TWIN SET – SIMONA BARBIERI S.p.A.

Quarter Report as of and for the three months ended March 31, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial conditions and results of operations of Twin Set – Simona Barbieri Group (Group) as of and for the three months ended March 31, 2017. This discussion should be read together with the Twin Set – Simona Barbieri Group Consolidated Financial Statements as of and for the three months ended March 31, 2017 prepared in accordance with Italian GAAP and the related notes. We have condensed and renamed certain Italian GAAP line items in these statements in a manner that makes them more easily comparable to the financial information of other businesses who do not use Italian GAAP.

The following section includes a discussion of our results of operations and performance according to non-GAAP financial measures. Such non-GAAP measures are used by different companies for differing purposes and are often calculated according to the circumstances of such companies. Caution should be exercised in comparing non-GAAP measures with those of other companies. The information presented under non-GAAP measures discussed herein is unaudited and has not been prepared in accordance with Italian GAAP or any other accounting standards. The non-GAAP financial measures discussed herein have limitations as analytical tools, and should not be considered in isolation.

Unless the context indicates otherwise, in this "Management's discussion and analysis of financial condition and results of operations," references to "we," "us" or the "Group" refer to: Twin Set – Simona Barbieri S.p.A. and its subsidiaries.

OVERVIEW

We are a fast growing women's clothing brand, focused on the affordable luxury segment of the women's apparel market. We sell a comprehensive range of quality products to customers through our retail and wholesale distribution channels. Our product range is comprised of high-quality, contemporary womenswear with on-trend designs that reflect a classic, romantic and contemporary attitude, typically offered at affordable prices compared to traditional luxury brands. As a cornerstone of our business philosophy, we aim to offer women a "total look" of affordable luxury wardrobe options, so that sophisticated, fashion-conscious women can wear TwinSet from head to toe, for any occasion and at any time of the day. We offer our customers the features associated with a luxury brand, such as high-quality products, stylish stores and a personalized shopping experience with strong customer service, but at more affordable prices. We believe our value proposition appeals to both high-income customers seeking luxury products, as well as mass-market customers who can "trade up" at affordable prices.

Our primary target customers are women between 35 and 45 years old, but we also offer product lines for girls and young women. Our product lines include apparel and related categories such as shoes and handbags, creating a cohesive, contemporary look, with a focus on maintaining our brand identity as a style choice characterized by classic looks with timeless appeal. We believe that our strong Italian heritage gives us a competitive advantage in the pursuit of this classical aesthetic because it legitimizes Twinset as a luxury brand that, unlike fast-fashion retailers, produces fashion-forward, contemporary products.

Twinset Group, through its collections, produces and offers a complete line of products. The Twinset collection was the first line in production (since 2000) which features ready-to-wear products, its iconic knitwear pieces and accessories, including the herobag "Cecile Deux". The collection has a feminine romantic and elegant feeling. My Twin line is more street and urban oriented, targeting the active and contemporary woman. SCEE is a line of traditional and comfortable apparel products. U&B world is dedicated to Beachwear, Lingerie and Active lines. For kids, we present and produce Twinset Baby aged 2-3 and Twinset Junior aged 4-6.

TWINSET has its headquarters in Carpi (Modena) and, with about 900 employees, is one of the fastest growing womens' clothing companies. The collections are distributed throuh 78 Boutiques and Outlets, 48 Franchise stores, corners, wholesale distribution channels in Italy, Europe, Russia and Middle East and a dedicated Online sales website.

KEY PERFORMANCE INDICATORS

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how our business is performing are:

- **Twinset Revenue:** includes only revenue relating to apparel, shoes and accessories sales, net of returns estimates. It does not include "Other revenues" concerning sales to third parties of samples, yarns, textiles and other production materials not utilized for internal production.

- **Revenue:** corresponds to the Revenue line of the consolidated income statement.

- **Like for like**: the Retail Like-for-Like performance concerns the percentage change between the reported sales for the period and the corresponding period of the previous year. All sales points open for more than one month in both periods are included. Sales points closed down or closed for restructuring (only for the closure period) are excluded from the comparison. Sales are considered net of returns and discounts.

- **Reported EBITDA:** includes all profit components, excluding amortization and depreciation, impairment of investments, financial income and charges and income taxes.

- **Adjusted EBITDA:** calculated taking our Reported EBITDA and adding back non-recurring items, including write-downs, non-recurring provisions and other non-recurring costs and revenues.

- **Adjusted EBITDA margin:** it is the ratio between Adjusted EBITDA and Twinset Revenue.

- **EBIT:** comprising all profit components, excluding financial income and charges and income taxes.

- **Net Operating Working Capital:** the sum of inventories less obsolescence provisions, trade receivables less doubtful debt provision and client's returns provision, net of trade payables and advances from clients.

- **Net Financial Indebtedness**: includes cash and cash equivalents, net of bank payables for current account overdrafts, the Bond, loans, accrued interest for the period and the Fair Value of derivatives undertaken to hedge interest rate and exchange rate risk.

The criteria for determination applied by us might not be the same as the criteria adopted by other companies and, therefore, the figures presented by us might not be comparable with that determined by other such groups.

Like-for-like revenue performance of our retail Boutiques and Outlets

Many factors influence like-for-like sales, including fashion trends, competition, economic conditions, pricing, the timing of the release of new merchandise and promotional events, changes in our product mix, and weather conditions. Our ability to translate our fashion concepts into viable commercial production throughout the year, footfall at our point of sale locations, seasonality and VAT rates also impact like-for-like sales.

In the last three months our like-for-like performance is negative, mainly due to the negative footfall of Italian small-town Boutiques whereas the main cities like Milan, Florence and Rome are performing well. The Boutiques located abroad show a performance consistent with the same period of previous year. The performance of the Outlets started slowly in comparison with the previous year but starting from the second half of February they are increasing.

The table below sets forth our like-for-like revenue performance for the years indicated.

Like-for-like revenue performance	For the year ended December 31,					For the three months ended March 31,
(% increase over prior period)	2012 [(1)]	2013	2014	2015	2016	2017
Total retail (Boutique and Outlets)	6.5%	7.8%	2.4%	7.1%	(4.2%)	(1.2%)

(1) The results of operations of Light Force for the six months ended June 30, 2012 refer to the period ended December 30, 2012. Due to the effects of the Merger, the 2012 fiscal year of Light Force was one business day shorter than usual. Our retail revenue for this extra day not included in the results of operations of Light Force for the period ended December 30, 2012 was Euro 74 thousand.

Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA and Adjusted EBITDA Margin vary according to the distribution channel through which we sell our merchandise.
Our retail channel has been growing in comparison to our wholesale channel since 2011, although our wholesale channel remains the primary driver of our revenue, accounting for 73.0% and 76.2% of Twinset Revenue for the three months ended March 31, 2017 and 2016, respectively; this is also due to the seasonality of our business with wholesale revenue concentrated mainly in the first and third quarters. Our wholesale channel is characterized by lower fixed costs than our retail channel and by variable selling commissions paid to our agents. Reported EBITDA margins are typically higher in our wholesale channel, due to the higher fixed costs necessary to operate retail stores.

The following table reconciles Reported EBITDA to Adjusted EBITDA:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Reported EBITDA	**19,551**	**20,833**	**(1,282)**	**(6.2%)**
Non-recurring costs	(116)	150	(266)	>(100%)
Other items	242	143	99	69.2%
Adjusted EBITDA	**19,677**	**21,126**	**(1,449)**	**(6.9%)**
Adjusted EBITDA Margin	*23.5%*	*24.4%*		

Adjusted Ebitda amounting to Euro 19.7 million, with a decrease of Euro 1.5 million (-6.9%). In the first three months of 2017 the Adjusted Ebitda margin decreased from 24.4% in YTD IQ16 to 23.5% in YTD IQ17 due to volume reduction in the Wholesale channel partially offset by the decrease of operating costs related to the improvement of cost control.

The "Non-recurring costs principally include gain from disposal of fixed assets for Euro 0.4 million partially offset by non recurring costs related to the new in house Weaving Factory for Euro -0.2 million and other non-recurring expenses for Euro -0.1 million.

"Other items" includes for Euro 0.1 million bank commissions and for Euro 0.1 million net prior year income/(expenses).

KEY INCOME STATEMENT ITEMS

Below is a summary description of the key elements of the line items of our income statement under Italian GAAP.
Our income statement is prepared using the "nature of expense" rather than the "cost of sales" method. In the nature of expense method, expenses are classified in the income statement according to their nature (for example, cost of materials and personnel expenses) and not among various departments within the entity. As a result, income statements presented in accordance with the nature of expense method do not show gross profit. Income statements presented in accordance with the cost of sales method, by contrast, classify expenses according to their function as part of the cost of sales (for example the costs of distribution or administrative activities). Net profit, however, is unaffected regardless of whether the nature of expense or cost of sales method chosen.

Revenue

Revenue is calculated by adding gross sales from customers minus discounts, rebates and customer returns. Revenue includes Twinset Revenue and other revenue. Twinset Revenue is revenue from our consolidated financial statements excluding other revenue arising from non-core businesses. Other revenue in 2016 and 2017 relates primarily to our sales of raw materials and samples to third parties, not used for internal production.

Purchase of raw materials, goods and changes in inventory; change in work in progress, semi-finished and finished product inventories

Under Italian GAAP, "change in work in progress, semi-finished and finished product inventories" are recorded under a different line item than "purchase of raw materials, goods and changes in inventory". To provide a better understanding of our product costs, for each year under review, we present a table showing "change in work in progress, semi-finished and finished product inventories" combined with "purchase of raw materials, goods and changes in inventory". See also paragraphs related to "purchase of raw materials, goods and changes in inventory including change in work in progress, semi-finished and finished product inventories" included in the Results of Operations.

Cost of services

Cost of services mainly include external works, agent commission, marketing and advertising, logistics and transport, administrative, travelling expenses, insurance and other services costs.

Rent

Rent mainly includes rent expenses for directly operated stores and outlets, headquarters and showrooms.

Personnel costs

Personnel costs mainly include wages and salaries, social security contribution and employee severance indemnities.

Depreciation and amortization

Depreciation and amortization is calculated by adding amortization of intangible fixed assets (including goodwill), plus depreciation of tangible fixed assets. Under Italian GAAP, goodwill arising from the acquisition of a business is capitalized and amortized on a straight-line basis over the year of its estimated useful life (up to a maximum of 20 years). This differs significantly from the treatment under IFRS, where goodwill would not be amortized, but instead be reviewed for impairment annually.

Write-downs of trade receivables

Write-downs of trade receivables includes write-downs of doubtful accounts receivable among current assets.

Provisions

Provisions include provisions for risks and returns.

Operating profit

Operating profit is calculated as revenue plus other income and internally generated assets and change in work in progress, semi-finished and finished product inventories, less purchase of raw materials, goods and changes in inventory, cost of services, rents, personnel costs, depreciation and amortization, write-downs of trade receivables, provisions and other operating costs.

Financial income/(expenses)

Financial income primarily includes interest income from bank accounts and deposits. Financial expense primarily includes interest paid on loans, on the bond loan and interests matured on the Shareholders' loan.
Exchange gains and/or losses mainly relate to the effects of exchange rate fluctuations on purchase and sales transactions.

