trade payables**	**Other payables**
Kit Productions S.r.l.	0	0	0	(581)	0
Intercos Concept S.r.l.	0	0	0	(789)	0
Intercos S.p.A.	836	212	(6,230)	(20,971)	(1,230)
Cosmint S.p.A.	16	0	0	(365)	0
Tatra Spring Polska SP. Z.O.O.	30	0	0	(119)	0
Intercos Do brasil	546	0	0	0	0
Intercos UK Ltd.	177	0	0	(16)	0
Intercos Paris S.à.r.l.	0	0	0	(993)	0
Intercos Marketing Ltd	0	0	0	(25)	0
Intercos America Inc.	1,073	0	0	(390)	0
Intercos Cosmetics Suzhou Co. Ltd	379	0	0	(86)	0
Intercos Korea LTD	490	0	0	(159)	0
Intercos Technology Co. Ltd	447	0	0	(187)	0
Interfila Cosmetics (Shanghai) Co. Ltd	1,047	0	0	(251)	0
CRB S.A.	28	0	0	(234)	0
Ager S.r.l.	0	0	0	(303)	0
Total	**5,069**	**212**	**(6,230)**	**(25,468)**	**(1,230)**

(in € thousands)	Revenues from sales and services	Other revenues and income	Purchases of raw materials, semifinished products and consumables	Costs for services and leases and rent	Other costs	Financial expenses
Kit Productions S.r.l.	0	0	(1,143)	(2)	0	0
Marketing Projects S.r.l.	0	0	0	0	0	0
Intercos Concept S.r.l.	0	0	0	(1,510)	0	0
Intercos S.p.A.	0	1,596	(3)	(27,744)	0	(267)
Cosmint S.p.A.	1,660	0	(3,549)	(97)	0	0
Tatra Spring Polska SP. Z.O.O.	1,431	25	(921)	(316)	0	0
Intercos Do brasil	768	25	0	0	0	0
Intercos UK Ltd.	401	0	0	(16)	0	0
Intercos Paris S.à.r.l.	0	0	0	(2,173)	0	0
Intercos Marketing Ltd	0	0	0	(483)	0	0
Intercos America Inc.	3,938	38	(612)	(2,830)	0	0
Intercos Cosmetics Suzhou Co. Ltd	749	137	0	(198)	(56)	0
Intercos Korea LTD	2,494	61	(505)	(17)	10	0
Intercos Technology Co. Ltd	2,141	0	(209)	(53)	0	0
Interfila Cosmetics (Shanghai) Co. Ltd	2,581	493	(550)	(712)	0	0
CRB S.A.	49	2	(84)	(566)	0	0
Ager S.r.l.	0	0	0	(1,054)	0	0
Total	16,213	2,376	(7,577)	(37,770)	(46)	(267)

Transactions with other related parties

(in € thousands)	Trade receivables	Other receivables	Loans from Group companies – short-term	Trade payables	Other payables
Cornelli Gabelli e Associati	0	0	0	(27)	0
Je m'en Fous S.r.l.	0	0	0	(4)	0
Arterra Bioscience S.r.l.	0	0	0	(248)	0
Interior	0	0	0	(12)	0
Total	**0**	**0**	**0**	**(290)**	**0**

(in € thousands)	Revenues from sales and services	Other revenues and income	Purchases of raw materials, semifinished products and consumables	Costs for services and leases and rent	Other costs	Financial expenses
Cornelli Gabelli e Associati	0	0	0	(46)	0	0
Arterra Bioscience S.r.l.	0	0	(342)	0	0	0
Interior	0	0	1	(10)	0	0
Total	0	0	(341)	(56)	0	0

42. Composition of the boards at December 31, 2018 and compensation during the year:

	Number of members	Compensation (*in € thousands*)
Board of Directors	5	347
Board of Statutory Auditors	3	31
Total	**8**	**378**

43. Independent auditors' fees

(*in € thousands*)	**Fees**
Fees for the audit of the financial statements	94
Total	**94**

44. Subsequent events

During the first months of 2019, the sales trend was in line with budget and at this time there are no critical factors such that would cause a revision of the anticipated outlook.

45. Appropriation of the profit for the year

The financial statements for the year ended December 31, 2018 show a profit after taxes of €25,187,642 and a motion is proposed to appropriate €12,687,642 to the extraordinary reserve and €12,500,000 of dividends to Intercos S.p.A.

Milan, March 28, 2019

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

INTERCOS EUROPE S.p.A.

On behalf of the Board of Directors

Appendix 1

Intercos S.p.A.