RESULTS OF OPERATIONS

Three months ended March 31, 2017 of Twinset compared to the three months ended March 31, 2016 of Twinset

The following table sets forth the financial information of Twinset for the three months ended March 31, 2017 compared to the financial information of Twinset for the three months ended March 31, 2016.

€/000 Consolidated Income Statement	Three months ended March 31, 2017	% of revenue	Three months ended March 31, 2016	% of revenue	Change	% Change
Revenue	84,296	*100.0%*	88,058	*100.0%*	(3,762)	*(4.3%)*
Other income and internally generated assets	929	*1.1%*	424	*0.5%*	505	*>100%*
Change in work in progress, semifinished and finished product inventories	(18,932)	*(22.5%)*	(27,498)	*(31.2%)*	8,566	*(31.2%)*
Purchase of raw materials, goods and changes in inventory	(13,651)	*(16.2%)*	(9,092)	*(10.3%)*	(4,559)	*50.1%*
Cost of services	(18,174)	*(21.6%)*	(16,248)	*(18.5%)*	(1,926)	*11.9%*
Rent	(5,325)	*(6.3%)*	(4,643)	*(5.3%)*	(682)	*14.7%*
Personnel costs	(8,522)	*(10.1%)*	(7,977)	*(9.1%)*	(545)	*6.8%*
Write-downs of trade receivables	(679)	*(0.8%)*	(1,132)	*(1.3%)*	453	*(40.0%)*
Provisions	(138)	*(0.2%)*	(551)	*(0.6%)*	413	*(75.0%)*
Other operating costs	(253)	*(0.3%)*	(508)	*(0.6%)*	255	*(50.2%)*
Reported EBITDA	**19,551**	***23.2%***	**20,833**	***23.7%***	**(1,282)**	***(6.2%)***
Depreciation and Amortization	(5,656)	*(6.7%)*	(5,524)	*(6.3%)*	(132)	*2.4%*
Operating profit	**13,895**	***16.5%***	**15,309**	***17.4%***	**(1,414)**	***(9.2%)***
Financial income/(expenses)	(3,483)	*(4.1%)*	(3,801)	*(4.3%)*	318	*(8.4%)*
Profit/(loss) before tax	**10,412**	***12.4%***	**11,508**	***13.1%***	**(1,096)**	***(9.5%)***
Income tax	(4,426)	*(5.3%)*	(4,955)	*(5.6%)*	529	*(10.7%)*
Profit/(loss) for the period	**5,986**	***7.1%***	**6,553**	***7.4%***	**(567)**	***(8.7%)***

The following table sets the reconciliation between Twinset Revenue and Revenue:

Reconciliation Twinset Revenue vs Revenue (€/000)	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue	**84,296**	**88,058**
Other revenues (*)	(455)	(596)
Returns estimate (**)	(178)	(729)
Twinset Revenue	**83,663**	**86,733**

(*) Other revenues relates primarily to sales to third parties of samples, yarns, textiles and other production materials not utilized for internal production and gain from disposal of fixed assets
(**) The estimate of returns is based on historical trends of quantities returned, valued at full sales price

From this point on, comments will refer only to Twinset Revenue.

Twinset Revenue. Twinset Revenue decreased by Euro 3.1 million, or 3.5%, to Euro 83.6 million for the three months ended March 31, 2017 from Euro 86.7 million for the three months ended March 31, 2016.

The Twinset Revenue decreased as a result of a slow down in the Wholesale channel partially compensated by the positive contribution from Retail channel (+9.7%).

The following table sets forth the breakdown of Twinset Revenue by distribution channel for the three months ended March 31, 2017 and 2016.

Breakdown of revenue by distribution channel	Three months ended March 31,	% of Twin Set Revenue	Three months ended March 31,	% of Twin Set Revenue	Change	% Change
(€/000)	2017		2016			
Wholesale	61,054	73.0%	66,126	76.2%	(5,072)	(7.7%)
Retail (including on line)	22,609	27.0%	20,607	23.8%	2,002	9.7%
Twin Set Revenue	**83,663**	**100%**	**86,733**	**100%**	**(3,070)**	**(3.5%)**

Wholesale

The performance of Wholesale channel is slightly negative (-7.7%) on the previous period. The Franchising channel sales increased by 40.7% reaching Euro 3.5 million (Euro 2.5 million for the three months ended March 31, 2016), that partially offset the contraction of some traditional markets, firstly Italy, which recorded a decrease in sales in line with market trends.

Retail (including Online)

Retail channel now counts for 27.0% (23,8% in the first quarter of 2016) of total revenue for the three months ended March 31, 2017 (+3.2 p.p.) confirming Twinset retail strategy expansion and increase *brand awareness*.
Retail channel sales increased by Euro 2.0 million (+9.7%). This increase is principally due to the good performance of the Boutique and Outlet.

The online shop channel reported a positive performance with revenues of Euro 2.3 million for the three months ended March 31, 2017, increasing Euro 0.2 million, up 11.2% on the same period of 2016. The increase is due to rise in number of website's visits as well as number of users.

The table below sets forth the retail points of sale by geographic area for the period:

Retail points of sales	As of March 31, 2017		As of March 31, 2016	
	Boutique	Outlet	Boutique	Outlet
Italy	34 [(1)]	17 [(1)]	31 [(1)]	14 [(1)]
Outside of Italy	23	4	21	3
Total retail point of sale	**57**	**21**	**52**	**17**
	78		**69**	

[(1)] Numbers are net of the store closings that occurred in the period (two Outlet and one Boutique between April 2016 and March 2017).

During the period under review, our retail points of sale network expanded from 69 retail points of sale as of March 31, 2016 (52 Boutiques and 17 Outlets) to 78 retail points of sale as of March 31, 2017 (57 Boutiques and 21 Outlets).

The table below sets forth retail channel revenue by sub-channel for the periods indicated:

Breakdown of retail revenue by sub-channel (€/000)	Three months ended March 31,	Three months ended March 31,	Change	% Change
	2016	2015		
Boutique	14,691	13,627	1,064	7.8%
Outlet	5,623	4,916	707	14.4%
Online	2,295	2,064	231	11.2%
Retail Revenue	**22,609**	**20,607**	**2,002**	**9.7%**

Total Retail revenue increased by Euro 2.0 million (+9.7%). Outlet sales improved by Euro 0.7 million (+14.4%). The Online Shop channel shows increased revenues of 11.1% to Euro 2.3 million, due to the reasons mentioned before. Boutique sales rose Euro 1.1 million (7.8%).

The following table sets forth the breakdown of Twinset Revenue by geography for the periods ended March 31, 2016 and March 31, 2017:

Breakdown of revenue by geography (€/000)	For the three months ended March 31, 2017	For the three months ended March 31, 2016 [(1)]	Change	% Change
Italy	49,721	53,743	(4,022)	(7.5%)
Benelux	5,442	5,581	(139)	(2.5%)
Spain	6,558	7,327	(769)	(10.5%)
France	3,342	4,158	(816)	(19.6%)
Greater Russia	6,383	4,952	1,431	28.9%
Germany	2,661	3,051	(390)	(12.8%)
Other countries	9,556	7,922	1,634	20.6%
Twin Set Revenue	**83,663**	**86,733**	**(3,070)**	**(3.5%)**

(1) The amounts as of March 31, 2016 were reclassified to make them comparable with those as of March 31, 2017

Italy.
Italian sales slightly decreased by Euro 4.0 million, or 7.5%, to Euro 49.7 million for the three months ended March 31, 2017, from Euro 53.7 million for the three months ended March 31, 2016.
The result is due to both different timing in Wholesale shipping and persistent low consumption attitude.

International.
Compared to 2016, revenue generated outside of Italy increased by 2.9%.
This result is principally due to increasing penetration in the wholesale channel and the improvement of Franchising and Online sales that contributed to the international expansion. The performance of the Boutiques is in line with the same period of previous year.

Purchase of raw materials, goods and changes in inventory including change in work in progress, semi-finished and finished product inventories.

Purchase of raw materials, goods and changes in inventory including change in work in progress, semi-finished and finished product inventories decreased by Euro 4.0 million, or 11.0%, to Euro 32.6 million for the three months ended March 31, 2017 from Euro 36.6 million for the three months ended March 31, 2016. As a percentage of Twinset Revenue, this line item decreased to 38.9%, confirming the results of the supply chain policies implemented since the end of 2014.

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Raw materials, supplementary materials, consumables and goods	14,350	10,103	4,247	42.0%
Change in inventories of raw materials, supplementary materials, consumables and goods	(699)	(1,011)	312	(30.9%)
Purchase of raw materials, goods and changes in inventory	**13,651**	**9,092**	**4,559**	**50.1%**
Change in work in progress, semi-finished and finished product inventories	18,932	27,498	(8,566)	(31.2%)
Purchase of raw materials, goods and changes in inventory, including change in work in progress, semi-finished and finished product inventories	**32,583**	**36,590**	**(4,007)**	**(11.0%)**
% of Twin Set Revenue	*38.9%*	*42.2%*		

Cost of services. Cost of services increased by Euro 1.9 million, or 11.9%, to Euro 18.2 million for the period ended March 31, 2017, from Euro 16.2 million in the same period of 2016. As a percentage of Twinset Revenue, cost of services increased by 3.0 p.p., to 21.7% for the three months ended March 31, 2017 from 18.7% for the three months ended March 31, 2016.

The table below sets forth the breakdown of costs of services for the three months ended March 31, 2017 and 2016:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Agent commissions	5,057	5,548	(491)	(8.9%)
Marketing and advertising	3,284	2,565	719	28.0%
External works	1,837	1,851	(14)	(0.8%)
Logistics and transport	3,506	2,311	1,195	51.7%
Administrative	1,402	1,299	103	7.9%
Travelling expenses	409	343	66	19.2%
Insurance	365	373	(8)	(2.1%)
Other service costs	2,314	1,958	356	18.2%
Total cost of services	**18,174**	**16,248**	**1,926**	**11.9%**
% of Twin Set Revenue	*21.7%*	*18.7%*		

"Agents commissions" decreased from Euro 5.5 million for the first three months ended March 31, 2016 to Euro 5.1 million for the first three months ended March 31, 2017 with a reduction of 8.9%. This is in line with the decrease of sales in the Wholesale channel.
"Marketing and advertising" expenses, amounting to Euro 3.3 million, rising 28.0% and owing to the stepping up of marketing and communication in support of visibility and brand awareness both in Italy and overseas. The sub-item principally includes costs for the purchase of advertising pages, billboards, catalogues and pockets, photography shoots, public relations, franchising, consultancy and other advertising expenses.
The "External works", amounting to Euro 1.8 million, are in line with the previous period.
The increase of "Logistic and Transport" expenses (from Euro 2.3 million at March 31, 2016 to Euro 3.5 million at March 31, 2017) is due to the increase in oil prices in comparison with the same period of previous year and to the different channel mix.
"Administrative" expenses, amounting to Euro 1.4 million, are in line with the previous period. The sub-item mainly includes costs for legal and notary, tax, administrative and commercial consultancy and the remuneration of directors, statutory auditors and the audit firm.
"Other service costs" amounts to Euro 2.3 million and principally comprises utilities (Euro 0.6 million), banking expenses (Euro 0.4 million), quality control costs (Euro 0.3 million), condominium expenses related to stores and showrooms and cleaning expenses (totaling Euro 0.2 million), maintenance costs (Euro 0.2 million), employee canteen expenses (Euro 0.1 million) and training courses and hiring costs (Euro 0.1 million).

Rent. Rent increased by Euro 0.7 million, or 14.7%, to Euro 5.3 million for the period ended March 31, 2017 from Euro 4.6 million for the same period of 2016.
The increase in "Rent expenses for shop, outlet and showrooms" relates to the 9 new openings of Boutiques and Outlets in the past 12 months - net of three stores closing that incurred in the period under review.

The table below sets forth the breakdown of rent for the three months ended March 31, 2016 and 2017:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Rent expenses for shop, outlet and showrooms	4,758	4,210	548	13.0%
Rent expenses for headquarters	405	271	134	49.4%
Other rent expenses	162	162	-	-
Total rent	**5,325**	**4,643**	**682**	**14.7%**
% of Twin Set Revenue	*6.4%*	*5.4%*		

Personnel costs. Personnel costs increased by Euro 0.5 million, or 6.8%, to Euro 8.5 million in the three months of 2017 from Euro 8.0 million in the three months of 2016. As a percentage of Twinset Revenue, personnel costs increased by 1.0 p.p. to 10.2% for the three months ended March 31, 2017 from 9.2% for the three months ended March 31, 2016. The increase mainly relates to the hiring of key people for the Headquarter and store personnel for the 9 new openings.

The table below sets forth the breakdown of personnel costs for the three months ended March 31, 2017 and 2016.

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Wages and salaries	6,566	6,020	546	9.1%
Social security contribution	1,615	1,623	- 8	(0.5%)
Employee severance indemnities	341	334	7	2.1%
Total personnel costs	**8,522**	**7,977**	**545**	**6.8%**
% of Twin Set Revenue	*10.2%*	*9.2%*		

The following table shows the breakdown of employees by category and location for the three months ended March 31, 2017 and 2016:

	As of March 31, 2017		As of March 31, 2016		Change	
Employees number	**Italy**	**Overseas**	**Italy**	**Overseas**	**Italy**	**Overseas**
Senior Executives	10	1	7	1	3	-
Managers	17	1	15	3	2	(2)
Clerical/administrative staff	264	9	251	9	13	-
Workers	40	3	60	2	(20)	1
Retail staff	337	169	324	178	13	(9)
Total employees number	**668**	**183**	**657**	**193**	**11**	**(10)**
Combined total employees (Italy and abroad)	**851**			**850**	**1**	

Amortization and depreciation. Amortization and depreciation are in line with the previous period and amount to Euro 5.7 million for the three months ended March 31, 2017.

The table below sets forth the breakdown of depreciation and amortization for the three months ended March 31, 2017 and 2016.

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Amortization of intangible fixed assets	5,012	4,963	49	1.0%
Depreciation of tangible fixed assets	644	561	83	14.8%
Total amortisation and depreciation	**5,656**	**5,524**	**132**	**2.4%**
% of Twin Set Revenue	*6.8%*	*6.4%*		

Operating profit. Operating profit decreased by Euro 1.4 million, to Euro 13.9 million for the three months eneded March 31, 2017 from Euro 15.3 million for the three months eneded March 31, 2016. As a percentage of Twinset Revenue, operating profit increased by 0.9 p.p. to 16.5% in 2017 from 17.4% of the same period in 2016.

Financial income/(expenses). Financial expenses decreased by Euro 0.3 million to Euro 3.5 million for the first three months eneded March 31, 2017 from Euro 3.8 million for the first three months of 2016 mainly due to the positive impact from foreing exchange fluctuation.

Other Financial income refers to interest matured on current accounts. Interest and other financial expenses principally concerns interest accrued on the Bond Loan for Euro 2.4 million and interest accrued on the Shareholder loan for Euro 1.4 million.

The table below sets forth the breakdown of financial expenses for the three months ended March 31, 2016 and 2017.

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Other financial income	8	6	2	33.3%
Interest and other financial expenses	(3,897)	(3,785)	(112)	3.0%
Foreign exchange gains/(losses)	406	(22)	428	>(100%)
Total financial income/(expenses)	**(3,483)**	**(3,801)**	**318**	**(8.4%)**
% of Twin Set Revenue	*(4.2%)*	*(4.4%)*		

Income tax. Income tax decreased by Euro 0.5 million to Euro 4.4 million for the period 2017 from Euro 5.0 million for the period 2016.

Result for the period. The profit for the period is Euro 6.0 million for the three months ended March 31, 2017 compared to a profit of Euro 6.6 million for the three months ended March 31, 2016 due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

Our cash requirements consist mainly of the following:

- operating activities, including our net working capital requirements;
- servicing our debt and that of our subsidiaries;
- funding capital expenditures, particularly the opening of new retail locations; and
- paying taxes.

Our sources of liquidity have historically consisted mainly of the following:

- cash generated from our operating activities;
- uncommitted bilateral credit lines, invoice discounting and reverse factoring; and
- the proceeds of the issuance of the Euro150 million Senior Secured Floating Rate Notes (the "Notes") and bank loans and shareholders loan.

As of March 31, 2017, our net financial indebtedness amounted to Euro 95.3 million compared to Euro 89.6 million as of December 31, 2016. As of March 31, 2017, we had cash and cash equivalents of Euro 56.6 million compared to Euro 62.2 million as of December 31, 2016.

CASH FLOW

The table below summarizes the consolidated cash flow of Twinset for the periods indicated:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016 [1]	Change	% Change
Total net cash at the beginning of the period	**62,170**	**39,039**	**23,131**	**59.3%**
Cash flow provided by/(used in) operating activities	629	3,976	(3,347)	(84.2%)
Cash flow provided by/(used in) investing activities	(3,568)	(1,724)	(1,844)	>100%
Cash flow provided by/(used in) financing activities	(2,586)	(2,622)	36	(1.4%)
Cash flow from the period	**(5,526)**	**(370)**	**(5,156)**	**>(100%)**
Total net cash at the end of the period	**56,644**	**38,669**	**17,975**	**46.5%**

[1] The amounts as of March 31, 2016 were reclassified to make them comparable with those as of March 31, 2017

The cash flow absorbed in the first three months of 2017 amount to Euro 5.5 million and it was used mainly to finance the development of the Retail channel, the substantial investment in weaving machineries to improve our knitwear quality and new investments in IT technology for a total of Euro 3.6 million and pay the coupon bond for Euro 2.6 million.

Contribution from operating activities was almost flat in the first quarter of 2017 with a decrease of Euro 3.3 million compared to the same period of last year due the increase of Operating Working Capital to support further business growth.

CAPITAL EXPENDITURE

The following table sets forth our capital expenditure for the periods indicated:

€/000	For the three months ended March 31, 2017	For the three months ended March 31, 2016	Change	% Change
Expansion	424	908	(484)	(53.3%)
Maintenance	382	227	155	68.3%
Headquarters	3,133	543	2,590	>100%
Total capital expenditures (1)	**3,939**	**1,678**	**2,261**	**134.7%**

(1) The amounts are net of the exchange rate effect on investments made by TS East (Euro 86 thousand on March 2017 and Euro 70 thousand on March 2016)

Over the period under review, the Group's capital expenditure was divided into the following categories:

- **Expansion:** includes the Key Money and restructuring charges paid following the opening of new stores planned in May 2017.
- **Maintenance:** principally includes expenses for operating software development, for the restructuring/maintenance of existing stores and for the technology update.
- **Headquarter:** mainly includes capital expenditure related to the relocation of the Weaving Factory and to the purchase of new production machineries in order to improve knitwear production times and quality (Euro 1.8 million), investments for new Factory Outlet (Euro 0.3 million), project-related IT investments (Euro 0.9 million) and non-recurring investments.

OPERATING WORKING CAPITAL

The following table sets forth our operating working capital for the periods indicated:

	As of and for the three months ended March 31, 2017	As of December 31, 2016	Change	% Change
Inventory	34,893	53,061	(18,168)	(34.2%)
Trade Receivables	62,128	35,704	26,424	74.0%
Trade Payables	(37,750)	(48,699)	10,949	(22.5%)
Operating Working Capital	**59,271**	**40,066**	**19,205**	**47.9%**

Operating Working Capital (which represents the Net Working Capital gross of other current assets and liabilities) increased by Euro 19.2 million at March 31, 2017.

Inventories, net of the obsolescence provision, decreased by Euro 18,2 million, or -34.2%. This reduction is principally due to the seasonality of our business that generally peaks in December and June on the launch of our spring/summer collection and fall/winter collection, respectively.

Trade receivables increased by Euro 26.4 million; the gross value of receivables increased from Euro 46.1 million to Euro 72.4 million. This increase in Receivables follow seasonal wholesales trends but, as opposed to the inventory, peaks in the first and third quarter.
The doubtful debt provision increased from Euro 6.1 million to Euro 6.7 million, prudently accrued in consideration of the still unstable economic environment both in Italy and Europe.

Trade payables decreased by Euro 10.9 million mainly due to the seasonal purchase trend. The amount is in line with the ones of the same period in the previous year.

NET FINANCIAL INDEBTEDNESS

The following table sets forth our net financial indebtedness as of December 31, 2016 and as of March 31, 2017:

Net financial indebtedness (€/000)	As of March 31, 2017	As of December 31, 2016	Change	% Change
Cash and cash equivalents	56,644	62,170	(5,526)	(8.9%)
Bank overdrafts	-	(7)	7	(100.0%)
Total net cash	**56,644**	**62,163**	**(5,519)**	**(8.9%)**
Bank loans-current portion [1]	(1,949)	(1,721)	(228)	13.2%
Bank loans-non current portion	-	-	-	-
Bank loans	**(1,949)**	**(1,721)**	**(228)**	**13.2%**
Bond	**(150,000)**	**(150,000)**	**-**	**-**
Net financial indebtedness [2]	**(95,305)**	**(89,558)**	**(5,747)**	**6.4%**
of which:				
Net financial indebtedness-current portion	*54,695*	*60,442*	*(5,747)*	(9.5%)
Net financial indebtedness-non-current portion	*(150,000)*	*(150,000)*	*0*	-
Shareholder loan	**(81,885)**	**(80,519)**	**(1,366)**	**1.7%**

(1) Bank loans—current portion include accrued expenses relating to interests, commissions on bank loans and fair value of derivatives financial instruments.

(2) Net financial indebtedness is calculated as total net financial debt excluding amounts due under the Shareholders' Loan. The criteria for determining net financial indebtedness applied by us might not be the same as the criteria adopted by other companies and, therefore, the figures presented by us might not be comparable with those determined by such other groups.

The net financial indebtedness as of March 31, 2017 totals Euro 95.3 million and consists of net cash of Euro 56.6 million and financial debts of Euro 151.9 million.

The net financial position decrease Euro 5.7 million mainly to the investment in the retail channel and IT investments toghether with the copoun bond payment.