Statement of Financial Position at December 31, 2017 *(in euros)*

		December 31,	
	(in euros)	**2017**	**2016**
	ASSETS		
	NON-CURRENT ASSETS		
5	Property, plant and equipment	*23,374,320*	*25,635,935*
6	Intangible assets	*21,106,373*	*20,204,610*
7	Goodwill	*33,653,547*	*33,653,547*
8	Investments in subsidiaries	*178,900,979*	*107,303,676*
9	Deferred tax assets	*1,486,632*	*1,360,684*
10	Other non-current assets	*3,059,459*	*3,474,794*
	Non-current assets	*261,581,310*	*191,633,247*
	CURRENT ASSETS		
11	Trade receivables	*37,885,700*	*24,540,638*
12	Taxes receivables	*2,187,727*	*2,395,946*
13	Other current assets	*3,615,587*	*8,626,623*
14	Loans receivable from Group companies – short-term	*41,000,393*	*48,933,711*
15	Cash and cash equivalents	*20,782,576*	*15,912,182*
	Current assets	***105,471,983***	***100,409,099***
	TOTAL ASSETS	***367,053,293***	***292,042,346***

	(in euros)	2017	2016
	EQUITY AND LIABILITIES		
	EQUITY		
	Share capital	*10,818,377*	*10,710,193*
	Legal reserves	*2,142,038*	*2,142,038*
	Other reserves	*62,329,429*	*62,395,860*
	Retained earnings	*40,463,587*	*23,863,282*
16	**TOTAL EQUITY**	***115,753,432***	***99,111,373***
	LIABILITIES		
	NON-CURRENT LIABILITIES		
17	Borrowings from banks and other lenders – non-current	*177,150,863*	*141,186,046*
18	Provisions	*161,358*	*133,392*
19	Deferred tax liabilities	*4,938,021*	*5,855,996*
20	Employee benefit obligations	*1,212,778*	*1,213,179*
	Non-current liabilities	***183,463,020***	***148,388,612***
	CURRENT LIABILITIES		
21	Borrowings from banks and other lenders - current	*8,295,397*	*16,099,925*
22	Loans payable to Group companies – short-term	*8,193,744*	*9,188,261*
23	Other financial liabilities	*25,697,450*	*601,204*
24	Trade payables	*6,452,839*	*5,606,542*
25	Other payables	*19,197,410*	*13,046,430*
	Current liabilities	***67,836,841***	***44,542,361***
	TOTAL EQUITY AND LIABILITIES	***367,053,293***	***292,042,346***

Intercos S.p.A.

Statement of Comprehensive Income for the year ended December 31, 2017

	(in euros)	2017	2016
26	Revenues	*44,548,261*	*36,580,094*
27	Other income	*18,711,777*	*19,241,862*
28	Purchases of raw materials, semifinished products and consumables	*(1,057,145)*	*(1,107,188)*
29	Costs for services and leases and rents	*(13,837,496)*	*(13,570,440)*
30	Employee benefit expenses	*(18,320,009)*	*(16,929,453)*
31	Accruals	*(30,000)*	*(100,000)*
32	Other operating expenses	*(898,206)*	*(528,392)*
33	Capitalized internal construction costs	*4,991,186*	*4,990,268*
	Operating profit before depreciation, amortization, impairment reversals (losses) and nonrecurring income expenses	***34,108,369***	***28,576,751***
34	Depreciation, amortization and impairment reversals (losses)	*(8,499,490)*	*(7,679,448)*
35	Valuation adjustments to financial assets	*0*	*0*
36	Nonrecurring income (expenses)	*(1,185,188)*	*521,598*
	Operating profit	***24,423,691***	***21,418,901***
37	Financial income	*2,439,675*	*2,527,660*
38	Financial expenses	*(8,627,873)*	*(6,568,327)*
39	Income taxes	*(1,626,540)*	*(969,123)*
	Profit for the year from continuing operations	***16,608,952***	***16,409,112***
	Profit for the year from discontinued operations	***0***	***0***
	Other comprehensive income	*0*	*0*
	Other comprehensive income that will not be reclassified subsequently to the income statement	*0*	*0*
	Profit for the year	***16,608,952***	***16,409,112***
40	Actuarial gains (losses) on remeasurement of employee defined benefit plans	*(75,078)*	*2,615*
	Total Other components of comprehensive income	***(75,078)***	***2,615***
	Total comprehensive income for the year	***16,533,874***	***16,411,727***

Intercos Europe S.p.A.

Financial statements as at December 31, 2018

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

EY S.p.A.
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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Intercos Europe S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit 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 Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Intercos Europe S.p.A. are responsible for the preparation of the Report on Operations of Intercos Europe S.p.A. as at December 31, 2018, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Intercos Europe S.p.A. as at December 31, 2018, and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Intercos Europe S.p.A. as at December 31, 2018, and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 5, 2019

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

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