Financials debts refers to Euro 150 million Bond with maturity on July 15, 2019, accrued interest on the Coupon, residual bank loans and fair value of hedging instruments.
Shareholder Loan with maturity on July 25, 2020, on which interest matures at 7% annually, amounted to Euro 81.9 million as of March 31, 2017, including interest matured in the current year.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes the commitments and payments outstanding as of March 31, 2017, on an as-adjusted basis after giving effect to the issuance of the Notes in July 2014 and the use of proceeds thereof. The information presented in the table below reflects management's estimates of the contractual maturities of our obligations related to rent and operating leases for Boutiques/Outlets, Showrooms and other buildings. These maturities may differ significantly from the actual maturity of the obligations.

€ in millions	Expected cash payments falling due in the years ending December 31,			
	2017	2018-2021	2022 and thereafter	Total
Notes offered hereby	-	150.0	-	150.0
Rent and operating leases commitments for DOS and Outlets [1]	12.8	47.5	25.0	85.3
Rent and operating leases commitments for Showroom [1]	0.3	1.5	-	1.8
Rent and operating leases commitments for Civil and Industrial Buildings [1]	0.9	4.1	3.5	8.5
Rent and operating leases commitments related to TS Shoes [1]	0.09	0.01	-	0.1
Total	**14.1**	**203.1**	**28.5**	**245.7**

(1) Future rental and operating lease commitments do not include inflation rate adjustments, variable rent and any renewal options.

The following table summarizes the commitments related to guarantees provided by credit institutions on behalf of the group in connection with contractual obligations undertaken on the signing of rental contracts.

€ in millions	As of March 31, 2017	As of March 31, 2016	Change	% Change
DOS and Outlet rental guarantees	6.5	6.10	0.4	6.6%

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various market risks in the normal course of business, particularly market risks related to: (i) exchange rates, (ii) exposure to credit risk of wholesale counterparties, (iii) liquidity and (iv) interest rates.

Currency-related risk

The Euro is the functional currency used for the consolidated financial statements; however, the Twin Set group carries out operations in currencies other than the Euro, principally for the procurement of products from China and India, denominated in US Dollars, with an exposure therefore to currency risk. In order to mitigate the risk from currency rate fluctuation, the Group has put in place Flexible Forward derivative finance operations. As of March 31, 2017, the amount of derivatives in place totaled USD 50.5 million. Following the establishment of the Twin Set East (Russia), the Group is also exposed to the depreciation of the Ruble arising from loans and intercompany sales in local currency.

Credit risk

Commercial receivable risk is high in the sector, still featuring a high number of clients represented by individual enterprises. This risk is however mitigated by the low concentration of clients and the internal selection procedures, which ensure that sales on the Wholesale channel are made to solvent clients. As a general guideline, the Group undertakes insurance on European Union client sales, while for non-EU clients advanced or guaranteed payment is required.

Payments on the Retail channel are made through cash and credit cards.

Payments on the e-commerce channel are principally made by credit card.

According to Company policy, customers that request extensions of payment are subject to a credit rate check, both using information which may be sourced from specialized agencies and from observation and analysis on existing client data.

Moreover, the collection of receivables is constantly monitored during the year in order to ensure timely action and to reduce the risk of losses. An additional instrument utilized for the management of commercial credit risk is the undertaking of insurance policies with insurance or factoring companies, which guarantee indemnity in the case of insolvency.

Liquidity risk

Liquidity risk relates to possible difficulties in obtaining financial resources at an acceptable cost to conduct normal Group operating activities. The factors which influence liquidity risk concern both resources generated or absorbed by current operations and those generated or absorbed by investment and financing operations. The Group however considers that the current level of debt, the financial resources and the bank credit lines available, enable a limitation of the impacts from any difficulty in accessing credit. The maturities of financial receivables are such as to allow their realization quickly and without significant problems; it is considered therefore that the Group does not have difficulty in meeting its commitments on financial liabilities.

Interest rate risk

The Group is exposed to the risk of interest rate movements as it has loans in place indexed to the Euribor. In particular, the increased exposure is due to interest maturing on the Bond Loan, with payment of quarterly Coupons indexed to the EURIBOR at 3 months plus a spread. In partial coverage of the interest rate risk, an Interest Rate Swap was undertaken covering 67% of the nominal value of the Bond.

TWIN SET – SIMONA BARBIERI S.p.A.

Quarter Consolidated Financial Statements as of and for the three months ended March 31, 2017

CONSOLIDATED BALANCE SHEET

€/000	As of March 31, 2017	As of December 31, 2016
Assets		
Intangible assets	225,642	228,804
of which goodwill	*169,338*	*172,324*
Property, plant and equipment	13,007	11,525
Other financial assets	1,264	1,256
Total intangible assets, PP&E and other financial assets	**239,913**	**241,585**
Inventories	34,893	53,061
Trade receivables	65,683	40,080
Tax receivables	1,530	4,272
Deferred tax assets	8,476	8,143
Other receivables	1,522	459
Financial derivative instruments	1,629	2,286
Cash and cash equivalents	56,644	62,170
Total current assets	**170,377**	**170,471**
Other accrued income and prepaid expenses	2,895	2,438
Total accrued income and prepaid expenses	**2,895**	**2,438**
Total assets	**413,186**	**414,494**

€/000	As of March 31, 2017	As of December 31, 2016
Liabilities and Shareholders' equity		
Shareholders' equity		
Share capital	522	522
Reserves	133,879	134,271
Retained earnings	(28,898)	(25,180)
Profit/(loss) for the period	5,806	(3,744)
Total Group Shareholders' equity	**111,310**	**105,868**
Equity attributable to non-controlling interests	549	369
Total Shareholders' equity	**111,859**	**106,237**
Liabilities		
Provisions for risks and charges	9,769	9,293
Financial derivative instruments	1,872	2,172
Deferred tax liabilities	6,021	6,112
Provisions for employee severance indemnities	550	572
Bonds	150,000	150,000
Shareholder loan	81,885	80,519
Bank loans	-	85
Client advances	1,008	1,927
Trade payables	38,143	48,812
Tax payables	5,456	1,508
Social security payables	744	1,243
Other payables	4,129	4,203
Accrued expenses and deferred income	1,750	1,811
Total liabilities	**301,328**	**308,257**
Total liabilities and shareholders' equity	**413,186**	**414,494**

CONSOLIDATED INCOME STATEMENT

In Euro	Three months ended March 31,	Three months ended March 31,
Consolidated Income Statement	**2017**	**2016**
Revenue	84,296	88,058
Other income and internally generated assets	929	424
Change in work in progress, semifinished and finished product inventories	(18,932)	(27,498)
Total revenue and income	**66,293**	**60,984**
Purchase of raw materials, goods and changes in inventory	(13,651)	(9,092)
Cost of services	(18,174)	(16,248)
Rent	(5,325)	(4,643)
Personnel costs	(8,522)	(7,977)
Depreciation and Amortization	(5,656)	(5,524)
Write-downs of trade receivables	(679)	(1,132)
Provisions	(138)	(551)
Other operating costs	(253)	(508)
Total operating costs	**(52,398)**	**(45,675)**
Operating profit	**13,895**	**15,309**
Financial income/(expenses)	(3,483)	(3,801)
Profit/(loss) before tax	**10,412**	**11,508**
Income tax	(4,426)	(4,955)
Profit/(loss) for the period	**5,986**	**6,553**
Attributable to the Group	*5,806*	*6,296*
Attributable to non-controlling interests	*180*	*257*

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€/000)	Share capital	Share premium reserve	Legal reserve	Exchange reserve	Fair Value Reserve	Translation reserve	Retained earnings/(losses) Twin Set SPA	Retained earnings/(losses) OTHERS	Profit/(loss) for the year	Total
As of December 31, 2015	**522**	**133,840**	**104**	**95**	**(1,494)**	**329**	**(7,197)**	**(6,937)**	**(10,641)**	**108,623**
Allocation of 2015 result [1]	-	-	-	-	-	-	(11,509)	869	10,641	-
Result for the year 2016	-	-	-	-	-	-	-	-	(3,744)	(3,744)
Change to translation reserve	-	-	-	-	-	(213)	-	-	-	(213)
Change to consolidation reserve	-	-	-	-	-	-	-	(406)	-	(406)
Change in Fair Value	-	-	-	-	1,609	-	-	-	-	1,609
As of December 31, 2016	**522**	**133,840**	**104**	**95**	**115**	**116**	**(18,706)**	**(6,474)**	**(3,744)**	**105,868**
Allocation of 2016 result [2]	-	-	-	-	-	-	(8,619)	4,875	3,744	-
Result for the period	-	-	-	-	-	-	-	-	5,806	5,806
Change to translation reserve	-	-	-	-	-	(6)	-	-	-	(6)
Change to consolidation reserve	-	-	-	-	-	-	-	-	-	-
Change in Fair Value	-	-	-	-	(358)	-	-	-	-	(358)
As of March 31, 2017	**522**	**133,840**	**104**	**95**	**(243)**	**110**	**(27,325)**	**(1,599)**	**5,806**	**111,310**
Total Group Shareholders' equity										**111,310**
- Capital and reserves attributable to non-controlling interests										369
- Result for the year attributable to non-controlling interests										180
Total equity attributable to non-controlling interests										**549**
Total Shareholders' equity										**111,859**

(1) Approved by the Board of Directors on April 29, 2016
(2) Approved by the Board of Directors on April 20, 2017

CONSOLIDATED CASH FLOW STATEMENT

€/000	31/03/2017	31/03/2016 [(1)]
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**62,170**	**39,039**
Net cash flow from operating activities		
Profit/(loss) for the period	**5,986**	**6,553**
Income taxes	4,426	4,955
Amortization	5,012	4,963
Depreciation	644	561
Financial interest/(income)	3,889	3,778
Gains/losses of disposal	(408)	(18)
Change in bad debt provision	641	855
Change in slow moving provision	1,319	(65)
Change in provision for risks and charges	475	1,134
Change in employee severance indemities	(22)	6
Cash flow from operating activities before changes in net working capital	**21,962**	**22,722**
Change in inventories	16,817	26,491
Change in trade receivables	(26,244)	(33,188)
Change in trade Payables	(10,668)	(13,956)
Change in client advance	(919)	(394)
Change in other payables/receivables	(38)	2,399
Change in suppliers advance	(281)	(98)
Change in net working capital	**(21,333)**	**(18,746)**
Income taxes paid	-	-
NET CASH FLOW FROM OPERATING ACTIVITIES	**629**	**3,976**
Net cash flow from investing activities		
Investment in intangible assets	(1,850)	(693)
Investments in property, plant and equipment	(2,175)	(1,055)
Disposal of assets	456	24
NET CASH FLOW FROM INVESTING ACTIVITIES	**(3,568)**	**(1,724)**
Net cash flow from financing activities		
Repayment of loans	(78)	(180)
Other changes in net equity	-	(89)
Net financial interest paid	(2,501)	(2,470)
Bank overdraft	(7)	117
NET CASH FLOW FROM FINANCING ACTIVITIES	**(2,586)**	**(2,622)**
NET CASH FLOW FOR THE PERIOD	**(5,526)**	**(370)**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**56,644**	**38,669**

(1) The amounts as of March 31, 2016 were reclassified to make them comparable with those as of March 31, 2017

TWIN SET – SIMONA BARBIERI S.p.A.

Explanatory Notes to the Consolidated Financial Statements as of and for the three months ended March 31, 2017

EXPLANATORY NOTES

GENERAL INFORMATION

TWIN SET – Simona Barbieri (the “Parent Company”), already defined above, and its subsidiaries, TS Shoes, TS Deutschland, TS Belgium, TS Spain, TS France, TS Dutch Holding and TS East (together with the Parent Company, the “Group”) operate in the apparel market; in particular the Group designs and produces clothing, accessories and women’s knitwear, marketed under the brands "TWINSET Simona Barbieri".

Regarding the subsequent events occurred after the three months period ended 31 March 2017, we highlight that on April 14th, 2017 the Parent Company signed an agreement for the purchasing of the remaining 10% equity stake from minority shareholder Simona Barbieri.

ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These special purposes Interim Consolidated Financial Statements (the “Interim Consolidated Financial Statements”) have been prepared to comply with certain reporting obligation required by the offering memorandum and regulation of the Senior Secured Floating Rates Notes due 2019 issue by the Company on 22nd July 2014.

Standards used to prepare the financial statements

The accounting policies outlined below were adjusted to the amendments, supplements and new provisions introduced to the Civil Code by Legislative Decree 139/2015, which transposed into Italian Law the 34/2013/EC accounting directive. In particular, Italian GAAP were reviewed by the OIC in the version issued on December 22, 2016.

The Interim Consolidated Financial Statements should be read in conjunction with the Twin Set – Simona Barbieri annual consolidated financial statements for the year ended December 31, 2016 (the “Twin Set – Simona Barbieri Consolidated Financial Statements at December 31, 2016”), which have been prepared in accordance with General Accepted Accounting Principles in Italy (Italian GAAP).

The Interim Consolidated Financial Statements have been prepared in accordance with the general principles of prudence and accruals and on an appropriate going concern basis, which covers at least twelve months from the Interim Consolidated Financial Statements date and considering the economic function of the assets and liabilities; account is also taken of risks and losses for the period, even if known after the end of the period.

Structure of financial statements and basis of presentation

The Interim Consolidated Financial Statements include the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in shareholders’ equity, the consolidated cash flow statement and the explanatory notes.
The consolidated balance sheet presents amounts as of December 31, 2016, while the consolidated income statement presents amounts related to the nine months period ended March 31, 2016, for comparative purposes.
All amounts shown in the Interim Consolidated Financial Statements are in thousands of Euro, unless otherwise specified.
The Interim Consolidated Financial Statements were approved by the Company’s Board of Directors on May 30, 2017.

CONSOLIDATION AREA AND BASIS OF CONSOLIDATION

Consolidation area and basis of consolidation

Company	Country	Result for the period	Net Equity incl. Result	Period-End	Holding	Carrying value	Consolidation method
TWIN SET - SIMONA BARBIERI S.p.A.	Italy	7,626	114,619	31/03/2017			
TS SHOES SRL	Italy	249	4,848	31/03/2017	80%	1,477	Line-by-line
TS SIMONA BARBIERI DEUTSCHLAND GMBH	Germany	(558)	(3,187)	31/03/2017	100%	1,860	Line-by-line
TS SIMONA BARBIERI BELGIUM BVBA	Belgium	(194)	(3)	31/03/2017	100%	-	Line-by-line
TS SIMONA BARBIERI SPAIN S.L.	Spain	(530)	(1,342)	31/03/2017	100%	-	Line-by-line
TS SIMONA BARBIERI FRANCE S.A.	France	(329)	(219)	31/03/2017	100%	-	Line-by-line
TS SIMONA BARBIERI DUTCH HOLDING B.V.	Holland	(13)	1,379	31/03/2017	100%	3,285	Line-by-line
TS SIMONA BARBIERI EAST LLC *	Russia	109	(482)	31/03/2017	100%	1,032	Line-by-line

* Owned by TS Simona Barbieri SpA through TS Dutch Holding BV

The Interim Consolidated Financial Statements of the TWIN SET - Simona Barbieri Group includes the financial statements of the Parent Company TWIN SET – Simona Barbieri S.p.A. and the financial statements of its subsidiaries as illustrated in the table above.

The Group does not hold investments in associated companies; the non-current investments in other companies are accounted for the cost method.

Basis of consolidation

The Consolidated Financial Statements are prepared in accordance with the provisions of the Italian Legislative Decree 127/1991 and those of the accounting standard OIC 17.

The subsidiaries are included in the Consolidated Financial Statements from the date in which the Parent Company acquires control and are no longer consolidated from the date in which the Parent Company loses control.

The financial statements of companies included in the Consolidated Financial Statements are consolidated on a line-by-line basis, accounting for the non-controlling interest in a proper line item in the Shareholders' equity and in the consolidated income statement.

The main consolidation criteria, consistently applied over the year described herein, are as follows:

- The carrying amount of investments in consolidated company is eliminated against the corresponding net equity; positive differences are allocated, where possible to the subsidiaries'assets. Any non-attributable residual amount calculated at the date of acquisitions, represents goodwill and is recognized as intangible assets and amortized over its estimated useful life;
- All payables, receivables, revenue and costs, including any unrealized profit and losses, deriving from transactions between companies included in the consolidation area are eliminated.

ACCOUNTING POLICIES

The accounting policies outlined below were adjusted to the amendments, supplements and new provisions introduced to the Civil Code by Legislative Decree 139/2015, which transposed into Italian Law the 34/2013/EC accounting directive. In particular, Italian GAAP were reviewed by the OIC in the version issued on December 22, 2016.

The most significant accounting policies adopted in the preparation of the Interim Consolidated Financial Statements, are the following:

Intangible assets

Intangible assets are recorded at purchase or production cost, increased by accesory charges and directly associated product costs, adjusted by the relative amortisation provision and increased by any monetary revaluations in accordance with law.
Intangible assets are recorded with the approval of the Board of Statutory Auditors in the cases established by law.
Start up and formation expenses are amortised over five years, with straight-line amortisation applied.
Advertising and research costs are entirely recognised to the period in which they are incurred.
Goodwill includes the amounts paid in this regard in relation to business acquisitions or other corporate operations and are amortised over their useful life. The useful life is estimated starting from the initial recognition of goodwill and is not modified in subsequent years. Where it is not possible to estimate the useful life, goodwill is amortised over a period of 10 years.
In the event that, independently of the amortization already recorded, there is a permanent loss of value, the asset is derecognized; if, in subsequent years, the reasons justifying the write-down cease, the original value is restored, within the limits of the value that the asset would have had without the impairment loss, except for the item "Goodwill" and "Deferred charges" referred to in Art. 2426, N. 5 of the Italian Civil Code.
Start up and formation expenses and development costs (long-term use) are recorded as assets, with the approval of the Board of Statutory Auditors.

Amortization

Intangible assets amortization is calculated using the straight-line method over the estimated useful lives of the assets, in accordance with the following amortization schedule:

INTANGIBLE ASSETS	PERIOD
Start up and formation expenses	5 years
Industrial patents and intellectual property rights (software licenses)	3/5 years
Brands	18-20 years
Goodwill	10/20 years/duration of underlying contract (residual rental duration)
Other intangible assets (leasehold improvements, finance costs, other deferred)	Duration of underlying contract (residual mortgage or rental duration)

Property, plant and equipment

Property, plant and equipment are recorded at purchase price, including accessory costs directly attributable to the asset. In the determination of this cost, account is taken of improvement, restoration and modernization expenses. The purchase cost does not include interest on loans for the acquisition of assets.

Ordinary maintenance and repair costs are fully charged to the income statement. Incremental maintenance costs are attributed to the asset concerned and depreciated over the residual useful life of the asset.

In the event that, irrespective of the amortization already recorded, there is a permanent loss of value, the asset is derecognized; if in the subsequent years the assumptions of the write-down no longer exist, the original value of the asset is restored, adjusted only for depreciation.

Depreciation

The depreciation rates of the tangible fixed assets are calculated based on the residual utilization value, on the basis of rates considered adequate to represent the usage and/or consumption of the assets and their reduced usage over time.
The depreciation rates utilized for the estimated useful life of the Company assets are as follows:

PROPERTY, PLANT AND EQUIPMENT	Rate %
Light buildings	10%
Plant & machinery	12.5%, duration of underlying contract (residual rental duration)
Industrial & commercial equipment	20%, 25%
EDP	20%, 33.3%
Furniture & fittings	10%, 12%
Transport vehicles	20%
Motor vehicles	25%
Asset lower than Euro 516,46 (for Italy)	100%

For the tangible fixed assets acquired during the year, the above-mentioned rates are reduced by half, considered as representative of the lower utilization of these assets, presuming that their participation in the production process is on average half of the year.
For assets with a unitary cost not above Euro 516, for Italy, the depreciation period is considered to be not beyond one year.
It is recalled that the Parent Company in 2012 undertook a merger operation (with greater details reported in the 2012 and 2013 Annual Accounts) which incorporated the opening balances of the assets and relative accumulated depreciation of the incorporated company; in relation to these fixed assets, the depreciation schedules of the incorporated company remained unchanged, as they have been considered representative of the assets’future utility.

Financial assets

The investments in other companies are measured at purchase cost, including any accessory costs, reduced by any permanent loss in value in the case in which the investee incurs losses and profits are not expected in the foreseeable future such as to absorb the losses incurred.
The original amount is reinstated whenever the reasons for the adjustment no longer apply.
Receivables recorded under financial fixed assets are measured at their nominal value, eventually adjusted to match their realizable value.

Current Assets

Inventories

Inventories are measured at the lower of costs incurred and net realizable value. The cost of inventories includes all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. In particular, for products acquired and held for resale and for direct or indirect materials, acquired and utilized in the production cycle, the historical cost adopted is the purchase cost.
For the goods already produced or with production in progress, the historical cost adopted is the production cost. For the determination of the purchase cost, reference is made to the actual cost incurred, including any directly allocated accessory charges transport and customs expenses, less any commercial discounts. For the determination of the production cost, reference is made to the purchase cost, as previously indicated, plus the production or transformation expenses, therefore direct and indirect costs, for the portion reasonably allocated to the product relating to the production period.
The cost method utilized is the weighted average cost for the period which takes account of the value of the initial inventories.
Where it is no longer possible to estimate the goods at historical cost as determined by the above criteria, due to lower selling prices, depreciated goods, obsolescence or slow moving, the net realizable value determined by the market performance is applied for finished goods, semi-finished and work in progress. Replacement costs for raw materials are instead used for the ancillary and semi-processed products.

Receivables

Receivables are recognised to the financial statements according to the amortised cost criterion, taking account of their timing and the expected realisable value. The amortised cost criterion is not applied where the effects are insignificant or where the settlement costs, commissions paid between the parties and any other difference between the initial value and the value on maturity is insignificant or where the receivables are short-term (i.e. with maturity of less than 12 months).

Group trade receivables have a duration of less than 12 months and therefore the amortised cost criterion has not been used. Adjustment to the expected realizable value is obtained by adjusting the nominal value of the receivables, taking into account the losses due to ineligibility, yields and billing adjustments, unpaid discounts and rebates and other minor rewards.

The value of receivables, established as above, is adjusted where necessary by a write-down provision, presented as a direct reduction of the value of the receivables to their expected realisable value. The write-down to the financial statements is equal to the difference between the book value and the value of estimated future cash flows, less amounts which are not expected to be received. The write-down is recognised to the income statement.

Receivables from factoring, with no draw back options, are eliminated from the Balance Sheet.

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value. Cash and cash equivalents in foreign currencies are valued at the year-end exchange rate.

Provisions for risks and charges

Provisions for risks and charges are recorded based on the principles of prudence and accruals and include provisions made to cover losses and debts of a certain nature and of a certain and probable existence, with uncertain amount and occurrence date.
The valuation of risks and charges which are dependent on future events considers also the information available after the period-end and up to the preparation of the present financial statements.
The provisions reflect the best estimate on the basis of available information at the reporting date. Potential liabilities which are only considered possible are described in the notes.

Employee severance indemnities

The employee severance indemnities recorded in the financial statements represent the actual debt of the Company with its employees at the reporting date, net of any advances to employees and payments to the complementary pension funds indicated by the employees or to the INPS Treasury Fund, pursuant to Article 1, paragraph 755 and thereafter of Law No. 296/06, Italian legislation.
These liabilities are subject to index-linked revaluation.

Payables

Payables are recognised according to the amortised cost criterion, taking account of their timing. The amortised cost criterion is not applied to payables where the effects are insignificant. Effects are considered insignificant for short-term payables (i.e. with maturity of less than 12 months). For the amortised cost criterion, reference should be made to receivables.

The payables contracted by the company with duration of less than 12 months and before January 1, 2016, both commercial and financial, were recognised at their nominal value.

Accrued income and prepaid expenses

Accrued income and prepaid expenses and accrued expenses and deferred income, calculated on the accruals basis, relate to the portion of costs and income referring to two or more years; accrued income and expenses refer to costs and income of the current period to be settled in future periods, while prepaid expenses and deferred income refer to costs and income already paid referring to future periods.

Revenues and Costs

Costs and revenues are recognized based on the accruals principle, independently of the receipt or payment date, net of returns (also through the recording of a provision under liabilities), allowances and bonuses. Related party transactions are carried out at normal market conditions.

Income taxes

Income taxes are recorded in accordance with the accruals principle; therefore, they include:

- the current taxes paid or to be paid, determined in relation to the assessable income in accordance with current provisions and tax rates;
- the amount of deferred tax assets or liabilities, determined in relation to the temporary difference between the values recorded in the financial statements and the corresponding fiscal values, arising or cancelled in the period.

In compliance with the prudence principle, deferred tax liabilities on the suspended taxes reserve are not recorded when there is a limited probability of distributing these reserves to Shareholders and the deferred tax assets are only recorded where there is reasonable certainty of their recovery.

In this regard, for the Italian Group companies, Article 1, paragraph 61 of the 2016 Stability Law establishes that, with effect for tax periods subsequent to December 31, 2016 (and therefore effective from January 1, 2017), the IRES rate will be 24% instead of the current 27.5%. It was therefore necessary to adjust the tax rates to be applied for the calculation of deferred tax assets/liabilities.

The parent company Twin Set – Simona Barbieri S.p.A. acts as the consolidating company and calculates a single assessable base for the Italian Group companies adhering to the tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration. The company took part in the Twin Set Shoes S.r.l. tax consolidation at December 31, 2016 such consolidation tax will be renewal also for the nex three years.

The companies involved in the tax consolidation transfer to the consolidating company its assessable income (assessable income or tax loss); the consolidating company recognises a receivable equal to the IRES to be paid (the consolidated company recognises a payable to the consolidating company).

Translation of amounts not denominated in Euro

The current receivables and payables in foreign currencies at the balance sheet date are adjusted to the exchange rate as of March 31, 2017. Gains and losses arising from the translation of the individual current receivables and payables are respectively credited and debited to the income statement as financial items. Any net gain from the translation of the foreign currency amounts, deriving from the valuation at period-end and recorded in the income statement, is recorded in a specific non-distributable reserve until the gain is realized. Revenues and costs are converted at the average exchange rate which approximates the exchange rate at the date of the respective operations.

Derivative instruments

The Group holds derivative financial instruments in order to hedge its exposure to interest rate and exchange rate movements.

Derivative financial instruments are financial assets and liabilities, recognised at fair value.

Derivatives are classified as hedging instruments only when, on the initiation of hedging, a strict and documented correlation exists between the characteristics of the hedged item and those of the hedging instrument, this hedging connection is formally documented and the effect of the hedge, periodically verified, is high.

When the hedged derivatives cover the risk of a change in the fair value of the instruments hedged (**fair value hedge**), these are recorded at fair value through the income statement; therefore, the hedged items are adjusted to reflect the changes in fair value associated with the risk covered.
Where derivatives hedge a risk of changes in future cash flows of the hedged instrument (**cash flow hedge**), the effective portion of profits or losses of the derivative financial instrument are suspended to net equity. The ineffective portion of the profits and losses associated with a hedge are recognised to the income statement. When the related transaction is realized, the accumulated gains and losses that have been recorded to equity are recognized in the income statement (to adjust or supplement the income statement accounts affected by the hedged cash flows). The Company applies hedge accounting to cover the fluctuation of cash flows due to exchange rates and interest rates.

Therefore, the changes of the relative fair value of derivative hedging financial instruments are recognised to:

- income statement in the case of the hedging of the fair value of an asset or liability recognised to the financial statements and the changes to the fair value of hedged instruments (if the change to the fair value of the hedged item is greater in absolute value terms than the change in the fair value of the hedging instrument, the difference is recognised to the income statement account to which the hedged item relates);
- a separate net equity reserve ("Reserve for future cash flow hedging operations") in the case of the hedging of cash flows in a manner which offsets the effects of the cash flows hedged (the ineffective component, in addition to the change in the time value of options and forwards, is classified to the income statement).

Use of estimates

The preparation of the current Consolidated Financial Statements requires management's estimates and assumptions on the values of the assets and liabilities in the financial statements and on the information relating to the assets and potential liabilities at the Consolidated Financial Statement date. The estimates and assumptions used are based on past experience and other factors considered relevant. However, actual results could differ from the estimates. Estimates and assumptions are reviewed periodically and the impacts of any resulting changes are recognized directly in the income statement in the period in which the estimates are revised, if the revision impacts only that period, or also in future periods, if the revision impacts both the current and future periods. The most significant accounts concerned by these uncertainties are the obsolescence provision, the doubtful debt provision and the provision for risks and charges and goodwill impairment and the valuation of goodwill.

EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Fixed assets

The following tables illustrate the changes in the intangible, tangible and financial fixed assets, and are presented by individual asset category: the purchase or production cost, the accumulated amortization and depreciation at the beginning of the year, the acquisitions, the disposals and the net book value.
At the reporting date, there are no fixed assets whose value is permanently below the net book value.

Intangible assets

The changes in the intangible assets during the period were as follows:

ACCOUNT	As of December 31, 2016			Changes in the period					As of March 31, 2017			
(€/000)	Historical cost	Accumulated amortization	Net book value	Additions 2017	Reclass. 2017	Decreases Hist. cost	Decreases Acc. Amort.	Amortization 2017	Exchange difference	Historical cost	Accumulated amortization	Net book value
Start up and formation expenses	1,319	(1,039)	281	0	-	-	-	(28)	-	1,319	(1,067)	252
Industrial patents and intellectual property rights	9,455	(5,515)	3,940	284	-	-	-	(376)	-	9,739	(5,891)	3,848
Concessions, licenses, trademarks and similar rights	29,517	(6,582)	22,934	48	-	-	-	(398)	-	29,565	(6,980)	22,585
Goodwill	219,298	(46,974)	172,324	-	-	-	-	(2,986)	-	219,298	(49,960)	169,338
Assets in progress and advances	825	-	825	1,113	(106)	-	-	-	-	1,832	-	1,832
Other intangible assets	47,859	(19,359)	28,500	355	106	-	-	(1,224)	50	48,370	(20,583)	27,787
Total intangible assets	**308,273**	**(79,469)**	**228,804**	**1,800**	**-**	**-**	**-**	**(5,012)**	**50**	**310,123**	**(84,481)**	**225,642**

The <u>Start up and formation expenses</u>, amounting to Euro 252 thousand, include incorporation expenses incurred by the Parent Company and its subsidiaries.

<u>Industrial patents and intellectual property rights</u> include the costs for software licenses for indefinite use, principally held by the Parent Company.
The increases of the period, totaling Euro 284 thousand, are totalling related to costs incurred by the Parent Company for IT consultancy and in particular: Euro 88 thousand for the project "*Retail Demand Planning*", Euro 31 thousand for the introduction of the *"PLM"* software, designed for the management of product technical information, Euro 16 thousand for the consultancy and installation for the Oracle JD Edwards and Hyperion operating system and Euro 111 thousand for other IT projects, mainly for the implementation of the *MPsoft* operating system, *Ipad Order Collection* and *Business Intelligence* project.

"<u>Concessions licenses, trademarks and similar rights</u>" reflects at period-end the net book value of the brand held by the Parent Company – "TWINSET Simona Barbieri", in relation to which the Parent Company made investments – Euro 48 thousand - for maintenance and/or new registrations of existing trademarks in their respective territories.
This account includes also the allocation of purchase price excess arising from the merger of Light Force and Fuori dal Sacco 2 for Euro 27,380 thousand ("premium paid") to the main trademark "TWINSET Simona Barbieri", which is amortized on a straight-line basis over twenty years.
Finally, it is recalled that in the financial statements at December 31, 2005, the incorporated LF undertook, on the basis of an expert's opinion, the monetary revaluation of the above-mentioned brand, as permitted by Law 266/05 for Euro 1 million; consequently in accordance with Article 10 of Law No. 72 of March 19, 1983 and in accordance with subsequent laws on monetary revaluation and for a better understanding of the changes in the cost of this trademark, we summarize the movements below:

€/000	Historical cost	Revaluation L. 266/2005	Cumulative increases	Allocation premium price	Book value as of March 31, 2017
"Twinset - Simona Barbieri" trademark	8	1,000	413	27,380	28,801

On July 22, 2014 the Company signed a Pledge Deed of Intellectual Property Rights pursuant to which the Company granted a pledge on the intellectual property rights relating to the trademark Twinset Simona Barbieri to Secured Creditors as better detailed in the indenture signed on the same date with respect to the issuance of the Senior Secure Notes.
The item includes in addition the know-how acquired from the TS Shoes conferment in 2014, which at March 31, 2017 had a residual value of Euro 275 thousand.

Goodwill totals at March 31, 2017 Euro 169,338 thousand and includes for Euro 160,269 thousand the net book value of goodwill resulting from the allocation of premium paid arising from the merger previously described, amortized on a straight-line basis over twenty years. This also includes costs incurred by the Parent Company and by TS France (totaling Euro 8,422 thousand) with reference to the commercial goodwill acquired within the Retail development. The residual part concerns the goodwill of the subsidiary TS Shoes (Euro 646 thousand).

Intangible assets in progress and advances amounting to Euro 1,832 thousand. The increases and the reclassifications of the period amounting to Euro 1,007 thousand and comprise assets of the Parent Company and specifically: Euro 673 thousand for costs relating to IT projects (of which Euro 569 thousand related to new software "*Stealth*"), Euro 544 thousand for costs incurred for the new Venice Boutique, opening on April 29, 2017 and Euro 380 thousand relating the Key Money paid for the acquisition of Como Boutique.

Other intangible assets amount to Euro 27,787 thousand and principally comprise leasehold improvements (for a total of Euro 10,106 thousand), of which: Euro 6,840 thousand concerning the Parent Company, Euro 1,344 thousand concerning TS Spain, Euro 591 thousand concerning TS Belgium, Euro 669 thousand concerning TS France and Euro 662 thousand concerning TS East and deferred costs incurred for the acquisition of rental contracts and transaction charges for strategic stores (for a total of Euro 14,848 thousand, of which: Euro 7,925 thousand concerning the Parent Company, Euro 2,612 thousand concerning TS Deutschland, Euro 1,881 thousand concerning TS France, Euro 1,341 thousand concerning TS Spain, Euro 960 thousand concerning TS Belgium and Euro 129 thousand concerning TS East) and costs incurred by the Parent Company following the issue of the Bond (Euro 2,834 thousand).
The increases and reclassifications of the period for Euro 461 thousand relate to expenses incurred in the period by the Parent Company principally for the opening of our in house Weaving Factory and for Factory Outlet opening at the new Headquarter.

Property, plant and equipment

The changes during the period of the property, plant and equipment were as follows:

ACCOUNT	As of December 31, 2016			Changes in the period					As of March 31, 2017			
(€/000)	Historical cost	Accumulated depreciation	Net book value	Additions 2017	Reclass. 2017	Decreases Hist. cost	Decreases Acc. deprec.	Depreciation 2017	Exchange difference	Historical cost	Accumulated depreciation	Net book value
Land and buildings	21	(7)	14	-	-	-	-	(1)	-	21	(8)	13
Plant and machinery	14,653	(8,987)	5,666	1,770	-	(2,995)	2,995	(269)	-	13,428	(6,261)	7,167
Industrial and commercial equipment	1,645	(1,388)	257	49	-	(5)	5	(41)	-	1,688	(1,424)	264
Other tangible assets	12,750	(7,192)	5,558	317	-	(49)	-	(333)	35	13,053	(7,525)	5,528
Construction in progress and advances	31	-	31	4	-	-	-	-	-	35	-	35
Total property, plant and equipment	**29,100**	**(17,574)**	**11,526**	**2,140**	**-**	**(3,049)**	**3,000**	**(644)**	**35**	**28,225**	**(15,218)**	**13,007**

Land and buildings, amounting to Euro 13 thousand, refers to light constructions.

Plant and machinery includes specific and general plant, installed at the premises, factories and warehouses, as well as at the stores and outlets, and machinery for weaving and for garments and footwear production.
The increases in the period, totaling Euro 1,770 thousand, concern principally investments by the Parent Company (Euro 1.768 thousand) for the installation of electric, lighting and video-surveillance plant at the new Factory Outlet and in the new Weaving Factory. Euro 1,067 thousand are related to capital expenditure for the purchase of production machinery for the Weaving Factory by the Parent Company.
The decreases in the period concern for Euro 2,993 thousand the sale of obsolete machinery at the Weaving Factory.

Industrial and commercial equipment amount to Euro 264 thousand and principally includes equipment for the ironing, moulds and cutting tools section and commercial equipment at the various stores and outlets managed directly.
The increases in the period, totaling Euro 49 thousand, are related principally to the subsidiary Twin Set Shoes (for Euro 43 thousand) for the purchase of moulds and cutting tools.

Other tangible assets amount to Euro 5,528 thousand and principally relate to office and factory furniture and fittings, furniture and fittings for the various directly managed stores and outlets, EDP and transport and motor vehicles.
The increases in the period, totaling Euro 317 thousand, are related to the purchase of furniture and fittings and EDP, principally for the the new Factory Outlet, the headquarter and the new Weaving Factory (for a total of Euro 268 thousand), in addition to the existing stores. They also relate to the purchase of ordinary operating assets.

The disposals in the period resulted in gains for Euro 408 thousand, recognized to other revenues and losses for Euro 1 thousand, recognized to other operating charges.

Current Assets

Inventories

The changes in inventories are shown in the table below:

€/000	As of March 31, 2017	As of December 31, 2016	Changes	% Changes
Raw materials, consumables and goods	3,114	3,003	111	3.7%
Work-in-progress and semi-finished products	956	1,327	(371)	(28.0%)
Finished goods	30,823	48,731	(17,908)	(36.7%)
Total inventories	**34,893**	**53,061**	**(18,168)**	**(34.2%)**

€/000	As of December 31, 2016	Provisions	Utilizations	As of March 31, 2017
Raw materials, consumables and goods obsolescence	(2,746)		55	(2,691)
Work-in-progress and semi-finished products obsolescence	-	-	-	-
Finished goods obsolescence provision	(6,652)	(2,202)	828	(8,026)
Total obsolescence provision	**(9,398)**	**(2,202)**	**883**	**(10,717)**

The inventories consist of:

- Raw materials, consumables and goods of Euro 3,114 thousand, net of the obsolescence provision of Euro 2,691 thousand relating to yarns, textiles, accessories, hides and glues;
- Work in progress and semi-finished products, amounting to Euro 956 thousand, referring to clothing and footwear in production not completed at period-end;
- Finished goods, amounting to Euro 30,823 thousand, net of the relative obsolescence provision of Euro 8,026 thousand comprise garments and footwear produced and complementary products distributed, which complete the total look proposed by the Group to its customers.

Inventory decreases compared to December 31, 2016, from Euro 53,061 thousand to Euro 34,893 thousand. This reduction is principally due to the seasonality of our business that generally peaks in December and June on the launch of our spring/summer collection and fall/winter collection, respectively.

Receivables

The changes in receivables are shown in the table below:

€/000	As of March 31, 2017	As of December 31, 2016	Changes	% Changes
Trade receivables	65,683	40,080	25,603	63.9%
Tax receivables	1,530	4,272	(2,742)	(64.2%)
Deferred tax assets	8,476	8,143	333	4.1%
Other receivables	1,522	459	1,063	>100%
Total receivables	**77,211**	**52,954**	**24,257**	**45.8%**

Trade receivables, amounting to Euro 65,683 thousand (Euro 40,080 thousand at December 31, 2016), refer to trade receivables for the sale of products produced and distributed by the Parent Company for Euro 65,641 thousand and by the subsidiary Twin Set Shoes for Euro 18 thousand. The remaining Euro 24 thousand concerns the receivable of the subsidiary TS France from Galeries Lafayette for the sale of Twinset products to customers of our Boutique at the center.

These receivables are reported net of the doubtful debt provision, amounting to Euro 6,695 thousand, against the risk of potential losses. The movements in the period are as follows:

€/000	As of December 31, 2016	Provisions	Utilizations	As of March 31, 2017
Doubtful debt provision	6,054	679	(38)	6,695

Tax receivables, amounting to Euro 1,530 thousand (Euro 4,272 thousand at December 31, 2016), principally comprise VAT receivables of Euro 791 thousand (Euro 1,397 thousand at December 31, 2016) principally of Twin Set Shoes (Euro 634 thousand) and Twin Set East (Euro 147 thousand), the IRES reimbursement receivable pursuant to Legislative

Decree 201/2011 of the Parent Company amounting to Euro 242 thousand, Parent Company VAT reimbursement request receivables for Euro 273 thousandand other tax receivables of Euro 224 thousand.

The deferred tax assets, amounting to Euro 8,476 thousand, refer to temporary differences fiscally deductible in future years. These receivables concern the Parent Company for Euro 7,277 thousand.

Other receivables, amounting to Euro 1,522 thousand, principally refer to receivables from suppliers and customers not offset with payables at period-end for advances and credit notes to be received, totaling Euro 1,197 thousand (Euro 218 thousand at December 31, 2016).

Financial Derivative Instruments

The account amounts to Euro 1,629 thousand (Euro 2,286 thousand at December 31, 2016) and relates the fair value of Flexible Forward contracts for a total of USD 50,500 thousand. The hedging instruments are in place to partially hedge the currency risk arising from the purchase of goods denominated in USD. The details and fair value of the contracts as of March 31, 2017 are shown in the following table:

€/000								
Bank	**Contract type**	**Amount (USD/000)**	**Operation date**	**Date init. util.**	**Maturity date**	**Forward Rate**	**Ctr (Euro/000)**	**Fair Value (EUR/000)**
Unicredit	Flexi forward	5,000	01/04/2016	02/05/2017	31/07/2017	1.1540	4,333	338
BNL	Flexi forward	5,000	22/04/2016	01/08/2017	30/11/2017	1.1400	4,386	266
Unicredit	Flexi forward	2,000	01/02/2017	01/08/2017	30/10/2017	1.0853	1,843	17
Unicredit	Flexi forward	3,000	02/05/2016	01/08/2017	30/11/2017	1.1644	2,576	213
BNL	Flexi forward	5,000	02/11/2016	01/09/2017	20/12/2017	1.1220	4,456	189
bper	Flexi forward	5,000	07/11/2016	01/11/2017	28/02/2018	1.1220	4,456	172
Unicredit	Flexi forward	5,000	07/11/2016	01/11/2017	28/02/2018	1.1212	4,460	167
BPER	Flexi forward	5,000	17/01/2017	01/12/2017	30/03/2018	1.0868	4,601	16
BNL	Flexi forward	3,000	02/02/2017	01/12/2017	27/03/2018	1.0952	2,739	34
MPS	Flexi forward	2,500	27/03/2017	03/04/2018	29/06/2018	1.1070	2,258	22
BPER	Flexi forward	5,000	02/02/2017	01/03/2018	29/06/2018	1.1028	4,534	94
BPER	Flexi forward	5,000	27/03/2017	03/05/2018	31/07/2018	1.1115	4,498	100
Total		**50,500**					**45,140**	**1,629**

Cash and Cash equivalents

The account includes Euro 56,512 thousand related to bank and postal accounts and Euro 132 thousand related to cash on hand. For a better understanding of the changes in cash and cash equivalents, reference should be made to the cash flow statement.

Other accrued income and prepaid expenses

The account amounting to Euro 2,895 thousand includes accrued income concerning cost of services and prepaid expenses mainly related to marketing expenses, utilities and rentals (for a total amount of Euro 2,191 thousand). The account includes also Euro 692 thousand (Euro 766 thousand as of December 2016) related to the discount on the issue of the Bond loan.
There are no accrued income and prepaid expenses with duration of more than five years.

Net Equity

The movement in Equity relates primarily to the allocation of losses carried forward, the result of the period and change in Fair Value Reserve. For a better understanding of the changes in equity, reference should be made to the table "Consolidated statement of changes in shareholders'equity".

Provisions for risks and charges

The changes in the provisions for risks and charges in the period are shown in the table below:

€/000	As of December 31, 2016	Provision	Utilizations	As of March 31, 2017
Provision for pensions and similar obligations	5,910	338	-	6,248
Other provision for risks and charges	934	40	-	974
Provision for returns	2,449	1,057	(959)	2,547
Total provisions for risks and charges	**9,293**	**1,435**	**(959)**	**9,769**

The provisions made reflect the best possible estimates based on the information available.

The Provision for pensions and similar obligations refers only to the Parent Company (Euro 6,248 thousand) and relates to the amount due to sales representatives for future contract terminations.
Provisions were determined in accordance with the National Agents' Agreement for the Italian agents and sector agreements for the overseas agents and were recorded under service costs in the Income Statement.

The Other provision for risk and charges include the risk provision concerning potential disputes with third parties amounting to Euro 974 thousand.

The Provision for returns on sales is accrued on the basis of the estimated and expected returns relating to sales made during the period, the accrual is booked in the income statement in the "Provisions".

Financial Derivative Instruments

Financial derivative instruments is related to the Fair value of the hedging transactions put in place to mitigate Interest rate risk on the Bond.

As of March 31, 2017, Interest Rate Swap (IRS) contract of Euro 100 million partially hedges the interest rate risk arising from the Notes. The detail and fair value of the contract as of March 31, 2017 is shown in the following table:

€/000						
Counterparty	**Amount**	**Operation date**	**Maturity date**	**Rate**	**Floater**	**Fair Value**
Unicredit	100,000	22/07/2015	15/07/2019	0.5305%	Euribor 3M	(1,872)
Total	**100,000**					**(1,872)**

Deferred tax liabilities

The account, amounting to Euro 6,021 thousand, mainly refer to the deferred tax effect over the amount allocated to the trademark "TWINSET Simona Barbieri" following the Merge.

Provision for employee severance indemnities

The provision, amounting to Euro 550 thousand, reflects the liability of the Italian companies as of March 31, 2017 (Euro 255 thousand refers to the Parent Company and Euro 295 thousand refers to the subsidiary Twin Set Shoes) to all employees at that date, less advances made and transfers to the INPS Treasury Fund and the Open Funds.

Payables

The changes in payables are shown in the table below:

€/000	As of March 31, 2017	As of December 31, 2016	Changes	% Changes
Bonds	150,000	150,000	-	-
Shareholder loan	81,885	80,519	1,366	1.7%
Bank loans	-	85	(85)	(100.0%)
Client advances	1,008	1,927	(919)	(47.7%)
Trade payables	38,143	48,812	(10,669)	(21.9%)
Tax payables	5,456	1,508	3,948	>100%
Social security payables	744	1,243	(499)	(40.1%)
Other payables	4,129	4,203	(74)	(1.8%)
Total payables	**281,365**	**288,297**	**(6,932)**	**(2.4%)**

Bonds reflect the nominal value of the Senior Bond Loan ("Bond") of Euro 150,000 thousand, issued on July 22, 2014 with maturity on July 15, 2019. The Bond (High Yield Bond), on which interest matures quarterly, indexed to the Euribor 3 months increased by a spread of 5.875%, with a B2 rating from Moody's and a B rating from Standard & Poor's, is listed on the ExtraMot market of the Italian Stock Exchange and is exclusively available to qualified investors.

Shareholders loans concern the shareholder The Carlyle Group for Euro 81,885 thousand, including interest matured in the period. The loan matures in 2020, with capitalized interests at an annual rate of 7%. The above-stated loan was acquired by The Carlyle Group on July 1, 2015 from Mo.Da Gioielli.

The following table reports a breakdown of bank loans as of March 31, 2017 and the changes during the period:

€/000	As of December 31, 2016	Changes in the year		As of Mrch 31, 2017	Maturity	Maturity			
		Repayments	Drawdown			within one year	beyond one year	within 5 years	over 5 years
BPER (3564210)	78	(78)	-	-	29/01/2017	-	-	-	-
Total	**78**	**(78)**	**-**	**-**		**-**	**-**	**-**	**-**

The Client advances, amounting to Euro 1,008 thousand (Euro 1,927 thousand as of December 31, 2016), refer to advances from clients for future sales.

Trade payables, amounting to Euro 38,143 thousand (Euro 48,812 thousand at December 31, 2016) refer to payables for the supply of goods and services for Euro 29,994 thousand (Euro 42,772 thousand at December 31, 2016) and payables to agents for commissions of the Parent Company for Euro 8,015 thousand (Euro 5,908 thousand at December 31, 2016). The amount includes also the payable of the Parent Company to Mo.da Gioielli for Euro 134 thousand (Euro 132 thousand at December 31, 2016).

Tax payables, amounting to Euro 5,456 thousand (Euro 1,508 thousand at December 31, 2016) are recorded net of payments in advance, withholding taxes and tax credits legally offset. This item includes payables for definite tax liabilities of the Group.
In particular, the amount refers the IRES payable of the Parent Company for Euro 2,169 thousand, the IRAP payable of the Parent Company for Euro 585 thousand and of the TS Shoes for Euro 20 thousand, the employee and consulting withholding taxes for Euro 496 thousand (Euro 1,265 thousand at December 31, 2016), the VAT payable for Euro 2,055 thousand of the various group companies, and other tax payables of Euro 131 thousand.

Social security payables, amounting to Euro 744 thousand (Euro 1,243 thousand at December 31, 2016), principally refer to INPS payables for Euro 553 thousand (Euro 1.090 thousand at December 31, 2016), ENASARCO for Euro 160 thousand (Euro 106 thousand at December 31, 2016) and other social security institutions for Euro 31 thousand (Euro 33 thousand at December 31, 2016). The payables principally concern the Parent Company and the subsidiaries Twin Set France, Twin Set Shoes, and Twin Set Spain.

Other payables, amounting to Euro 4,129 thousand (Euro 4,203 thousand at December 31, 2016), include payables to employees for salaries, vacations, 13th and 14th month, MBO and relative contributions totaling Euro 3,871 thousand (Euro 3,856 thousand at December 31, 2016), and other payables for Euro 258 thousand (Euro 286 thousand at December 31, 2016).

Accrued expenses and deferred income

As of March 31, 2017, the account (Euro 1,750 thousand) mainly includes accrued expenses related to interests on Bond.

Revenue

Twinset Revenue decreased by Euro 3,071 thousand, or 3.5%, to Euro 83,663 thousand for the three months ended March 31, 2017 from Euro 86,733 thousand for the three months ended March 31, 2016.

The following table sets forth the breakdown of our revenue by distribution channel for the three months ended March 31, 2017 and 2016.

Breakdown of revenue by distribution channel	Three months ended March 31,	% of Twin Set Revenue	Three months ended March 31,	% of Twin Set Revenue	Change	% Change
(€/000)	2017		2016			
Wholesale	61,054	73.0%	66,126	76.2%	(5,072)	(7.7%)
Retail (including on line)	22,609	27.0%	20,607	23.8%	2,002	9.7%
Twin Set Revenue	**83,663**	**100%**	**86,733**	**100%**	**(3,070)**	**(3.5%)**

The following table sets forth the breakdown of our revenue by geographic area for the three months ended March 31, 2016 and 2017.

Breakdown of revenue by geography (€/000)	For the three months ended March 31,	For the three months ended March 31,	Change	% Change
	2017	2016 [(1)]		
Italy	49,721	53,743	(4,022)	(7.5%)
Benelux	5,442	5,581	(139)	(2.5%)
Spain	6,558	7,327	(769)	(10.5%)
France	3,342	4,158	(816)	(19.6%)
Greater Russia	6,383	4,952	1,431	28.9%
Germany	2,661	3,051	(390)	(12.8%)
Other countries	9,556	7,922	1,634	20.6%
Twin Set Revenue	**83,663**	**86,733**	**(3,070)**	**(3.5%)**

(1) The amounts as of March 31, 2016 were reclassified to make them comparable with those as of March 31, 2017

Other income

Other income and internally generated assets are composed of:

€/000	Three months ended March 31,	Three months ended March 31,	Change	% Change
	2017	2016		
Rental income	19	14	5	35.7%
Reimbursements	87	23	64	>100%
Ordinary gains	410	24	386	>100%
Prior year income	217	248	(31)	(12.5%)
Other income	167	42	125	>100%
Operating grants	13	-	13	100.0%
Internally generated assets	27	73	(46)	(63.0%)
Total other income and internally generated assets	**940**	**424**	**516**	**>100%**

Rental income refers to the recharge of a portion of rental costs to Liviana Conti, a third party and sublessor.

Reimbursements mainly relate to the recovery of transport expenses recharged to clients and disservice.

Internally generated assets, amounting to Euro 27 thousand, principally refers to the capitalization of employee costs for the development of the on line shopping projects.

Prior year income, amounting to Euro 217 thousand (Euro 248 thousand as of March 2016) and refers to other income non recurring.

Financial income/(expenses)

Financial expenses decreased by Euro 318 thousand to Euro 3,483 thousand in the first three months of 2017 from Euro 3,801 thousand in the same period of 2016. Other Financial income refers mainly to interest matured on current accounts.

Interest and other financial expenses principally concerns interest paid on the Bond Loan for Euro 2,371 thousand and interest matured on the Shareholder loan for Euro 1,366 thousand.

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Other financial income	8	6	2	33.3%
Interest and other financial expenses	(3,897)	(3,785)	(112)	3.0%
Foreign exchange gains/(losses)	406	(22)	428	>(100%)
Total financial income/(expenses)	**(3,483)**	**(3,801)**	**318**	**(8.4%)**
% of Twin Set Revenue	*(4.2%)*	*(4.4%)*		

The breakdown of interest and other financial expenses in the period is shown in the table below:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Shareholder loan interest	**1,366**	**1,289**	**77**	**6.0%**
Bank interest	**160**	**94**	**66**	**70.2%**
Loan interest	*2*	*4*	*(2)*	(50.0%)
Overdraft and short-term loan interest	-	*3*	*(3)*	(100.0%)
Bank charges	*158*	*87*	*71*	81.6%
Interest on Bond	**2,371**	**2,402**	**(31)**	**(1.3%)**
Total interest and other financial expenses	**3,897**	**3,785**	**112**	**3.0%**

Overall, interest and other financial charges are in line with the previous year since the amount of debt outstanding did not change materially.

Income tax and deferred tax assets and liabilities

The breakdown of income and deferred taxes is as follows:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
Current taxes	(4,850)	(4,869)	19	(0.4%)
Deferred taxes	91	102	(11)	(10.8%)
Prepaid taxes	333	(188)	521	>(100%)
Total income tax	**(4,426)**	**(4,955)**	**529**	**(10.7%)**

Current taxes are as follows:

€/000	Three months ended March 31, 2017	Three months ended March 31, 2016	Change	% Change
IRES	(3,965)	(4,012)	47	(1.2%)
IRAP	(885)	(898)	13	(1.4%)
Other	-	41	(41)	(100.0%)
Total current taxes	**(4,850)**	**(4,869)**	**19**	**(0.4%)**

Current taxes, amounting to Euro 4,850 thousand as of March 31, 2017, include IRES for Euro 3,965 thousand (of which Euro 3,871 thousand related to TS Italy and Euro 94 thousand to TS Shoes) and IRAP for Euro 885 thousand (of which Euro 865 thousand related to TS Italy and Euro 20 thousand to TS Shoes).